TRANS
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2011

annual report

CANADA POST POSTES CANADA

From anywhere... to anyone

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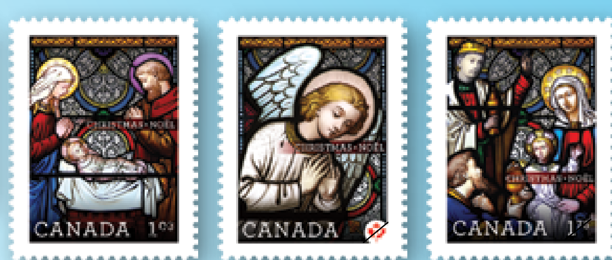

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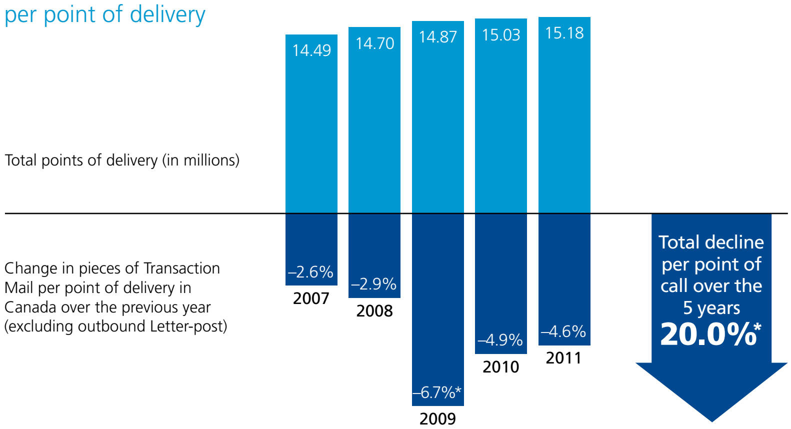
Canada Post segment

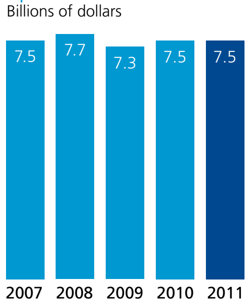
Transaction Mail decline per point of delivery



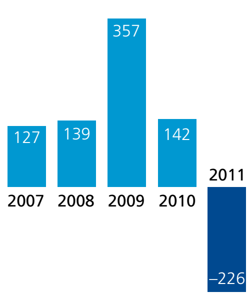
* Note: Due to a methodology change implemented in 2010, volumes for 2009 have been restated for comparability. Had 2008 volumes been restated, the decline per point of call for 2009 would have been 5.1% and the five-year decline would have been 18.7%.

Canada Post Group of Companies

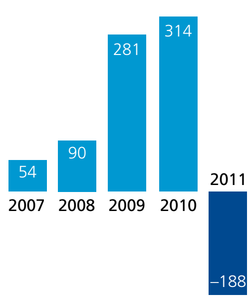
Revenue from operations*
Billions of dollars



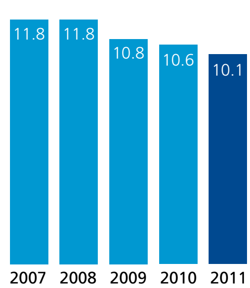
Profit (loss) from operations*
Millions of dollars



Net profit (loss)*
Millions of dollars



Volume
Billions of pieces



* 2007 – 2009 is based on Canadian generally accepted accounting principles. 2010 – 2011 is based on International Financial Reporting Standards.

For the purposes of this report, Canada Post Corporation ("Canada Post" or the "Canada Post segment"), our subsidiaries Purolator Inc. ("Purolator"), SCI Group Inc. ("SCI") and Innovapost Inc. ("Innovapost") are collectively referred to as the "Canada Post Group of Companies" or the "Group of Companies."

Canada Post Group of Companies

By the Numbers

(in millions of dollars)		2011	2010	% Change *
Operations				
Revenue from operations	As reported	7,484	7,453	0.8%
Profit (loss) from operations	Revenue from operations - cost of operations	(226)	142	(260.2)%
Operating profit margin (%)	Profit from operations ÷ revenue from operations	(3.0)%	1.9%	-
Profit (loss) before tax	As reported	(253)	134	(289.5)%
Net profit (loss)	As reported	(188)	314	(160.1)%
Cash provided by (used in) operations	As reported	196	(41)	589.9%
Capital expenditures	As reported	540	411	31.3%
Financial Position				
Cash and marketable securities	As reported	1,113	1,461	(23.8)%
Total assets	As reported	6,744	6,392	5.5%
Loans and borrowings	As reported	1,111	1,095	1.5%
Equity of Canada	As reported	(1,655)	(321)	(417.1)%
Volume				
Total volume – Consolidated (millions)	As reported	10,101	10,572	(4.1)%
Domestic Lettermail™ erosion (Canada Post segment)	As reported	(3.6)%	(4.5)%	-
Transaction Mail volume percentage decline per address		(4.6)%	(4.9)%	-
Canada Post Pension Plan				
Pension assets – fair market value		15,427	15,358	0.4%
Going-concern deficit – to be funded		(423)	(175)	-
Solvency deficit – to be funded		(4,672)	(3,204)	-
Employer contributions – current	As reported	291	321	-
– special	As reported	219	425	-

* Adjusted for trading days where applicable

Effective January 1, 2011, the Canadian Accounting Standards Board and Public Sector Accounting Board required publicly accountable enterprises, such as Canada Post, to adopt International Financial Reporting Standards (IFRS) as the basis of accounting under Canadian generally accepted accounting principles (GAAP). Accordingly, the Corporation is reporting under IFRS effective January 1, 2011, with IFRS comparative figures from January 1, 2010 throughout all periods presented. In this Annual Report, the term Canadian GAAP refers to GAAP in Canada prior to the Corporation's transition to IFRS. Comparative figures prior to 2010 may no longer be comparable and remain presented under Canadian GAAP.

Our Size and Scope

EMPLOYEES

69,000*

*Canada Post Group of Companies, full-time and part-time paid employees. Excludes temporary, casual and term employees.

FLEET

7,800

Canada Post-owned vehicles

CANADAPOST.CA

111 million

visits to canadapost.ca in 2011

RETAIL POST OFFICES AND STREET LETTER BOXES

Almost
6,500
retail post offices across Canada

More than
30,000
street letter boxes

PLANTS AND DEPOTS

21
major mail processing plants

500
letter carrier depots

MOBILE APP

297,000

downloads of Canada Post's mobile app since its launch

as of December 31, 2011 (approximate figure)

ADDRESSES SERVED

More than
15 million

FUEL CONSUMPTION REDUCTION IN 2011

↓3.7%

CO_2 EMISSIONS REDUCTION IN 2011

↓4.5%

(Canada Post-owned vehicles)

Our Group of Companies

The Canada Post Group of Companies consists of Canada Post and its three non-wholly owned subsidiaries: Purolator Inc., SCI Group Inc., and Innovapost Inc. Working in an increasingly integrated way, the Group of Companies is in the business of connecting Canadians *From anywhere … to anyone*™. The vision for the Group of Companies is to be a service provider of choice—one that is relevant to the needs of Canadians.

The Group of Companies offers a full range of delivery, logistics, and fulfillment services to customers across this country and abroad. Combined, the Group of Companies has annual revenue of $7.5 billion and employs close to 69,000 people. It also operates the largest retail network and the biggest transportation fleet in Canada.

Employees across the Group of Companies deliver more than 10 billion pieces of mail, parcels and messages each year to more than 15 million addresses in urban, rural and remote locations nation-wide. The shared objective is to provide Canadians with world-class service while remaining financially self-sustaining.

A Crown corporation, Canada Post is the most significant component of the Group of Companies with revenue of $5.9 billion in 2011. Canada Post is this country's postal operator and its core services include delivery of letters, bills, statements, invoices, parcels, Admail™ pieces and periodicals.

CANADA POST POSTES CANADA

Purolator

Purolator enables customers to deliver shipments across town and around the world. As Canada's largest logistics company, Purolator has 123 operations locations, 136 shipping centres and 550 shipping agents. The company also has a fleet of 3,700 vehicles and moves 100 million pounds of freight each year. In 2011, Purolator generated revenue of $1.6 billion, which represents about 20 per cent of the 2011 Group of Companies' consolidated revenue.

SCI

Through its operating entities SCI Logistics, Progistix and First Team Transport, the SCI Group helps customers reduce cost and improve service through the design, implementation and operation of efficient supply chain management. SCI offers clients expertise in business-to-consumer, business-to-business and field service logistics. In 2011, SCI generated revenue of $138 million, which represents 2 per cent of the 2011 Group of Companies' consolidated revenue.

Innovapost™

Innovapost develops and operates the computing and information systems of the Group of Companies. Since 2002, Innovapost had been a joint venture between Canada Post (51 per cent) and CGI Information Systems (49 per cent). Canada Post has determined it would be best for the Group of Companies to have majority ownership of Innovapost to achieve better alignment of strategic direction, and has reached an agreement with CGI.

President's Message

Undoubtedly 2011 was a difficult year for our customers, our employees and our financial health. Our results show the strains of a continued decline in core mail volumes, the impact of a painful work disruption and the negative impact of a pay-equity decision by the Supreme Court of Canada, leading to our first loss in 17 years.

We are acutely aware of the role Canada Post plays in enabling trade and commerce across the country and indeed globally. We know businesses small and large, citizens rural and urban, charities, educational institutions, farmers, shoppers and especially seniors look to us as a key partner in their daily lives. We take this responsibility seriously.

We know you would like your postal service to be around, not just for today, but also for the next generation of Canadians. This is precisely why we tried to address the challenges facing your postal service before it was too late. We believe there is now a shared understanding of the road ahead, among Canadians and our employees. We are optimistic that this shared understanding will pave the way for us to begin to address our biggest challenges.

While much of the discussion during 2011 centred on our challenges, there is much to be shared about our future. Over the 249-year history of postal service in Canada, mail has constantly changed in shape and size—from packets to postcards, from aerograms to envelopes, and now to packages carrying your latest online purchase.

Transitioning from a stable, predictable and profitable environment to a rapidly changing, unpredictable and competitive environment will take hard work. Much of our future growth will come from highly competitive products, which means we will need to be nimble and in tune with our customers' needs. We have begun the journey to creating the foundation for this new environment.

Our investment program to retool our plants and machinery for the 21st century is on track to deliver productivity and service improvements. After successfully building our new plant in Winnipeg, we announced a major investment to build a new integrated facility in Vancouver. As Canada's trade with the Asia-Pacific region grows, we will be well-positioned to serve businesses and consumers alike with a world-class network across the country.

We are accelerating investments in rolling out hand-held scanning devices for our delivery agents that also act as credit-card terminals. This makes it easier to complete deliveries and collect any duties and fees at your doorstep in a single stop. We are also increasing the number of scanning points across the network to provide greater visibility. These investments will ensure that Canada Post is well-positioned to take advantage of fast-growing e-commerce opportunities.

Today Canadians want us to deliver services via both the physical and digital channels. They want 24/7 access to their favourite services such as purchasing stamps, registering a change of address or requesting a hold on their mail while they are away. We are also excited to offer digital delivery of your critical bills and statements via a secure personalized digital mailbox (epost™) right on your computer, just as you have received these items in your mailbox at the door. Your postal service is adapting and changing with the times to serve your emerging needs—just as it has for two-and-a-half centuries.

We also introduced our first mobile app for smartphones. This app allows Canadians to track their packages while they are en route from their favourite online retailers, or look up a Postal Code℠ or take a photograph and order personalized stamps and postcards. Within eight months of its launch, our app became Canada's #1 free business app on the iTunes app store. This is a great tribute to the hard work of our people, who are the true ambassadors of our brand and living proof that we are adapting to the new world.

While it is natural for us to be excited about our future, we are painfully aware of our responsibilities to you, our ultimate shareholders. We know you want us to be financially self-sufficient and not become a burden on you. We share this responsibility with our bargaining agents and are committed to ensuring a healthy, relevant and customer-centric Canada Post for the next generation of Canadians.

Deepak Chopra
President and Chief Executive Officer

The Year in Review

2011

Canada Post reported an unconsolidated financial loss before tax of $327 million for 2011.

On a consolidated basis, the loss before tax was $253 million. The unconsolidated financial loss follows 16 consecutive years of profitability at Canada Post. Several factors contributed to Canada Post's financial performance in 2011, including the labour disruption that occurred in June and effectively shut down the postal system for 25 days.

This had an immediate financial and competitive impact—leading to an estimated $200 million or more in lost revenue and driving customers to competing logistics and delivery companies. The long-term impact of the labour disruption is still unknown.

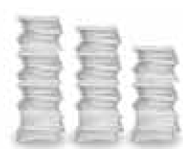
Other factors that contributed to the 2011 financial loss included an unfavourable decision by the Supreme Court of Canada concerning a pay equity case and the continued decline of mail volumes due to poor economic conditions, electronic substitutions of traditional mail and rising domestic and international competition.

Canada Post also continues to face a sizeable, volatile pension obligation.

Rotating strikes and lockout

After eight months of negotiations, the Canadian Union of Postal Workers (CUPW) began rotating strikes on June 2, 2011. When CUPW-represented employees walked out in our two largest centres—Montréal and Toronto—Canada Post had no option but to institute its first lockout. It lasted from June 14 to June 27. As a result of back-to-work legislation, Canada Post and CUPW are now in final offer selection arbitration.

Fewer envelopes every year



Transaction Mail—bills, invoices and statements*—has been steadily declining per point of delivery as Canadians shift to electronic options. In 2011, Transaction Mail volumes per point of delivery fell another 4.6 per cent, bringing us to more than five consecutive years of decline.

**Excluding outbound Letter-post*

Pension challenges

Since 2000, Canada Post's pension plan has more than doubled in size to over $15 billion of assets. Fluctuating global stock markets and historically low discount rates have left the plan with an estimated solvency deficit to be funded of almost $4.7 billion on December 31, 2011. Canada Post contributed $510 million to the plan in 2011, including $219 million in special payments.

Pay equity decision

The Group of Companies' profitability was impacted by a decision from the Supreme Court of Canada on November 17, 2011. The court ruled that some Public Service Alliance of Canada (PSAC)-represented employees of Canada Post had earned less than others in comparable jobs. The case dates back to 1983.

The Year in Review 2011

Restructured for growth

In July 2011, Canada Post created two distinct business units to address two distinct business priorities. They share a common goal: growth. The Physical Delivery Network will lead the effort to revitalize our core mailing business. It will complete our transformation into a highly competitive mail and parcel delivery system, with ambitious targets to enable e-commerce by delivering more parcels and packages that Canadians order online. The Digital Delivery Network is tasked with growing our epost business, while the Data & Integrated Marketing Solutions team will help Canadian businesses grow by providing markets with a sophisticated and full suite of data and targeting solutions. Each network's success will support the other's as they connect Canadians via the physical and digital channels.

Modernizing for the future

The pace and magnitude of change have been dramatic as we continue to transform our operational infrastructure to improve service, reduce costs and—most importantly—position us for future growth.

Most major plants—including two of the largest in Montréal and Toronto—were completely reconfigured in 2011 as we invested in increased automation and upgraded technology.

We entered into the multi-year task of transforming our delivery operations to position it for a new economy with fewer letters and more packages. We equipped delivery employees with vehicles and portable smart scanners so we can scan and track parcels in real time with greater reliability. Having motorized, full-service delivery agents allows us to be more efficient and competitive as we pick up and deliver items.

All of this change means our employees were learning new ways of working. For modernization alone, we delivered nearly 16,000 days of training in 2011.

By year's end, we had invested almost half of the planned \$2.1-billion, multi-year investment and are now well on our way to creating a safer, more efficient and competitive company better able to respond to the changing needs of customers.

Positioned for success in e-commerce

Online shopping is projected to grow very rapidly in Canada in the coming years. This represents a great opportunity for Canada Post.

Our competitive advantages are our vast delivery and retail networks. Only Canada Post can reach more than 15 million addresses—and only Canada Post has nearly 6,500 retail post offices. This offers online shoppers the convenience they value in their busy lives by making it easy to pick up packages that they are not home to receive, as well as return items.

In 2011, we took steps to offer shippers greater convenience as well. On-demand parcel pickup attracted more business from small- and medium-sized companies, for example. In 2012, we will provide online retailers enhanced web services to optimize the online experience for their customers. We will also develop a platform that provides seamless management of their returns according to their policy. Consumers will soon have the option of choosing to have packages delivered to the retail post office of their choice. Together, these solutions make us even more relevant in the e-commerce space.

Volumes from our 20 largest e-commerce customers grew by a double-digit rate in 2011—and growth has continued into early 2012.

Delivering Christmas

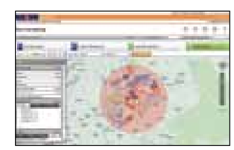
Christmas is the busiest time of year at Canada Post. In 2011, Canada Post launched a national marketing campaign to drive shipments, hired 2,400 additional workers to help with heavy mail volumes, and mobilized additional trucks to ensure local delivery. The result was that Canada Post delivered nearly one billion mail items and posted its best Lettermail delivery performance for Christmas in nearly a decade.

Marketing the core

We focused considerable effort on strengthening our core physical mail business where opportunities existed. The Royal Wedding was a success story for our stamp program, generating unprecedented interest in our products. We used our Picture Postage™ service to create stamps that celebrated the religious festivals of Diwali, Eid and Hanukkah. We also issued stamps to celebrate the return of the Winnipeg Jets™ franchise to the National Hockey League™.

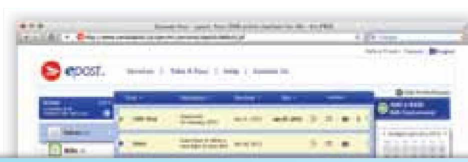
Reinvigorating our Direct Marketing business

Direct Marketing has significant long-term growth and revenue potential. In 2011, we helped customers use data to make their promotional mailings more effective at reduced cost. We also focused on developing a free online application to make it easier for small- and medium-sized businesses to market to their best prospects. Precision Targeter™ became available early in 2012.



Making a mark in the digital space

In 2011, Canada Post further extended its service proposition to the digital realm. This renewed focus will ensure that we will continue to build innovation into our digital offerings beyond today's set of services, improve our online and mobile service capabilities and create a suite of products that protects and simplifies the consumer's digital household while further supporting Canada's digital economy.



Looking Forward:

Our **Physical** Delivery Network

Physical mail still matters to Canadian businesses large and small—and to Canadians. It is our core product and main source of revenue. The Physical Delivery Network's strategy is to defend this core while capitalizing on opportunities for growth. Our vision is to be the country's most reliable, affordable provider of delivery services. We are working to improve the quality of our service, the productivity in our operations and the safety of our employees. Modernization will occur on an unprecedented scale in 2012 and 2013, offering us the flexibility to respond to changing needs in a competitive market. We are also adopting more standardized processes and other practices that highlight the accountability of each team, shift and facility to others downstream—and to the customer. We are undertaking more change in 2012 than we did last year, and are focused on the sizeable challenge of minimizing impacts to service during this crucial transition.

Our largest investment in equipment

We will continue to install safe, ergonomic, high-speed letter-sorting machines. These are at the heart of modernization because they improve productivity in plants and reduce the time that delivery agents in depots spend sorting Lettermail pieces by hand. This time savings reduces present and future labour costs, as it permits us to reorganize our delivery operations around motorization and parcel delivery.

We are making an unprecedented investment in new automated sorting equipment for packages. It can read destination information and instructions more reliably and, by reducing manual handling, better protect the items in our care. This investment helps to prepare us for a future with more packages and fewer letters.

Our Business Reply Mail™ service is also benefitting from a sizeable investment in automation that will offer customers greater speed and improved tracking of incoming replies.

Vancouver: gateway to Asia-Pacific

We're building a 700,000-square-foot plant at the Vancouver International Airport that will allow us to grow our e-commerce business, process mail faster and improve delivery logistics. As a critical gateway to the Asia-Pacific region, it will also house a Canadian Border Services Agency operation.

> "To compete successfully and grow, we need to focus on providing reliable and relevant services—and become a cost leader."

Jacques Côté, Group President, Physical Delivery Network

Visibility and tracking

Customers value the peace of mind that comes from knowing their package is safely, reliably on its way, and delivered or ready for pickup at a nearby post office. We have invested heavily to scan more items when we receive them and at more stages as they are processed. More and more customers see tracking information in real time. We have equipped delivery agents in urban areas with portable smart scanners, and in 2012 most rural delivery agents will begin to use them. Track a Package is the most popular feature on our mobile application.

Motorization: driving flexibility

In urban areas, more delivery agents will have the use of an environmentally-friendly Ford Transit Connect™ vehicle to play more complete roles that help us to serve the growing ranks of e-commerce customers. They will deliver mail and packages to residential and commercial addresses, and pick up mail from street letter boxes, retail post offices and eligible customers.

Preparing our people

With so much modernization underway, knowledge is the key to protecting service and empowering our employees. We must help our front-line leaders and employees adapt to new equipment and processes, as well as business necessities that will affect their work schedules. We will engage in extensive training again in 2012. As demographics drive a wave of employee departures during our critical modernization period, we are enhancing our hiring practices to ensure an appropriate transfer of operational knowledge before experienced team leaders retire.

Looking Forward:

Our **Digital** Delivery Network

Digital products and services are increasingly important for Canadians. Canada Post is leveraging its brand permission—our longstanding trusted relationship with Canadians—to extend our physical offerings to 24/7 via the digital space, enabling electronic consumer, business-to-consumer and government-to-consumer communications.

Our consumer solutions—from our website and mobile apps to epost and Vault—offer Canadians a range of choice from managing their household bills and personal documents to tracking e-commerce purchases and packages and interacting with Canada Post.

For businesses of all sizes, we deliver robust location intelligence and analytic solutions, as well as online self-service tools, to improve their ability to cost-effectively analyze, target and market to consumers. We will continue to innovate to meet the ongoing digital needs of Canadian consumers and businesses and help both manage the duality of physical and digital.

epost™

Canada's leading bill consolidation solution

Approximately 7.5 million Canadians have registered on epost over the last decade. epost provides Canadians a safe, secure electronic mailbox in the home to manage the business of their lives. It connects them with more than 100 billers and eliminates the hassle and frustration of remembering multiple names, passwords and bill dates. Our bank-grade security protects their personal information while our notification services ensure they always know when a bill has arrived. The ability to personalize folders and seven-year storage keeps their information organized for any unforeseen future needs.

epost's evolution

Canada Post plans to release the next generation of epost in the Kitchener-Waterloo-Cambridge market in mid-2012. We will evolve epost's technical capability and user experience by creating a robust digital platform that will attach a secure, authenticated electronic mailbox—with a range of new digital products and connections—to every household address, creating new digital connection capabilities between consumers, government and businesses.

Your post office, when you need it: canadapost.ca

When you need us, we're there 24/7 through canadapost.ca. From general information and online customer support, to tracking and shipping a package or building your marketing campaign for your business, canadapost.ca provides "always on" support for more than 9 million visitors every month. Our e-store is always open and offers the latest in stamps, commemoratives and other merchandise.

> "Our digital business will support Canada Post's ongoing transformation while playing a key role in the evolution of Canada's digital economy."

Kerry Munro, Group President, Digital Delivery Network

Going mobile

Canada Post's mobile app offers Canadians "everywhere" access to locate a retail post office, track a package, find a postal code and turn personal photographs and events into customized stamps, postcards and memories—perfect for vacations, weddings and special events. Available for iPhone, BlackBerry and Android mobile phones, it's truly the one app that delivers for Canadians.

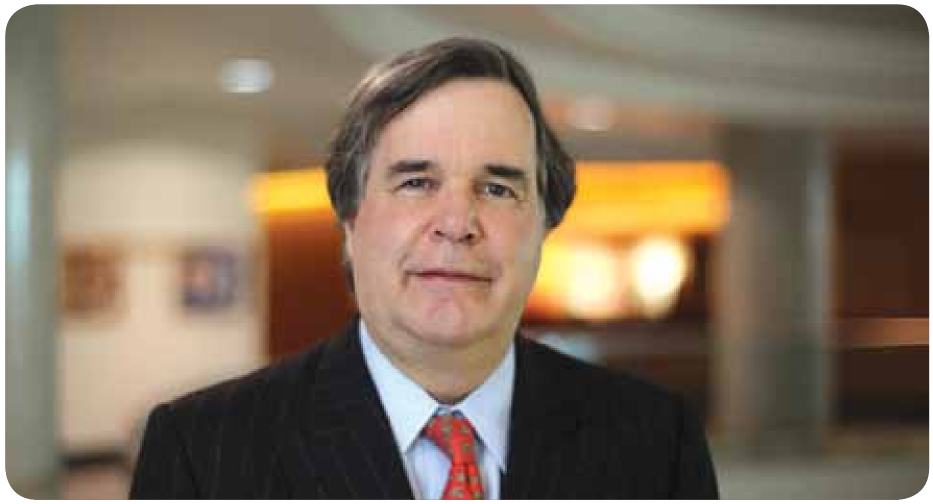
Vault: Your online safety deposit box

Online banking, tax preparation, family photos and personal documents: with more of our daily lives being conducted online or on computers, Canadians run the risk of losing valuable and sensitive information forever. Part of epost, the Canada Post Vault™ service ensures you can safely and securely store personal or sensitive information in one place—and access or share them from anywhere. Offering bank-grade security, Vault eliminates the risk of losing valuable information to a computer malfunction, lost disk or storage device, fire or theft. It's peace of mind, online.

Precision targeting—for any business

Local pizzerias, contractors, hair salons and regional/national retailers share the same business challenge—to cost-effectively identify, target and reach new customers and prospects and to squeeze every possible return out of their marketing spend. From knowing when someone is moving into a new neighbourhood or how to effectively target those within walking or driving distance of a store, we offer a suite of tools, data intelligence and marketing solutions to help any business generate leads and drive sales. Our online tools are available 24/7 for anyone to simply and effectively budget, plan and create their direct marketing campaign and our trusted professionals are just a phone call away. Generating leads has never been easier.

Chairman's Message



2011 highlighted Canada Post's need for transformation. We posted our first loss in 17 years, and volumes in our core product, domestic Lettermail, declined by another 3.6 per cent bringing us to five consecutive years of decline.

In addition, very uncertain financial markets caused us to earn only a nominal return for the pension fund, while liabilities for pension and other future employee benefits continued to increase.

Deepak Chopra was appointed President and Chief Executive Officer of Canada Post in February to lead our transformation. Mr. Chopra has nearly two decades of global experience in the postal industry and several years leading a company that gave him an intimate understanding of Canada Post. This experience prepared him well for the challenges of 2011.

The need for transformation starts with our people. Accordingly, on his first day, Mr. Chopra met face-to-face with the leaders of the unions that represent more than 90 per cent of the Canada Post segment's employees, including our largest union, the Canadian Union of Postal Workers-Urban Postal Operations (CUPW-UPO). The collective agreement with CUPW-UPO had already expired and negotiations were well underway.

Canada Post's significant business and financial challenges made it necessary to adopt a determined but fair approach to negotiations, intended to address our labour cost structure. The 12 days of rotating strikes and the subsequent lockout were a difficult time for Canada Post, our employees and, most importantly, our customers. However, securing a new cost structure was, and remains, critically important to our future viability and relevance to Canadians.

We continued to modernize our infrastructure in 2011. This infrastructure renewal positions the company to offer reliable, affordable service to our physical mail customers. Investments in our parcel and packet processing will allow Canada Post to continue to benefit from the growth in e-commerce. We are taking decisive steps to be ready for the future—a future in which we will deliver less Lettermail, and more parcels.

We are also transforming in other important ways. For example, the creation of a Digital Delivery Network will position us to remain relevant as Canadians choose, in increasing numbers, to substitute electronic billing and record-keeping for physical mail and paper records. At the same time, our Digital team will strengthen our ability to provide targeting data that helps Canadian companies reach customers and prospects effectively, efficiently and with less environmental impact.

A number of investments have recently rolled out that are intended to noticeably improve the experience customers have when they choose Canada Post. They are bearing fruit. I am pleased with one important indicator of our progress—the unprecedented customer service our call centre provided in the holiday season, our busiest time of year, including a nearly 100-per-cent reduction from 2010 in the number of callers who got a busy signal.

Robert Pletch left the Board at the end of 2011. Mr. Pletch was a member of the Audit, and Corporate Governance and Nominating committees. I especially appreciated his independent, balanced and value-added input to Board discussions.

On behalf of the Board, I would like to thank Mr. Chopra, the executive team and all the employees of Canada Post. I look forward to seeing Canada Post's crucial and exciting transformation continue in 2012 and beyond.

Finally, I would like to thank Canadians for continuing to choose Canada Post.

Marc Courtois

Marc A. Courtois
Chairman of the Board of Directors

Corporate Governance

Role and composition of the Board

The role of the Board is explicitly supported by the statutory framework within which Canada Post operates (the *Canada Post Corporation Act* and the *Financial Administration Act*), the Corporation's bylaws, and its Statement of Board Values and Board Charter. The Board is responsible for overall guidance on the strategy, business plans and related affairs of Canada Post. It is responsible for overseeing Canada Post on behalf of the Shareholder. In carrying out its oversight role, it is the Board that holds management accountable for business performance and achievement of Canada Post's other objectives. To fulfill these responsibilities, the Board is called upon to exercise judgment in the following general areas:

- the strategic direction and Corporate Plans of Canada Post;
- major contracts;
- safeguarding the resources of Canada Post;
- establishing and implementing processes for the recruitment of senior officers and Board members;
- monitoring corporate performance; and
- providing timely reports to the Shareholder.

The Board of Directors of Canada Post is comprised of 11 members, including Canada Post's President and Chief Executive Officer. All members of the Board and the President and Chief Executive Officer are Governor-in-Council appointees. As overseer of a commercial and self-sufficient enterprise with 2011 revenue of $7.5 billion (on a consolidated basis), the Board must bring strong business judgment and valuable experience and insight in other fields to the stewardship of Canada Post. The Board meets on both pre-arranged meeting dates and at such other times as deemed necessary by the Chairman. In order to provide strong oversight for such a large, complex and important company, the Board devotes approximately 25 to 30 days a year to its deliberations. In 2011, the Board met eight times. In addition, individual committees of the Board met a combined 20 times.

Independence of the Board

The position of the Chairman and that of the President and Chief Executive Officer are separate. In addition, the Board normally holds its meetings with the President and Chief Executive Officer as a member and the Group President – Physical Delivery Network as an invitee. Otherwise, the Board meets without the presence of management unless required for presentations or reports and, at each meeting, the Board holds an in-camera session. The Audit Committee regularly meets in camera individually with Canada Post's external and internal auditors. Furthermore, the Board, its committees and individual directors may engage independent counsel and advisors upon request and at the discretion of the Board.

Committees of the Board

The Board has formed the following committees to assist it in fulfilling its oversight responsibilities:

- The Audit Committee reviews financial information, which will be provided to Parliament and other stakeholders, the systems of corporate controls, which management and the Board have established, the audit process and the risk management framework. It also assesses Canada Post's financial performance against its Corporate Plan.
- The Corporate Governance and Nominating Committee provides a focus on corporate governance, assesses corporate values and the elements that facilitate Board effectiveness, such as Board self-assessment, Committee structure and Terms of Reference, assists the Board in determining the composition and structure of the Board and recommends candidates for Board membership, Chairman, and President and Chief Executive Officer.
- The Human Resources and Compensation Committee reviews human resources and compensation matters, including the compensation of the President and Chief Executive Officer and other Corporate Officers, recruitment, compensation and development, retention, significant human resource policies, health and safety, and labour relations issues.
- The Pension Committee oversees the over $15-billion Canada Post Pension Plan, Pension Plan matters and policies, including Pension Plan liabilities, Pension Plan strategies, Canada Post's responsibilities as Pension Plan sponsor, and Canada Post's fiduciary responsibilities as Pension Plan administrator.

In 2011 oversight for corporate social responsibility and environmental issues was elevated to full Board meetings. Oversight and review of health and safety issues was assigned to the Human Resources and Compensation Committee.

Board effectiveness

The Board regularly assesses its effectiveness and functioning through a self-assessment survey. The Board has created membership criteria that set out the skills and personal qualities expected of its members for the use of the Government in appointing Board members. The compensation of the Board complies with the Remuneration Guidelines for Part-time Governor-in-Council Appointees in Crown Corporations issued by the Privy Council Office. An orientation process is established for new directors. As well, a process is in place to assess the ongoing development requirements of directors, and training opportunities are provided to continue to enhance the effectiveness of existing directors.

Fraud and error

Pursuant to recommendations issued by the Canadian Institute of Chartered

(continued on page 14)

(continued from page 13)

Accountants, the Audit Committee fulfilled its responsibility to consider fraud and error in financial statements. Accordingly, the Audit Committee reports that it has reviewed and accepts the company's financial statements, the attached notes, the auditors' opinions and their assertions on independence.

Subsidiaries

A Governance Model for Canada Post's subsidiaries ensures consistent governance practices in companies where Canada Post holds a majority interest.

Governance in principle

The Board and management of Canada Post hold the view that sound governance practices that are dynamic in nature are the bedrock of a quality organization that builds value and is dedicated to its employees and customers. Corporate governance is an essential component of the fulfillment of Canada Post's public-policy and commercial mandates, and will contribute to ensuring that all Canadians continue to receive a universal and affordable national postal service.

Board of Directors

Marc A. Courtois ▲✲✖●★

Westmount, Quebec
Chairman of the Board
Canada Post Corporation

A. Michel Lavigne ▲★
FCA
Laval, Quebec

Deepak Chopra

Ottawa, Ontario
President and CEO
Canada Post Corporation

Siân M. Matthews ❖●✲

Calgary, Alberta

Denyse Chicoyne ◗
CFA, MBA
Outremont, Quebec

The Honourable Stewart McInnes ✲✖●
Q.C.
Halifax, Nova Scotia

Thomas Cryer ■★
FCA
Etobicoke, Ontario

Iris Petten ✖●✲

Conception Bay South, Newfoundland and Labrador

Robert Pletch ▲✲
Q.C.
Regina, Saskatchewan

Donald Woodley ◆●▲

Mono, Ontario

William H. Sheffield ✿★

Vancouver, British Columbia

■ Chairperson of the Audit Committee
◆ Chairperson of the Corporate Governance and Nominating Committee
❖ Chairperson of the Corporate Social Responsibility, Environment, Health and Safety Committee
✿ Chairperson of the Human Resources and Compensation Committee
◗ Chairperson of the Pension Committee
▲ Member of the Audit Committee
✲ Member of the Corporate Governance and Nominating Committee
✖ Member of the Corporate Social Responsibility, Environment, Health and Safety Committee
● Member of the Human Resources and Compensation Committee
★ Member of the Pension Committee

As of November 24, 2011

Officers of the Corporation

Deepak Chopra
President and CEO

Jacques Côté
Group President
Physical Delivery Network

Kerry Munro
Group President
Digital Delivery Network

Wayne Cheeseman
Chief Financial Officer

Laurene Cihosky
Senior Vice-President
Data and Integrated Marketing Solutions

Cal Hart
Senior Vice-President
Processing, Engineering and Infrastructure

Douglas Jones
Senior Vice-President
Delivery

André Joron
Chief Human Resources Officer

Peter Melanson
Senior Vice-President
Sales

Marvin Rosenzweig
Senior Vice-President
Parcels

Mary Traversy
Senior Vice-President
Mail

André Turgeon
Senior Vice-President
Chief Information Technology Officer

Phil Ventura
Senior Vice-President
Strategy and Marketing

Bonnie Boretsky
Vice-President
General Counsel and Corporate Secretary

Murray Dea
Vice-President
Real Estate

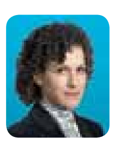
Stephen Edmondson
Vice-President
Customer Relations

John Farnand
Vice-President
Engineering and Postal Transformation

Douglas Greaves
Vice-President
Pension Fund and Chief Investment Officer

Ann Therese MacEachern
Vice-President
Human Resources

Barbara MacKenzie
Vice-President
Finance and Comptroller



Susan Margles
Vice-President
Government Relations and Policy

Serge Pitre
Vice-President
Sales

Jo-Anne Polak
Vice-President
Communications and Public Affairs

Brian Wilson
Vice-President
Mail Processing and Network

Anthea English Corporate Auditor **Steven Galezowski** Corporate Treasurer

As of February 1, 2012

Ombudsman's Message

I am committed to ensuring that the basic tenets of this office—impartiality, fairness and objectivity—are never compromised and that we continue to deliver the high level of quality service Canadians deserve.

When I became Canada Post's fourth Ombudsman in July 2011, I quickly realized I was joining a team that's dedicated to safeguarding the interests of customers and ensuring Canadians have somewhere to go if they feel Canada Post has not lived up to its service commitments. I am grateful to my predecessor, Nicole Goodfellow, for the fair and independent team she built and the processes she put in place that enable us to fulfill our mandate, measure our effectiveness and help build confidence in the Canadian postal system.

In 2011, we investigated 2,835 complaints and recommended 1,833 resolutions to Canada Post. A detailed overview of complaints and investigations in 2011 is included in our Annual Report, which is available on our website at www.ombudsman.postescanadapost.ca.

Complaints investigated and resolved in 2011 are only part of how we measure our performance and achievements. Our customers' experiences with the service we provide and our ability to help Canada Post improve product and service offerings are also crucial to our success.

For the past three years, our customers have been rating their experiences and providing valuable feedback about their dealings with our office. We use this information to try to improve every customer interaction we have. Last year, when customers were asked how likely they would be to recommend our services on a scale of 1 to 10, they gave us a 7.9. This represents a year-over-year increase for the second year in a row.

We also improved our analytical capabilities in 2011. Our focus on business excellence, which brings increased visibility to our investigations and their resolutions, enabled us to provide valuable business intelligence that helps Canada Post improve service. Our analysis allowed us to make specific recommendations to Canada Post for improving their customer experience and Canada Post has been very willing to take action.

I am proud of the relationship we have built with our key stakeholder, Canada Post. The collaboration and support Canada Post offers our team is crucial to our ability to achieve equitable resolutions to customer complaints.

Francine Conn

WHAT THE OMBUDSMAN CAN DO FOR YOU

- The Ombudsman independently investigates your complaint in a fair, unbiased and confidential manner.
- The Ombudsman relies on a fact-based investigation process in order to assess if Canada Post reasonably applied its policies and procedures in the initial handling of your complaint.
- After a thorough investigation, the Ombudsman makes recommendations to Canada Post if the complaint is justified. These recommendations may be formulated as case-specific interventions or address policy and procedural changes that have a broader application.

WHAT THE OMBUDSMAN DOES NOT DO

- The Ombudsman has no legislative power over Canada Post and does not set corporate policy on matters related to postal services.

Corporate Social Responsibility

Social responsibility has long been important at Canada Post. We are committed to operating according to sustainable development and corporate social responsibility principles, including transparency. Despite our challenges in 2011, we made progress on a number of social and environmental indicators in these areas:

OUR PEOPLE

- Launched a new health and safety policy that supports our goal of preventing workplace injuries and creating a strong safety culture.
- Provided more than 42,000 hours of driver training, a 10-per-cent increase over 2010.
- Reduced the number of vehicle collisions by 18 per cent over the past three years.
- Met our Learning Index threshold by delivering more than 105,000 hours of classroom training and eLearning to team leaders and front-line employees.

50 CORPORATE KNIGHTS • 2010 BEST CORPORATE CITIZENS

Canada Post was chosen as one of the Best 50 Corporate Citizens in 2011 for the third year in a row.

OUR ENVIRONMENT

- Received Leadership in Energy and Environmental Design (LEED™) Silver certification for three letter-carrier depots.
- Increased our landfill waste diversion rate across our sites by five percentage points over 2010 to 67 per cent.
- Reduced CO_2 emissions from Canada Post-owned vehicles by 4.5 per cent
- Completed our first comprehensive greenhouse gas inventory. Results show a 10-kilometre round trip to the mall produces about five times as much CO_2 as purchasing the same item online and having it delivered by Canada Post.

Canada's Best Diversity Employers 2011 PRESENTED BY BMO Financial Group

Canada Post was selected as one of Canada's Best Diversity Employers for 2011 for the second time.

OUR COMMUNITIES

- Raised $2.1 million for the Canada Post Foundation for Mental Health and distributed $2.1 million in grants, from funds raised by Canada Post in 2010, to 47 community organizations.
- Received the "Thanks a Million" award from United Way for raising, together with our employees, more than $1.9 million. We've received this award every year since it was created in 1994.
- Recognized 24 Aboriginal people through the Canada Post Aboriginal Education Incentive Awards for their efforts to improve their lives.
- With the support of Santa Letter-writing Program volunteers, helped Santa answer more than one million letters and some 48,000 emails. Postal elves delivered their 20 millionth response letter to a child in London, Ont.
- Supported diversity by creating stamps to celebrate the festivals of Eid, Diwali and Hanukkah.

A more detailed report on our social and environmental performance will be available later in 2012 at canadapost.ca/csr.

Canadian Postal Service Charter

Preamble

The Canada Post Corporation was created to provide a standard of postal service that meets the needs of the people of Canada. The Government of Canada is committed to ensuring transparency in how Canada Post provides quality postal services to all Canadians, rural and urban, individuals and businesses, in a secure and financially self-sustaining manner.

The Government has therefore established the *Canadian Postal Service Charter* to describe its expectations regarding Canada Post's service standards and related activities in providing postal services that meet the needs of consumers of postal services in Canada. These expectations are not intended to modify or derogate from Canada Post's obligations as set out in the *Canada Post Corporation Act* or any other legislation.

Universal service

1. Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.
2. The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.

Affordable rates

3. Canada Post will charge uniform postage rates for letters of similar size and weight, so that letters to Canadian addresses will require the same postage, regardless of the distance to reach the recipient.
4. As required by the *Canada Post Corporation Act*, Canada Post will charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.
5. Canada Post will provide advance notice of and publicly advertise proposed pricing changes for regulated letter mail products and consult with consumers during the rate-setting process.

Frequent and reliable delivery

6. Canada Post will deliver letters, parcels and publications five days a week (except for statutory holidays) to every Canadian address, except in remote areas where less frequent service may be necessary due to limited access to the community.
7. Canada Post will deliver to every address in Canada. This may be delivery to the door, a community mailbox, a group mailbox, a rural mailbox, a postal box, general delivery at the post office or delivery to a central point in apartment/office buildings.
8. Canada Post will deliver Lettermail:
   - Within a community within two business days;
   - Within a province within three business days; and
   - Between provinces within four business days.

Convenient access to postal services

9. Canada Post will provide an extensive network for accessing postal services that includes retail postal outlets, stamp shops and street letterboxes, as well as access to information and customer service through Canada Post's website and call centres.
10. Canada Post will provide retail postal outlets, including both corporate post offices and private dealer-operated outlets which are conveniently located and operated, so that:
    - 98 per cent of consumers will have a postal outlet within 15 km;
    - 88 per cent of consumers will have a postal outlet within 5 km; and
    - 78 per cent of consumers will have a postal outlet within 2.5 km.
11. The moratorium on the closure of rural post offices is maintained. Situations affecting Canada Post personnel (e.g., retirement, illness, death, etc.) or Canada Post infrastructure (e.g., fire or termination of lease, etc.) may, nevertheless, affect the ongoing operation of a post office.

Secure delivery

12. Canada Post will take into consideration the security and privacy of the mail in every aspect of mail collection, transmission and delivery.

Community outreach and consultation

13. Where Canada Post plans to change delivery methods, Canada Post will communicate, either in person or in writing, with affected customers and communities at least one month in advance to explain decisions and explore options that address customer concerns.
14. At least one month before deciding to permanently close, move or amalgamate corporate post offices, Canada Post will meet with affected customers and communities to jointly explore options and find practical solutions that address customer concerns.
15. Each year, Canada Post will hold an Annual Public Meeting open to the public to provide an opportunity for the public to express views, ask questions and provide feedback to Canada Post.

Responding to complaints

16. Canada Post will establish and promulgate complaint resolution processes that are easily accessible to customers and will address complaints in a fair, respectful and timely manner.
17. The Canada Post Ombudsman will investigate complaints about compliance with the *Canadian Postal Service Charter* in situations where customers remain unsatisfied after they have exhausted Canada Post's complaint resolution processes.

Reporting on performance

18. Each year in its annual report, Canada Post will report on its performance against each of the expectations in this *Canadian Postal Service Charter*.
19. In addition, Canada Post will present an overview of the delivery methods it uses in its annual report, indicating the number of addresses served with each delivery method and the financial costs associated with each method of delivery.

Reviewing the Charter

20. The Government will review the *Canadian Postal Service Charter* every five years after its adoption to assess the need to adapt the Charter to changing requirements.

Canadian Postal Service Charter Compliance 2011

Canada Post is committed to meeting the expectations of the *Canadian Postal Service Charter*. Our compliance for 2011 is summarized below.

UNIVERSAL SERVICE

Canada Post delivered over 10 billion pieces of mail, parcels and messages in 2011 to more than 15 million addresses in urban, rural and remote locations across Canada. In addition, Canada Post, through its membership in the Universal Postal Union, an alliance of 192 member countries around the world, provided inbound and outbound international postal services. Service to rural areas was provided through more than 3,800 rural retail outlets (approximately 59 per cent of all Canada Post retail outlets) and by more than 7,000 Rural and Suburban Mail Carriers.

AFFORDABLE RATES

Canada Post provides uniform postage rates for letters of similar size and weight, regardless of delivery distance or destination in Canada. For 2011, Canada Post applied uniform rates of postage to the following categories of letters (see chart below).

Canada Post Corporation's Annual Cost Study provides costing data that serves as the basis for ensuring that Canada Post is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services. The results of the 2011 Annual Cost Study are outlined on page 78.

On May 14, 2011 Canada Post published in the *Canada Gazette* a regulatory proposal to increase selected regulated postage rates starting January 16, 2012. This was accompanied by a news release. Through these notifications, the Canadian public was invited to raise any concerns regarding the proposals with the Minister responsible for Canada Post. There were no representations from Canadians regarding the proposed changes. The Government granted final approval for the proposed rates on December 8, 2011.

Category		Postage Rate
Standard (envelopes, cards, self-mailers)	0 to 30 g	$0.59
	30 to 50 g	$1.03
Medium (envelopes, cards, self-mailers)	0 to 20 g	$1.03
	20 to 50 g	$1.18
Other Lettermail (non-standard and oversize)	0 to 100 g	$1.25
	100 to 200 g	$2.06
	200 to 300 g	$2.85
	300 to 400 g	$3.25
	400 to 500 g	$3.50

FREQUENT AND RELIABLE DELIVERY

Approximately 88 per cent of Canadian households received postal delivery services to their residences, apartment buildings, immediate neighbourhoods or rural roadside postal boxes via delivery agents such as letter carriers or rural and suburban mail carriers. Of those addresses, 99.9 per cent received scheduled delivery five business days per week, subject only to unforeseen and temporary day-to-day exceptions. About 12 per cent of Canadian households (usually located in smaller rural communities) obtained their mail at local post offices or through postal boxes located in conveniently accessible lobbies of community post offices.

The year 2011 presented many challenges to Canada Post's service commitments due to the increased pace and scale of the rollout of new processing and mail delivery procedures as well as the impacts of the labour disruption. The on-time service performance for Lettermail delivery was 91.2 per cent for the year as a whole. Lettermail service performance levels returned to traditional levels by year end and in 2012 we remain focused on minimizing any future impacts to service as we continue to roll out our new processing and delivery model.

CONVENIENT ACCESS TO POSTAL SERVICES

In 2011, postal service was provided in Canada through:

- 6,460 retail postal outlets;
- Thousands of third-party retail locations authorized to sell postage stamps;
- Approximately 200,000 collection points throughout Canada where postal items can be deposited (not including the more than 750,000 rural mailboxes, which are also collection points).

The retail network met its *Service Charter* standards as follows:

- 98.7 per cent of the Canadian population lived within 15 km of a retail postal outlet;
- 90.2 per cent lived within 5 km;
- 78.8 per cent lived within 2.5 km.

For 2011, there were 144 incidents affecting Canada Post personnel or infrastructure that had an impact on retail post offices covered by the rural moratorium. Eighty-seven cases were

Reason for delivery method change	Number of addresses affected
Retail outlet change (e.g. change in retail location for general delivery services)	3,981
Delivery equipment upgrade (e.g. conversion from a group mailbox to a community mailbox receptacle)	23,000
Delivery safety reasons or municipal request (e.g. movement of location of mail delivery in rural areas as a result of a mandatory response to a safety review)	19,000
Other reasons	141

resolved directly by Canada Post through staffing actions. In the remaining cases, after consultation with the affected communities and community leaders:

- 11 cases were resolved through staffing of the postmaster position;
- 46 cases were resolved through provision of retail services at a nearby town while maintaining delivery services in the existing community.

SECURE DELIVERY

Canada Post is committed to taking the measures necessary to protect the mail, recognizing that it holds a special position of trust and accountability for the mail it delivers on behalf of the Canadian public. The Security & Investigation Services group conducts its operations in accordance with the *Canada Post Corporation Act*, the Government Policy on Security, and other regulatory and legislative authorities with the primary objective of ensuring the appropriate protection of mail, people and assets.

The Canada Post Security & Investigation Services group continues to work collaboratively with local, provincial and national law enforcement agencies on various investigative strategies to protect the mail and prevent identity-theft-related crimes.

In accordance with its obligations under the *Privacy Act*, Canada Post submits an annual report on its privacy practices to the federal government.

COMMUNITY OUTREACH AND CONSULTATION

While Canada Post endeavours to maintain the existing method of delivery for the addresses it serves, circumstances may arise where changes are necessary, including improvements to equipment and upgrades. For 2011, approximately 0.3 per cent of 15 million addresses were affected by a change of delivery method (see chart above).

While Canada Post's corporate postal outlet network generally remains unchanged, operational issues may arise that impact the continued suitability of an existing location for postal retail services. In 2011, 22 urban offices (which are not subject to the moratorium) were considered for permanent closure, moves or amalgamations. In all cases, Canada Post consulted with affected customers and considered community input prior to implementing any proposed change. Customers were notified of proposals affecting their retail post offices through notifications posted within facilities which included solicitation for feedback. In many cases, Canada Post representatives met with community leaders and citizens affected by any proposed changes.

As of December 31, 11 of the 22 cases considered are pending completion of community consultation, final decision or implementation. Of the 11 cases that were resolved:

- eight offices moved to another location
- two offices closed
- one office remained at its current location

Canada Post held its sixth Annual Public Meeting on October 17, 2011 in Thunder Bay, Ontario. A media advisory was released in advance of the event, and the meeting was advertised on the Canada Post website. Invitations were also sent to a number of stakeholders, including local and national customers, suppliers, association representatives, retail franchisers, bargaining agents, and others. Nearly 950 Canada Post employees and interested Canadians participated through an audio webcast, while approximately 30 attended in person, including Canada Post executives, bargaining agents, and representatives from the media.

RESPONDING TO COMPLAINTS

Customer Service received 4.1 million customer calls in 2011 and 257,000 electronic customer inquiries through email, fax and online forms. These interactions related to requests for product information, tracing, claim submissions and general inquiries. The complaint-resolution process ensures that Canada Post has every opportunity to resolve customer complaints. However, in cases where Canada Post has completed its review of the complaint and the customer is not satisfied with the proposed solutions, the customer may appeal to the Canada Post Ombudsman.

The Ombudsman is the final appeal authority in the complaint-resolution process at Canada Post. The Ombudsman independently conducts investigations, questions parties involved in a dispute, determines whether Canada Post has adhered to its policies and procedures, and recommends equitable courses of action in an effort to resolve customer complaints. A detailed view of the outcome of the Ombudsman's investigations, including any *Service Charter*-related issues, can be found in the Ombudsman's annual report, available at www.ombudsman.postescanadapost.ca.

REPORTING ON PERFORMANCE

An overview of the delivery methods by Canada Post and the estimated financial costs associated with each delivery method follows:

Delivery method	Number of addresses*	% of total addresses	Average annual cost per address
Door-to-door	5,094,694	34%	$269
Centralized point (e.g. apt. lobby lockbox)	3,726,366	24%	$124
Group mailbox, community mailbox, kiosk	3,804,574	25%	$117
Delivery facility (postal box, general delivery)	1,797,668	12%	$53
Rural mailbox	757,843	5%	$182
All methods	**15,181,145**	**100%**	**$166**

*as at December 31, 2011

OTHER PUBLIC-POLICY PROGRAMS

In addition to its universal service obligation and core postal services, Canada Post also delivers certain public-policy programs on behalf of the Government of Canada.

Food Mail

The Food Mail Program was a federal Government program that subsidized the cost of transporting nutritious, perishable food and other essential items by air to isolated northern communities. In the first quarter of 2011, Canada Post shipped 4.5 million kilograms of goods under the Food Mail Program. Revenue generated through this program was $17 million (including $13 million provided by the Government to cover the difference between postage revenue collected by Canada Post and the costs it incurred). Canada Post estimates that the foregone revenue[1] amounted to approximately $3 million. The program ended on March 31, 2011 and was replaced by a new federal program called Nutrition North Canada which does not involve the services of Canada Post.

Government Mail and materials for the blind

The *Canada Post Corporation Act* allows for mailing of letters free of charge between citizens and the Governor General, members of Parliament, the Speakers of the Senate and House of Commons, the Parliamentary Librarian, and the Ethics Commissioner. Members of the House of Commons can also send up to four flyer mailings (through Canada Post's Unaddressed Admail™ service) free of charge to their constituents in any calendar year.

Canada Post also provides members of Parliament with a deeply discounted postage rate, unchanged since 1995, for Unaddressed Admail mailings over and above the four free mailings per year. In 2011, approximately 2.7 million letters were mailed as Government Mail (excluding mail from constituents to parliamentarians) and MPs mailed more than 81 million Unaddressed Admail items.

The *Act* also provides for free mailing of materials for the blind. Today, thousands of visually impaired Canadians and many libraries across the country, including that of the Canadian National Institute for the Blind, are able to send talking books and other materials free of charge throughout Canada and around the world. In 2011, it is estimated that more than two million shipments benefited from this program. Canada Post receives a Government appropriation of $22 million to help offset the financial impact of these programs on the company.

Library Book Rate

The Library Book Rate allows public and academic libraries to move books between libraries as well as between libraries and library users who do not have access to a public library due to geographic constraints or physical limitations. Canada Post's Library Book Rate allows these books to be shipped at significantly reduced postage rates. In 2011, there were a total of just under 750,000 shipments of books under the Library Book Rate, generating $831,000 in revenue for Canada Post. The foregone revenue for Canada Post was estimated to be $8 million for 2011. Unlike other public-policy programs delivered on behalf of the Government, Canada Post receives no appropriation or compensation of any kind from the Government to offset the discounted postage.

[1] Foregone revenue is the difference between actual compensation and the amount Canada Post would have earned at normal levels of commercial compensation.

Financial Performance

CONTENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the year ended December 31, 2011 for Canada Post Corporation (the "Corporation" or "Canada Post"), our subsidiaries Purolator Inc. ("Purolator"), SCI Group Inc. ("SCI") and Innovapost Inc. ("Innovapost"). These companies are collectively referred to as the "Canada Post Group of Companies" or the "Group of Companies." This discussion should be read together with the consolidated financial statements and accompanying notes for the year ended December 31, 2011, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and are presented in Canadian dollars. Financial results reported in the MD&A are rounded to the nearest million while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to March 21, 2012, unless otherwise noted.

Management is responsible for the information presented in the Annual Report, including the MD&A. All references to "our" or "we" are references to management of Canada Post. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements.

Materiality

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of the financial information.

Forward-looking statements

This Annual Report, including this MD&A, contains forward-looking statements that reflect management's expectations regarding the Corporation's objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends," and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (collectively, the "Assumptions"). While we consider these Assumptions to be reasonable, based on information currently available to us, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies currently expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in *Section 5 – Risks and Risk Management on page 45* of this MD&A (collectively the "Risks").

To the extent the Group of Companies provides forward-looking information that is future-oriented financial information or a financial outlook, such as future growth and financial performance, the Group of Companies is providing this information for the purposes of describing its future expectations. Readers are, therefore, cautioned that this information may not be appropriate for any other purpose. Further, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the Assumptions and subject to the Risks.

Readers are urged to consider these factors carefully when evaluating these forward-looking statements. In light of these Assumptions and Risks, the events predicted in these forward-looking statements may not occur. The Group of Companies cannot assure that projected results or events will be achieved. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

The forward-looking statements included in this Annual Report, including this MD&A, are made only as of the date of this Annual Report, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

Adoption of International Financial Reporting Standards

The Canadian Accounting Standards Board requires publicly accountable enterprises such as Canada Post to adopt IFRS for annual periods beginning on or after January 1, 2011. Accordingly, on January 1, 2011, Canada Post changed over to IFRS from previous Canadian generally accepted accounting principles ("GAAP") and began reporting its financial results in accordance with IFRS, including comparative figures. Financial results for periods prior to 2010 are based on Canadian GAAP and therefore may no longer be comparable to financial results reported under IFRS. In this MD&A, the term Canadian GAAP refers to GAAP in Canada prior to the Corporation's transition to IFRS.

1 Executive Summary

An overview of the Canada Post Group of Companies and a summary of 2011 financial results

Canada Post Corporation is one of the largest federal Crown corporations and one of the largest employers in Canada, employing either directly or through our subsidiaries about 69,000 employees. On an annual basis, our employees deliver over 10 billion pieces of mail, parcels and messages to over 15 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with almost 6,500 retail post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport, Infrastructure and Communities and has a single Shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, the Corporation has a mandate to provide a standard of postal service that meets the needs of the people of Canada by providing quality postal services to all Canadians, rural and urban, individuals and businesses, in a secure and financially self-sustaining manner. Canada Post's universal service obligation ("USO") is set out in the *Canadian Postal Service Charter*, established by the Government of Canada in 2009 which states:

1. Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.
2. The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.

In addition to its core postal services and USO, the Corporation also delivers certain public-policy programs on behalf of the Government of Canada. Pursuant to the *Canada Post Corporation Act*, members of Parliament and certain senior government officials are allowed to send mail free of charge. The Act also provides for free mailing of materials for the blind. Canada Post also provides a discounted Library Book Rate to allow public and academic libraries to move books between libraries and library users at reduced postage rates.

Canada Post is part of the global postal industry comprised of international postal operators or "Posts." All Posts have traditionally financed their USO through a legislated "exclusive privilege," or monopoly over a portion of the postal market. However, the value of the exclusive privilege is diminishing given the continued decline in traditional mail volumes, the increased competition from the digital world and the need to deliver universal service to a growing number of addresses.

The consensus among Posts is that "physical-mail" markets are now fully mature and mail volumes will continue to erode. The environment in which we operate continues to change and electronic substitution, competition and customers' cost-reduction efforts are driving postal industry declines.

The Canada Post Group of Companies faced many challenges in 2011 and for the first time in 17 years, failed to earn a profit. The overall financial results were disappointing and negatively affected by a number of factors including:

- The June 2011 labour disruption involving the Canadian Union of Postal Workers (CUPW), our largest union with over 38,000 represented employees responsible for the collection, processing and delivery of the mail in larger urban communities. On June 14, 2011, following 12 days of increasingly-costly rotating strikes by the CUPW, Canada Post shut down urban operations, thus suspending operations across the country for another 13 days until Parliament adopted back-to-work legislation. While Canada Post is still assessing the long-term impact of the labour disruption, its immediate impact was significant and given normal performance led to estimated revenue losses of over $200 million in 2011. Presently, we are still awaiting the outcome of the legislated arbitration process, which will play a significant role in securing our short- and long-term future.
- The Supreme Court of Canada ruling in November 2011 in favour of the Public Service Alliance of Canada ("PSAC") and the Canadian Human Rights Commission in their pay equity complaint against Canada Post that dated back to the years 1982 to 2002. In doing so, it maintained the 2005 decision of the Canadian Human Rights Tribunal ("the Tribunal") that concluded that the Corporation had participated in "systematic discrimination" in the setting of wages for a group of PSAC members and ordered payment to compensate the found wage gap at a discount of 50 per cent. Canada Post has recognized an estimate of these additional costs in 2011 and will be consulting with PSAC in order to reach an agreement on the final amount.
- The significant obligations of the Canada Post Pension Plan and other employment benefits, given their size compared to revenue and profit, as well as funding volatility, pose an ongoing risk to the Corporation's cash flows and ability to fund needed investments in modernization and growth. Market volatility negatively impacted the Group of Companies' pension plans and resulted in actuarial losses of $1,581 million being recorded in other comprehensive income (loss) in 2011. Under International Financial Reporting Standards, the Corporation recognizes net actuarial losses on pension, post-employment and other long-term employee benefit plans directly to equity. These losses are the main cause for the Equity of Canada ending in a deficit position at the end of 2011.

- The continued mail volume declines in our core mail business caused by electronic substitution, competitive pressures and uncertain economic conditions. Business and consumers have never had as much choice in products and modes of communication, and competition is aggressive. In 2011, the downward trend continued as the Canada Post segment experienced a 3.6-per-cent decline in domestic Lettermail volumes. To compound the volume declines, the number of Canadian points of delivery has grown by approximately 175,000 per year for the last five years resulting in increased costs due to the obligation to provide delivery service to more addresses.

To address these challenges and help ensure that Canada Post returns to profitability and remains financially viable and self-sustaining, the following strategic priorities were introduced:

- **Transformation across Canada Post aimed at making meaningful changes to our cost structure and improving our competitiveness –** To transform our business, we plan to focus on four major areas:

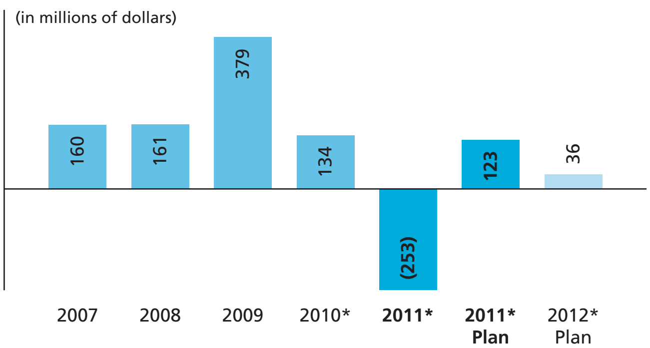
1) ***Postal Transformation*** – Our $2.1-billion infrastructure-renewal project launched in 2008 is replacing outdated and obsolete facilities and equipment, automating manual sorting processes, creating a motorized delivery force, and increasing productivity;
2) ***Labour*** – We are seeking changes in our labour-cost model, where labour costs currently account for 71 per cent of our cost structure, and are striving through the collective bargaining process to negotiate agreements that are affordable;
3) ***Information Technology*** – We plan to restructure our information systems/information technology ("IS/IT") in 2012 by moving from a joint-venture structure to a shared services company where Innovapost will operate on a cost-recovery basis and employ a multi-sourcing strategy to ensure it procures services at competitive prices; and
4) ***Leveraging the Group of Companies*** – We plan to increase synergies within the Group of Companies and leverage all of our assets and capabilities to generate cost savings and new revenue opportunities.

- **Growing our Business –** To remain relevant and financially sustainable in the long run Canada Post must adapt as our industry evolves and grow our revenues profitably in each of our lines of business. In our core area, physical mail, we plan to focus on gaining market share in the fast growing business-to-consumer e-commerce space by positioning our parcel business to leverage Postal Transformation and our retail presence. In addition, we aim to revitalize the core business by taking full advantage of physical mail assets and Direct Marketing products to offset the erosion of Lettermail bills and statements. In our digital delivery network, although small today, we are looking to capture some of the migration of communications to electronic channels by offering services in the "e-space" that complement what we currently offer for physical mail. Digital services available through the epost platform will be strengthened to mirror what we deliver physically (bills, statements, magazines, flyers). We also plan to build location intelligence data assets to grow new revenue streams and support existing Direct Marketing products, improve our online presence and effectiveness to support both our physical and our digital delivery networks, and enhance the customer experience across our digital touch points.

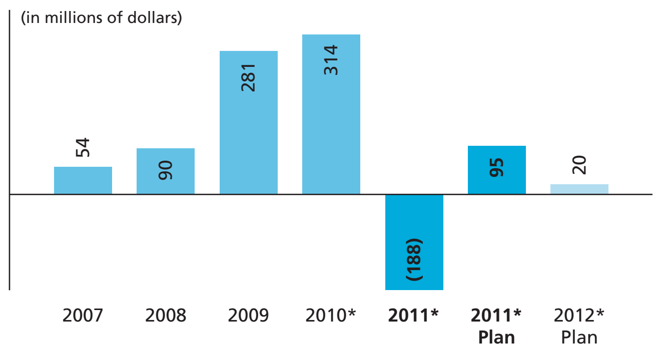
The Canada Post Group of Companies – 2011

The 2011 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation, our subsidiaries Purolator, SCI and Innovapost. These companies are collectively referred to as the "Canada Post Group of Companies."

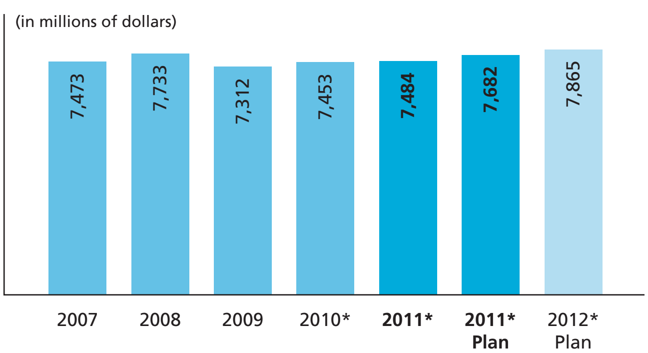
Consolidated profit (loss) before tax



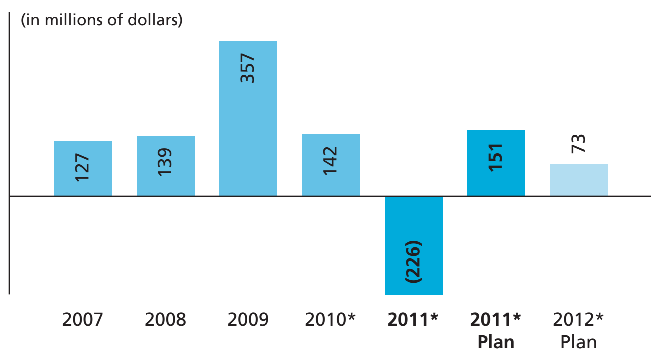
Consolidated net profit (loss)



Consolidated revenue from operations



Consolidated profit (loss) from operations



*Beginning on January 1, 2011, Canada Post adopted International Financial Reporting Standards ("IFRS") as the required basis of accounting. Accordingly, the Corporation reported under IFRS for the year ending December 31, 2011 and the comparative year ended December 31, 2010. The 2007 to 2009 financial results are based on previous Canadian GAAP and therefore may not be comparable to 2010 and 2011.

The following table presents the Corporation's consolidated performance for the 2011 fiscal year compared to the 2011 Corporate Plan.

(in millions of dollars)

Year ended December 31	2011 Results	2011 Plan	Change	Explanation
Consolidated				*For further information, see Section 2 – Core Business and Strategy on page 30 and Section 8 – Discussion of Operations on page 57*
Revenue from operations	7,484	7,682	(198)	Fell short of expectations by $198 million (Canada Post segment – $177 million) primarily due to: • Labour disruption in the Canada Post segment partially offset by revenue from the unplanned federal election
Cost of operations	7,710	7,530	(180)	Higher than plan by $180 million (Canada Post segment – $194 million) due to: • PSAC pay equity ruling in the Canada Post segment • Higher than planned employee future benefits expense for the Canada Post segment • Partially offset by cost reductions in the Canada Post segment due to the labour disruption, and • Continued cost-containment activities across the Canada Post Group of Companies
Investing and financing income (expense)	(27)	(29)	2	
Profit (loss) before tax	(253)	123	(376)	

The following table presents the Corporation's consolidated performance for the 2011 fiscal year compared to 2010.

(in millions of dollars)

Year ended December 31	2011	2010	Change	%	Explanation of change
Consolidated statement of comprehensive income					*Highlights, as discussed in Section 8 – Discussion of Operations on page 57*
Revenue from operations	7,484	7,453	31	0.8 %*	Mainly due to price increases, largely offset by volume declines mostly due to the labour disruption, continued erosion of domestic Lettermail and exiting the Government of Canada's Food Mail Program in the Canada Post segment
Cost of operations	7,710	7,311	399	5.5 %	Primarily due to the PSAC pay equity ruling, inflationary pressures and an increase in employee future benefits expense, offset by cost reductions stemming from the labour disruption and exiting the Government of Canada's Food Mail Program in the Canada Post segment, and cost containment activities across the Canada Post Group of Companies
Profit (loss) before tax	(253)	134	(387)	(289.5) %	
Tax expense (income)	(65)	(180)	(115)	(63.6) %	Includes previously unrecognized deferred tax asset temporary differences of $192 million in 2010
Net profit (loss)	(188)	314	(502)	(160.1) %	
Consolidated statement of cash flows					*Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 49*
Cash and cash equivalents	271	379	(108)	(28.6) %	Largely due to cash required to cover capital expenditures of $540 million, offset by $221 million in net proceeds from the sale of short-term investments, the receipt of tax refunds of $112 million and cash flows provided from operations before interest and taxes of $99 million
Cash provided by (used in) operating activities	196	(41)	237	589.9 %	Mainly due to a decrease in employee future benefit payments and larger tax refunds, offset by an increase in interest paid on long-term debt (issued in July 2010) within the Canada Post segment
Cash used in investing activities	(290)	(1,025)	735	71.7 %	Primarily due to a decline in purchases of short-term investments in 2011 within the Canada Post segment. In 2010, investments were purchased with the proceeds from the $1-billion bond issue.
Cash provided by (used in) financing activities	(14)	972	(986)	(101.4) %	Primarily due to the Canada Post segment's $1-billion bond issue in 2010

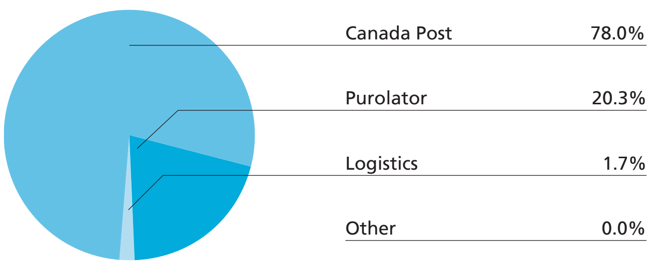
* Adjusted for trading days where applicable

The Canada Post Group of Companies segments – 2011

The Corporation manages its operations and determines its operating segments on the basis of the legal entities. There are three reportable operating segments. The remaining operations are disclosed in the "Other" category. The Corporation's operating segments are:

- Canada Post;
- Purolator;
- Logistics; and
- Other.

Revenue by segment – 2011



Revenue by segment	2011	2010	2009
Canada Post	78.0%	79.3%	79.6%
Purolator	20.3%	18.8%	18.5%
Logistics	1.7%	1.9%	1.9%
Other	0%	0%	0%

The Corporation's unconsolidated results reflect the operations of the Canada Post segment. In 2011, the Canada Post segment generated $5.9 billion in revenue and experienced a loss before tax of $327 million. This loss was primarily the result of the negative impact of the labour disruption that occurred in June (estimated revenue losses of over $200 million), Lettermail erosion and the ruling on pay equity.

The Canada Post segment operates three lines of business: Transaction Mail, Parcels, and Direct Marketing.

Transaction Mail is our portfolio of services for creating, delivering and responding to letters, bills, statements, invoices and other forms of paper and electronic communications. The Transaction Mail line of business competes in the larger Canadian communications market that includes email, instant messaging and other means of "document" communication.

The Parcels line of business offers a wide range of domestic and international delivery services, differentiated by speed of delivery. Canada Post and its subsidiary, Purolator, compete in both the urgent and non-urgent shipping and delivery market. Purolator's product offering (primarily business-to-business), complements that of Canada Post's (primarily business-to-consumer) and enables Canada Post to have a full parcel offering in the market.

The Direct Marketing line of business is comprised of three primary products: Addressed Admail™ and Unaddressed Admail (collectively referred to as "Admail products") and Publications Mail™. Admail products compete in the Canadian advertising and marketing services industry with other advertising media that range from traditional means such as print media, radio, television and newspapers to electronic channels such as websites, email and text messaging. The Publications Mail service includes the distribution of periodicals such as newspapers, magazines and newsletters.

Our subsidiaries provide additional competencies, capabilities and market reach, which enables the Canada Post Group of Companies to provide broader product and service offerings as well as complete service solutions. The synergies that our subsidiaries bring create strategic value that forms an integral part of our future growth strategy as well as our strategy to leverage our collective strengths to increase cost-effectiveness and efficiency.

In 2011, the Purolator segment generated $1.6 billion in revenue, and earned profit before tax of $73 million. The Purolator segment competes within the same shipping and delivery market as Parcels, but focuses on the business-to-business ("B2B") market segment. The majority of Purolator's revenue is earned from the provision of courier services, with other revenue derived from air cargo and less-than-truckload ("LTL") services.

The Logistics segment includes the financial results of SCI Group. In 2011, the Logistics segment contributed $138 million in operating revenue, and earned profit before tax of $7 million.

The Other segment includes the financial results of Innovapost. Virtually all of the information technology services provided by Innovapost are provided to the Group of Companies. Accordingly, the Corporation's proportionate share of Innovapost revenue is eliminated against the other segments' cost of operations upon consolidation.

Outlook 2012

Looking ahead to 2012, the Group of Companies will continue to face many of the same critical challenges that it did in 2011. The uncertain economic climate, volatile markets, unsettled labour agreements, mail volume erosion and competitive pressures continue to make it difficult to predict future revenue, profit and cash position.

We still expect "physical-mail" volumes to continue to decline due to electronic substitution, bill consolidation, and aggressive competition on many fronts but the degree of domestic Lettermail erosion is uncertain and represents a major risk going forward. Planned revenue for the Canada Post Group of Companies in 2012 is $7.86 billion, which represents a growth of 5.1 per cent compared to the previous year, and the planned profit before tax is $36 million. With slim operating margins and increasing network costs due to continual increases in the number of delivery points, cost containment will continue to be a significant priority. In order to reach our profit target, the Group of Companies must grow revenues profitably and continue transformational efforts to manage costs.

Our most significant cost is labour with much of this cost tied to our collective agreements. Going forward our cost-containment efforts will need to include transformation of these agreements for us to remain competitive and profitable in the long run. The costs of the pension plan and employee future benefits will also continue to be a major issue in 2012 given the size of the obligation compared to revenue and profit.

The estimated pension solvency shortfall to be funded of $4,672 million and going-concern shortfall to be funded of $423 million as at December 31, 2011 are concerning, although recent changes to pension legislation have helped. The changes allow Canada Post to reduce special solvency payments to a maximum of 15 per cent of plan assets and provide pension plan sponsors the opportunity to better manage their funding obligations within their overall business operations, subject to annual ministerial agreement.

2 Core Business and Strategy

A discussion of the business and strategy of our core businesses

2.1 Our business

The Canada Post Group of Companies is in the business of connecting Canadians "*From anywhere…to anyone*™." Our vision for Canada Post is to be a service provider of choice—one that is relevant to the needs of Canadians now and in the future.

The Canada Post Group of Companies delivers a full range of delivery, logistics, and fulfillment services to its customers. Combined, the Group of Companies has annual revenues of approximately $7.5 billion, employs over 69,000 people, has over 7,000 retail locations, and operates a fleet of close to 12,000 vehicles.

Our employees deliver over 10 billion pieces of mail, parcels and messages each year to more than 15 million addresses in urban, rural and remote locations across Canada. Our objective is to provide Canadians with world-class postal service while remaining financially self-sustaining.

Canada Post is the most significant component of the Group of Companies with revenues of $5.9 billion in 2011. Canada Post is Canada's postal operator and its core services include delivery of letters, bills, statements, invoices, parcels, Admail items and periodicals.

Purolator Inc., 91-per-cent owned by Canada Post, is Canada's largest courier company with revenues of $1.6 billion in 2011 and 123 operating locations across the country.

SCI Group Inc., 98.7-per-cent owned by Canada Post, is one of Canada's largest supply chain management services companies with revenues of $138 million in 2011.

Innovapost is the Group of Companies' information system/information technology service provider. Innovapost has been operating as a joint venture with CGI since 2002, with the Canada Post segment holding a 51-per-cent stake. In March 2012, the Canada Post Group of Companies received approval from the Treasury Board of Canada to purchase the remaining shares from CGI. As a result of the transaction, the equity interest of the Group of Companies' in Innovapost will increase to 98.6 per cent.

Synergies within the Group of Companies are a key contributor to the financial success of the Group overall, creating added value for the Shareholder and all Canadians.

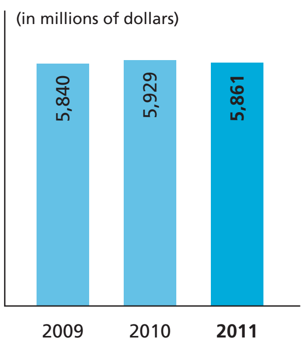
As with other postal administrations, Canada Post continues to face some of the greatest challenges in its history as electronic substitutions, competition and economic uncertainty continue to put pressure on our revenues. In response, we are undertaking major transformational initiatives to contain costs. In addition, we are focusing on e-commerce and digital solutions to meet the demands of a rapidly-evolving and unpredictable business environment.

Canada Post segment

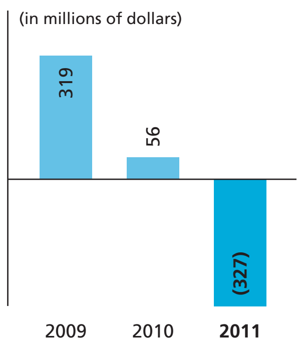
Canada Post operates Canada's largest retail network with almost 6,500 retail post offices, has a fleet of over 7,800 vehicles and annually delivers close to 10 billion pieces of mail. With approximately 56,000 employees, Canada Post provides service to over 15 million addresses.

The Canada Post segment generated revenue of $5.9 billion and, after excluding intersegment revenue, represents 78 per cent of the Group of Companies' 2011 consolidated revenue of $7.5 billion.

Revenue

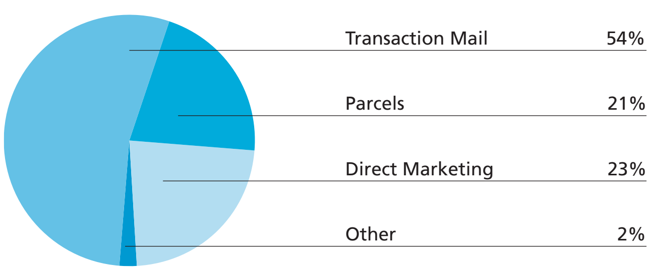


Profit (loss) before tax



The following chart illustrates the distribution of Canada Post revenue by line of business, as percentages of the segment's total.

Revenue by market – 2011



Revenue by market	2011	2010	2009
Transaction Mail	54%	54%	54%
Parcels	21%	21%	22%
Direct Marketing	23%	23%	22%
Other	2%	2%	2%

Transaction Mail

Transaction Mail is our portfolio of services for the creation, delivery and response to letters, bills, statements, invoices and other forms of communications. It is our largest revenue-generating line of business and includes three distinct services—domestic Lettermail, U.S. and international Letter-post and epost, our online bill-presentation service that allows users to receive, pay, and manage their bills in one place.

Transaction Mail accounts for $3.2 billion or 54 per cent of the 2011 unconsolidated Canada Post segment operating revenue of $5.9 billion. Currently, the majority of Transaction Mail revenue is derived from traditional physical-mail delivery services, with domestic Lettermail accounting for close to 90 per cent.

Customers include businesses, governments and consumers but the bulk of Lettermail is from businesses, and over half of Lettermail's overall revenue is derived from four industry segments: financial institutions, telecommunications, government, and utilities.

Parcels

The Parcels line of business offers Canadians a wide range of delivery services covering every domestic address in Canada and international destinations via other postal administrations and collaborative efforts with global integrators. Services are differentiated by the delivery destination and speed of delivery, ranging from urgent next-day delivery to non-urgent, where transit time is determined by the transportation mode of ground and/or air.

Parcels account for $1.3 billion or 21 per cent of the 2011 unconsolidated Canada Post segment operating revenue of $5.9 billion.

Customers include businesses, consumers, governments, international postal administrations and other delivery companies.

Direct Marketing, Advertising and Publishing

The Direct Marketing, Advertising and Publishing ("Direct Marketing") line of business is comprised of three main products: Addressed Admail and Unaddressed Admail (collectively referred to as "Admail products") and Publications Mail. The Addressed Admail product allows marketers to target promotional messages to specific businesses or individuals. The Unaddressed Admail product enables our customers to reach specific neighbourhoods or regions across Canada. The Publications Mail service includes the distribution of periodicals such as newspapers, magazines, and newsletters.

Direct Marketing accounts for $1.4 billion, or 23 per cent, of the 2011 unconsolidated Canada Post segment operating revenue of $5.9 billion.

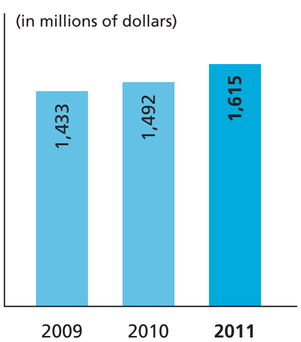
Customers include businesses of all sizes and government. We also work with marketers, influencers and partners to provide Direct Marketing products and services.

Purolator segment

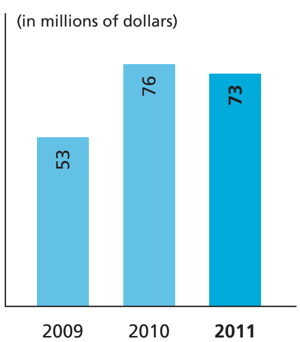
Purolator is Canada's largest courier company and has been providing distribution solutions to, from and within Canada for over 50 years. Purolator provides customers with the services and customized solutions required to deliver their shipments across town or internationally. Purolator uses Canada's largest dedicated air express fleet and has an extensive service network, with 123 operations locations, 136 shipping centres, over 550 authorized shipping agents and more than 280 drop boxes. With a fleet of more than 3,700 vehicles, Purolator makes approximately 329 million deliveries and pickups each year. This network is supported by 22 dedicated chartered aircraft that move 400,000 pounds of air freight each night, and 100 million pounds of air freight each year. In 2011, Purolator generated revenue of $1.6 billion and, after excluding inter-segment revenue, represents 20 per cent of the 2011 Group of Companies' consolidated revenue of $7.5 billion.

Its ability to focus on the B2B segment of the market and develop synergies, such as air line haul, allow the Group of Companies to offer more value at lower cost.

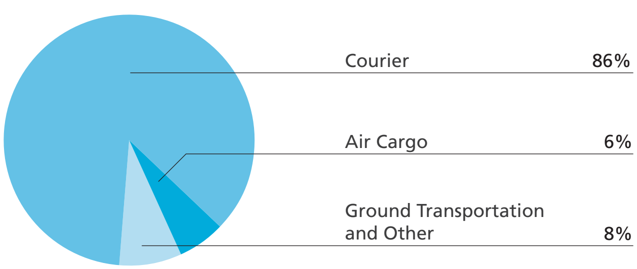
Revenue



Profit (loss) before tax



Revenue by market – 2011



Revenue by market	2011	2010	2009
Courier	86%	87%	87%
Air Cargo	6%	6%	6%
Ground Transportation and Other	8%	7%	7%

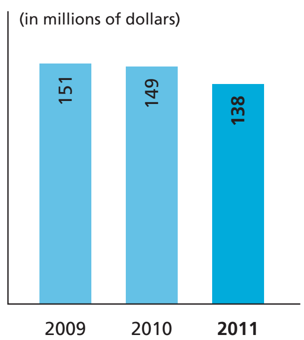
Logistics segment – SCI Group

Through its operating entities SCI Logistics, Progistix and First Team Transport, the SCI Group helps companies reduce cost and improve service through the design, implementation and operation of efficient supply chain solutions, and allows the Group of Companies to offer end-to-end supply chain services to Canadian businesses.

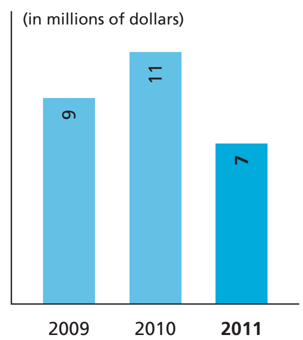
SCI Group Inc. offers its clients expertise in business-to-consumer, business-to-business and field service logistics while delivering innovation, intelligence and integration to supply chains across Canada.

SCI generated revenue of $138 million and, after excluding intersegment revenue, represents 2 per cent of the 2011 Group of Companies' consolidated revenue of $7.5 billion.

Revenue



Profit (loss) before tax



Other segment

The "Other" segment includes the financial results of Innovapost.

Innovapost services include the development, maintenance and operation of the computing and information systems required by the Group of Companies.

With the Canada Post Group of Companies' equity in Innovapost increasing to 98.6 per cent following the March 2012 purchase of CGI's interest in Innovapost, Canada Post feels that it can achieve better alignment of strategic direction with the Group of Companies, have access to services more in line with current IS/IT market offerings, and achieve further synergies and cost reductions.

2.2 Our business environment

Global trends

The threat at the end of 2011 of the Eurozone slipping into a second recession fuelled by the continuing and expanding sovereign debt crisis, along with economic uncertainty in several of the world's major economies, has compounded the challenges facing the postal industry. Already experiencing a slow recovery from the 2009 global economic recession, Posts across the world continue to experience declines in their mail volumes due to various factors including electronic substitution, increased competition, the uncertain economic conditions and customers' efforts to reduce their postal costs. Mail volumes are not expected to rebound in the future as the consensus is that physical mail markets are now fully mature.

In addition to the long-term decline in traditional mail volumes, many Posts are faced with the challenge of balancing financial performance with the costs of providing universal service to all citizens in an environment where the legislated "exclusive privilege" is diminishing. To respond to these challenges and ensure their long-term sustainability, numerous Posts have undertaken and continue to carry out substantial modernization initiatives. At the same time, in international forums such as the Universal Postal Union (UPU) and International Post Corporation (IPC), there is growing discussion and research about the definition of the USO and how best to meet the needs of citizens in this digital era. We are now seeing some experimentation with a hybrid model where mail delivery services are provided both physically and digitally.

In the face of this harsh reality, international Posts have adopted various strategies to address industry challenges. Most have taken action by pursuing a productivity agenda that focuses on cost-cutting initiatives. A number of Posts, including PostNL (The Netherlands), Swiss Post (Switzerland) and La Poste (France) are expanding their service offerings in the e-commerce segment with a focus on the business-to-consumer (B2C) parcels market. Other Posts, particularly in Europe, have pursued growth opportunities by expanding their product and service portfolios or expanding geographically. Posts such as Royal Mail, Swiss Post, Australia Post, La Poste and Poste Italiane have had success leveraging their domestic retail networks.

Canada

The postal industry worldwide is in transition and, in some cases, it is in crisis, and Canada is no exception. Canada Post is facing some of its greatest challenges due to competitive pressures, the slow economic recovery, the impact of the labour disruption in 2011, pension-funding pressures, and the cost of our universal service obligation.

In our core Transaction Mail business, domestic Lettermail and U.S. and international Letter-post mail volumes continue to erode due to electronic substitution. Canadians are increasingly shifting to email as a popular substitute for letters and cards and using electronic bill-presentment services and paying their bills online. Large mailers are encouraging their customers to use electronic payments and consolidating more bills and statements into a single envelope to save on postage costs. The slow economic recovery has also put increased pressure on businesses and consumers to look for more ways to reduce their communication costs. In addition, mail volumes were also significantly affected due to the labour disruption in 2011.

Mail-volume decline is one of our greatest business risks. We do not have the flexibility to make rapid adjustments to our infrastructure, and reduce the associated high fixed costs. Compounding this risk of decreasing mail volumes is the fact that the number of addresses to be serviced are increasing (see table below) which increases costs as less mail is being delivered to more addresses.

Transaction Mail (excluding outbound)	2011	2010	2009*	2008
Delivered Volume Percentage Change	(3.7) %	(3.9) %	(5.5) %	(1.6) %
Delivery Addresses Percentage Change	1.0 %	1.0 %	1.2 %	1.4 %
Mail Volume Percentage Decline per Address	(4.6) %	(4.9) %	(6.7) %	(2.9) %

* In 2010, a methodology change was implemented and 2009 was restated for comparability. Had 2008 been restated, the 2009 delivered volume percentage change would have been (3.9) per cent and the mail volume percentage decline per point of delivery would have been (5.1) per cent.

However, there remains potential in some segments to slow overall decline in mail such as "evidence mail" (e.g. delivery of health cards and driver's licences, proof of payment), loyalty cards, and delivery of government service initiatives now handled by other government agencies or offices.

The Canadian parcel market has seen improvements since a downturn in 2009. Purolator and Canada Post have both remained competitive and hold a strong market share in Canada. The parcel market continues to be fuelled by consumer online shopping and delivery (commonly referred to as the e-commerce segment) and provides opportunities to both Canada Post and Purolator to capitalize on the growth in shipping volumes. This is especially true in the B2C market where Canada Post can leverage its expertise and vast retail network that provides convenient access and pick-up services in the delivery of packages. Given the opportunities in the e-commerce B2C segment, the competition has continued to focus their growth efforts in our traditional strong segment hold of B2C with both local and global competitors, such as FedEx and UPS, increasing their competitive actions in Canada. Consumer patterns are also changing as customers are more cost-focused and as a result have been shifting some of their shipping needs from premium to less-urgent shipping products to reduce their costs. The increased competitive landscape combined with changing customer behaviours is putting increased pressure on Canada Post and Purolator to manage costs, improve customer products and services, and drive sustainable volume and revenue growth.

In the Direct Marketing line of business, Canada Post remains in a strong position with its unparalleled reach and access to more than 15 million addresses in urban and rural locations across Canada. However, given the continued weakness in the economy, marketers are looking for ways to improve the success of their advertising campaigns while reducing their costs. Their increased focus on extracting the highest return from their advertising expenditures has intensified the demand for less-costly, more efficient and measurable media solutions. As well, environmental pressures are driving more marketers to adopt "green" practices and online advertising continues to grow.

The global communications landscape is in the midst of a full-scale transformation, due in large part to the proliferation and heavy adoption of digital (internet and mobile) media. The digital evolution has created a structural shift in terms of how consumers transact with businesses as well as how companies market themselves. Businesses are recognizing the need to communicate with their customers on digital platforms and are replacing a portion of their print-based transactional and marketing communications with electronic alternatives. Many opportunities exist in the digital market for Canada Post with our strong brand identity and long-standing trusted relationship with Canadians. We also have access to extensive address and consumer knowledge to develop a digital-services platform that is trusted and valued by Canadians through expansion of epost, providing consumer and location intelligence, and improving customer experience across our digital touch points.

2.3 Our strategy and strategic priorities

Our strategic vision for Canada Post has not changed. We strive to be a service provider of choice, one that is relevant to Canadians' needs now and in the future. Canada Post is striving to be a leader in providing innovative physical and digital delivery solutions, creating value for our customers, employees and all Canadians.

To achieve this vision, we are focusing our efforts in two principal areas:

1. operational transformation to overcome structural cost issues and improve our competitiveness; and
2. a pursuit of growth opportunities that build on or complement our core assets and capabilities.

In addition to our principal areas, we will also be focusing on rebuilding employee engagement and strengthening our customer intelligence to better anticipate new trends.

Saving costs and improving our competitiveness

Canada Post has a responsibility to be financially self-sustaining, and we are always exploring ways to improve cost-efficiency. We are also mindful of the focus on the part of our Shareholder, the Government of Canada, to return to a balanced budget. We continue to review our business processes and internal services to discover additional savings and achieve efficiencies, keeping in mind global best practices and the experience of other postal administrations.

Postal Transformation

Postal Transformation is a multi-year $2.1-billion infrastructure-renewal program, commenced in 2008, that will deliver a modern, more flexible and efficient physical delivery network capable of fulfilling mail service requirements now and in the future.

The Postal Transformation program includes equipment modernization and new technology that will replace obsolete letter-processing equipment, automate manual-sorting processes, create a motorized delivery workforce and replace or improve current mail-processing plants.

We will continue to deploy Postal Transformation with prudence and to work on the projects that are the most critical and have the highest return on investment. Anticipated benefits will be achieved while respecting all provisions in our collective agreements, including commitments relating to job security. We intend to focus on reducing operating costs in existing facilities through energy-saving initiatives, lower maintenance costs and increasing standardization in our new building designs.

Labour

We are seeking changes in our labour-cost model. Labour-costs account for 71 per cent of our cost structure. Much of this cost is tied to our collective agreements. We have already begun to address labour costs by reducing our management headcount by close to 15 per cent since 2008 and making changes to employee benefits and pensions for new management employees.

However, in an increasingly competitive business environment, in which the parcels market is expected to take a more prominent role, it is important that our total compensation package be competitive with the industry. The future health of our business will rely upon our ability to remain cost-competitive with global integrators FedEx and UPS. Going forward our cost-containment efforts will need to include transformation of our collective agreements for us to remain competitive and profitable in the long term.

Given the financial strain the Corporation is experiencing on numerous fronts, we are striving through the collective bargaining process to negotiate agreements that are affordable. Our objective through the arbitration process with the Canadian Union of Postal Workers ("CUPW") and through negotiations with our other bargaining agents, is to reach agreements that allow us to achieve an overall lower-cost structure and greater flexibility.

Managing our labour effectively, promoting a healthy and safe work environment, and continuing to engage our employees to achieve high performance is a key focus for the organization and critical to our success now and in the future.

Information Technology

We are looking to restructure our information systems/ information technology ("IS/IT"), through changes to the ownership structure and operating model of our IS/IT services provider, Innovapost. We are moving from a joint-venture structure to a shared-services company where Innovapost will operate on a cost-recovery basis and employ a multi-sourcing strategy to ensure it procures services at competitive prices. The aim of this change is to see IS/IT services delivered more cost-effectively across the Group of Companies and unlock synergies.

Leveraging the Group of Companies

We are transforming the relationships within our Group of Companies. Given the heightened pressure on our core mail business, it is imperative that we intensify our efforts to leverage the respective strengths of all of the businesses in the Group of Companies and develop closer and more deeply rooted shared-business strategies and joint execution.

Each of our subsidiaries excels in its "core" mission but significant opportunity exists in combining the capabilities of each to present a full suite of products and services across the spectrum of mail, express and logistics industries. Increased synergies between Canada Post and its subsidiaries will generate further cost savings across the Group while coordinated sales efforts will lead to new revenue opportunities. The Group of Companies' efforts in sales have already helped us secure important contracts with major retailers and we are looking for these results to continue.

Growing our business

While improving our cost structure is vital to our financial sustainability, it is not enough to keep us relevant and financially sustainable in the long run. Recognizing this need for change, we will continue to put an emphasis on growing our revenues profitably as our industry evolves.

To encourage this growth, in July 2011, Canada Post's CEO announced the creation of two distinct business units, physical delivery network and digital delivery network, each headed by a Group President. The physical delivery network includes the Transaction Mail, Direct Marketing and Parcels portfolios, Operations, Sales channels including Retail and Commercial channels, Postal Transformation (PT) and Customer Service functions. The digital delivery group is accountable for developing and managing Canada Post's digital strategy and network, which includes the epost business and eMarketing.

Our growth plans are focused on opportunities in the following areas:

Transaction Mail

We aim to revitalize the core business by taking full advantage of physical-mail assets to offset the erosion of Lettermail. To increase the use of mail, we will be working to expand our customer base and promote greater customer loyalty by improving the customer experience and will explore the development of revenue opportunities by introducing value-added product extensions. There remain opportunities in "evidence mail" and loyalty cards, and there is also potential to grow mail volumes from e-government services initiatives. Our nationwide retail network provides us with a competitive advantage. We are looking for increased opportunities at retail outlets and to offer our retail presence to government departments for the delivery of government services, where appropriate.

Parcels

We are accelerating our focus on gaining market share in the fast growing e-commerce space through positioning our parcel business to leverage PT and our large retail presence. Delivering to homes is a core strength that our competition cannot match. Our strategic objectives will focus on being the lowest cost delivery provider in Canada and being Canada's leader in e-commerce fulfillment. We are also focused on delivery performance, customer service, and improving parcel visibility in our network with better scan technologies and improved processes to deliver the scanned data to shippers and receivers. In addition, to leverage our modernization efforts, we will be looking to add new service offerings that will give customers more control over how and when they receive their parcels, including flexible shipping, delivery, and pick-up options. As well, we will focus on growing the synergies within the Canada Post Group of Companies to offer value-added solutions to our customers, and expanding our international partnerships for inbound residential delivery.

Direct Marketing, Advertising and Publishing

Admail products and other promotional mail remains a source of long-term potential growth for Canada Post. We are exploring new services and capabilities to address customer demand for greater return on their Direct Marketing investment and to leverage evolving online and e-advertising trends. We plan to make Unaddressed Admail more accessible for smaller businesses by introducing a user-friendly online application that will shorten, simplify and streamline their customer prospecting and order-entry activities. We also plan to improve the value of Admail through other product innovations such as new direct response applications to help make mail more interactive and valuable as a marketing tool. In addition to extending the life-cycle of mail, these applications will gather valuable marketing data to expand Canada Post's data assets.

Digital network of products and services

Although substantially all of our current revenues are derived from Transaction Mail, Parcels, and Direct Marketing today, with the heavy adoption of digital media, we are looking to capture some of the migration of communications to electronic channels by offering services in the "e-space" that complement what we currently offer for physical mail. The digital services available through the epost platform will be strengthened to mirror what we deliver physically (bills, statements, magazines, flyers). We will look to leverage Canada Post's brand permission—the trusted relationship we have developed with Canadians over the years—to grow revenues in the digital space. We plan to improve market share by building location intelligence data assets and products and our capabilities in the digital realm, improving our online presence and effectiveness to support both our physical and our digital networks, and improving the customer experience across our digital touch points.

Purolator

Purolator has refined its strategy to become an externally focused, market-driven organization and will continue to be focused on profitable growth and enhancing the customer experience. Purolator's strategy includes the following strategic priorities:

- build a high-performance culture enabling its employees to help customers succeed;
- create sustainable market advantage through superior customer experience and brand leadership;
- strengthen the portfolio by continuing to invest in strategic lines of business to achieve scale and deliver profitable growth;
- grow express market share by targeting under-developed high-yield segments and enhancing express performance; and
- drive cost improvement by leveraging process innovation, technology and asset optimization.

Purolator has invested significantly in technology solutions over the past four years in order to create compelling customer solutions and the tools to allow the Purolator team to deliver on its promise to deliver superior, flexible distribution solutions to help businesses succeed in a changing world. Purolator will continue to invest in its future and focus on areas that enhance its overall strategy.

SCI Group

In 2012, SCI will continue to execute on its five-year strategy to become Canada's leader of integrated forward and reverse supply-chain solutions for high-value and high-growth segments in Canada. Its goal is to double the revenue of the business within five years, through profitable growth within its target market segments.

The key to SCI's strategy will be to expand upon proven capabilities in specialized services such as reverse logistics, product lifecycle services, specialized transportation (such as high-value and same-day) and transportation management. Leveraging opportunities within the Canada Post Group of Companies to provide scale and reach will enable SCI to increase market share within Canada. SCI is also exploring strategic acquisitions to address competitive gaps in its service capabilities in the areas of repair services and high-value transportation.

Innovapost

As previously mentioned, in March 2012, the Treasury Board of Canada approved the Canada Post Group of Companies' purchase of CGI's interest in the joint venture. (*Discussed in Section 2.1 Our business on page 30*).

The newly restructured Innovapost will provide IS/IT services to the Group of Companies and is an important part of a strategy to markedly strengthen synergies among the Group of Companies by building increased business capabilities and to provide a means for reducing costs, driving efficiencies, improving service delivery and extracting greater business value from the entity.

3 Key Performance Drivers

A discussion of the key drivers of our performance and our progress against 2011 objectives

3.1 Key performance drivers

The Canada Post segment uses a corporate performance scorecard to measure the Corporation's progress relative to our strategies, and to provide management with a comprehensive view of the business's performance. This scorecard includes key performance drivers for customer value, employee engagement, delivery performance and financial results.

Customer value

Canada Post employs a customer value management process that uses formal quarterly relationship surveys and ongoing transactional questionnaires to identify what drives customer value and loyalty. These tools provide insight about our quality of service, competitive advantage and areas requiring improvement.

Employee engagement

The Corporation conducts a survey to measure our employees' perceptions of Canada Post, their working environment and their level of engagement. The employee survey is managed by an independent professional-services firm. *See Section 4.2 – Capabilities – Employee engagement on page 40.*

Delivery performance

Our delivery standards require us to deliver domestic Lettermail items consistently within two business days within the same metropolitan area or community, three business days within the same province and four business days between provinces. An independent professional-services firm tests our domestic Lettermail service by depositing mail through mailboxes and retail post offices and tracking it to delivery points across the country.

Financial performance

Financial performance is monitored through the line of business revenues, corporate profits and financial ratios. *For further information, see Section 1 – Executive Summary on page 24 and Section 8 – Discussion of Operations on page 57.*

3.2 Progress against 2011 objectives

Canada Post employs a corporate scorecard to track and manage progress against our corporate priorities. Results are reported monthly to senior management. Here, we summarize our progress in meeting our 2011 objectives.

Customer Value

2011 Objective

Improve the customer experience and enhance the security of the mail.

2011 Results

- A key objective was to reduce the rate of problem incidence for our customers. However, changes underway at our major plants to improve efficiency and reduce costs, combined with the deployment of the new delivery model, have had a more pronounced impact on our delivery performance than expected. The labour disruption also impacted delivery performance, as well as Canada Post's reputation and image. As a result our customer value results declined in 2011, most notably in Direct Marketing where the decline was significant.
- To improve the customer experience, Canada Post focused on addressing the main customer irritants in 2011. Canada Post implemented an event-based automated billing system for parcel returns that aligns customer billing with the parcel-return date and provides enhanced billing details; additional mailing equipment was purchased to increase equipment availability; Canada Post customer call centres were restructured, reducing wait times to speak directly with a Canada Post agent.
- In 2011, to enhance the visibility of parcels throughout the network, Canada Post completed the roll-out of portable scanning terminals to all letter carriers in major urban centres to enhance parcel-tracking capabilities for our customers. As a result, the targets for parcel scanning were achieved in 2011.
- To continue to enhance the security of the mail, Canada Post expanded security screening to include all employees, contractors, and authorized dealers, and implemented automated controls to monitor screening compliance. We continued to expand the installation of security video cameras across our plants and depots, and conducted threat-risk assessments at over 60 plant and depot locations to contribute to Canada Post's operational excellence program.

Employee Engagement

2011 Objective

Engage employees and ensure they have the proper tools, training and development to perform their jobs at a high level in a healthy and safe workplace.

2011 Results

- Results for both the Employee Engagement Index and Customer Focus Index declined significantly in 2011, which was an extremely difficult year due to the labour disruption and our service performance levels. Results were down across all but two areas.

- Despite the low engagement scores, programs were implemented to support employees. For example, in order to create a healthy and safe workplace, Canada Post continued, during 2011, to raise safety awareness with its employees, provide safety training programs, and address high-risk situations in a timely manner. In addition, safety compliance reviews were conducted to identify and correct workplace hazards. As a result of these actions, we reduced accident frequency by 6 per cent in 2011, falling short of the 11-per-cent reduction target for the year.
- A new incident and accident-reporting system was implemented that provides improved data quality and enables increased responsiveness for accident-claims management.
- To ensure rural and suburban mail carriers have the ability to safely deliver mail to rural mailboxes, we continued to do rural-mailbox-safety assessments. The assessments proceeded according to plan, with approximately 150,000 assessments completed in 2011. As at the end of 2011, 640,000 rural-mailbox-safety assessments have been completed.

Delivery Performance

2011 Objective

Achieve delivery and parcel service targets and PT milestones and planned benefits.

2011 Results

- We fell short of the delivery performance targets for all product lines in 2011. In 2010, Canada Post changed more than it had in decades, overhauling major plants and introducing a new mail-delivery model. In 2011, the pace and scale of these changes increased. These changes are necessary to keep our costs under control and enable Canada Post to better serve customers in the future. While we expected some disruption in delivery performance, the impact was more pronounced than anticipated in 2011. The labour disruption also impacted delivery performance.
- In terms of Postal Transformation milestones, the transition of mail-delivery routes to the new mail-delivery model, the deployment of new mail-sequencing equipment, and the replacement of critical infrastructure continue to progress according to plan. Customers and employees are being kept apprised of all changes in a timely manner, and employees are provided with training to ensure a smooth transition to the new delivery model. Cumulative benefits as of 2011 fell short of the target reflecting delays in achieving productivity levels with the new mail-processing equipment and processes. Delivery-related benefits are currently tracking slightly ahead of plan. The benefit-reduction shortfall in 2011 will not impact the annual steady state savings of $250 million to be realized upon project completion in 2017.
- To enhance our business intelligence capabilities and better respond to delivery performance issues, we developed and implemented a quality and security of the mail analytics system. The system will provide operational insight to enable more timely identification and resolution of issues to improve scanning performance, and support security investigations. Functionality that integrates scanning performance with claims analysis, originally planned to be released in 2011, will be implemented in early 2012.

Financial Performance

2011 Objective

Achieve financial targets and develop core growth strategy and leverage the Canada Post Group of Companies' value proposition to grow the business.

2011 Results

- We did not achieve our profit targets for the Group of Companies or the Canada Post segment. The consolidated loss before tax of $253 million and $327 million respectively, was well below targeted profit before tax of $153 million and $70 million. *Refer to Section 8 – Discussion of Operations on page 57* for more details.
- To help ensure the financial sustainability of the Corporation, we developed a growth strategy and incorporated it into the 2012-2016 Corporate Plan. The strategy incorporates new physical-delivery-related products and services that build on Canada Post's core competencies, as well as a strategy to expand and grow our digital-delivery capabilities.
- To help grow the business, a dedicated joint sales team was established to leverage the Group of Companies' value proposition resulting in several key strategic customer wins in 2011.
- Our objective was to negotiate a new collective agreement with the CUPW, our largest union. The existing collective agreement expired January 31, 2011. However, efforts to negotiate a new agreement during 2011 were not successful, resulting in a labour disruption in June. A new agreement will play a significant role in securing our short- and long-term future.
- Our goal was to offer new products and services to meet the changing customer demand. During 2011, we expanded our parcel pick-up services, enhanced the parcel returns process for our customers, and leveraged special events such as the "Royal Wedding" to generate new sources of revenue. Revenue generated in 2011 from new products and services increased by approximately 45 per cent on a year-over-year basis, exceeding the revenue target established for the year.

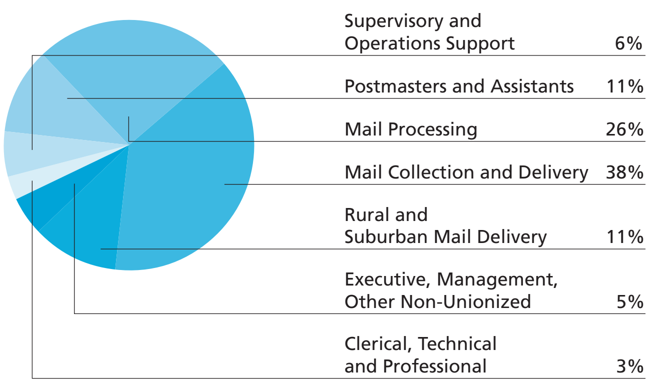
4 Capabilities

A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest businesses with approximately 69,000[1] employees. Canada Post employs over 56,000[1] people, and our subsidiaries employ another 13,000[1]. The workforce is varied and has a presence across Canada in large urban communities, as well as small, rural, and remote communities. As such, our workforce knows Canadians like no other because it reaches every household in Canada.

Workforce by Type of Work – 2011
Canada Post Segment



As Canada Post is a very labour-intensive organization, employees play a critical role in helping the Corporation achieve its business objectives. Ensuring that we have the quality and quantity of employees needed to manage and grow the broad and varied aspects of our business is pivotal to our success.

In 2011, our key areas of focus were:

- Talent management
- Management and Operations training and development

A talent management framework was developed that encompasses policies and programs on multiple fronts to help ensure that Canada Post is able to attract, develop, retain and align the right people with the right job to carry out our mandate and achieve our strategic business objectives. Our existing policies and practices around organizational design, recruitment, training, performance management, succession planning and compensation, are some of the main elements of this framework.

Canada Post continues to focus on improving our talent management framework. For example, the executive leadership team worked to identify and define a set of core competencies required to execute Canada Post's short- and long-term business strategy. The core set of competencies applies to all employees in the organization and they will enhance our ability to identify and develop employees with high skill levels and leadership potential, and ensure that we have sufficient talent to meet our current and future needs. In 2012, considerable work will be undertaken to articulate how the core competencies will be implemented and leveraged going forward, and form a basis for the development of additional training courses.

Canada Post believes in the power of learning and professional development as a key driver of success. The Operations Developmental Manager Program was the newest addition to the talent development suite. This program focuses on a critical role in Operations, and places candidates in a targeted development position to produce job-ready talent. In addition, 61 new courses were developed and delivered in 2011 to support Postal Transformation, which continues to place new demands and expectations on our front-line employees and team leaders. In 2011, sales training focused on increasing our sales team's knowledge of Canada Post's direct marketing products.

The Learning Index continued to be used to plan, implement, monitor and measure our training efforts in order to meet our large and complex demands for training. For example, Incident and Accident Investigation, as well as VOP (Vehicle Operator Permit) Renewal training, were included in 2011 to emphasize the importance of safety and job readiness. In 2012, we will continue to expand the use of our training tools to ensure that we provide employees with the opportunity to acquire new skills, enhance their performance, and contribute to the success of the Corporation.

Our efforts continue to be recognized in the business community. For the fifth consecutive year, Canada Post was identified as one of the Top Employers in the National Capital Region, and was proud to be selected as one of Canada's Best Diversity Employers for 2011. Canada Post also holds the Gold Award for Excellence in Progressive Aboriginal Relations from the Canadian Council of Aboriginal Business, and was again chosen as one of the Best 50 Corporate Citizens by Corporate Knights.

An estimated 30,000[2] full-time employees (or an average of 3,000 per year) are forecast to leave the Canada Post segment between 2012 and 2021 as a result of retirements and voluntary turnover. The strategies, initiatives and programs discussed above are well-positioned to ensure we successfully respond to the attrition forecast, sustain our operations, maintain our employer reputation, and adjust our programs and policies to reflect changing demographics and attitudes towards work.

[1] Employment figures include full-time and part-time paid employees, and excludes temporary, casual and term employees.
[2] 30,209 full-time departures are expected by 2021 (20,929 retirements and 9,280 other departures).

4.2 Employee engagement

Canada Post

Our employees' engagement is essential to our success as a company today and to our strategic plans for the future. It is no exaggeration to say that our brand was built on, and will continue to depend on, the dedication, knowledge and hard work of our employees.

2011 was an extremely difficult year for our employees, particularly the thousands on the front lines of our mail processing and collection and delivery operations. The primary reason was the labour disruption in June. However, it is important to appreciate that the disruption was preceded by months of uncertainty about the outcome of negotiations.

Management understands that our employees both want, and deserve to have, credible and straightforward information about our business and its future. Sharing this information with employees is both the responsible thing to do, and a focus of our engagement efforts. Accordingly, we worked hard in 2011 to continue a dialogue that was already underway about the challenges we face, the case for strategic changes in the way we work, and our opportunities to grow. In front-line visits, the management team spends numerous hours speaking face to face with front-line employees and taking their questions—on morning, evening and midnight shifts. Approximately 100 executives from across the Corporation met with over 23,000 employees at most of our mail-processing plants, depots and retail stores. We conducted 417 visits and discussed the state of our business and heard directly from employees on a range of issues.

These interactions have reinforced management's understanding that employees care deeply about the service Canada Post provides to Canadians. The respect that thousands of our employees have for the mail is matched only by their desire to have a secure future for themselves and their families.

In this context, it is not surprising that the labour disruption and our service performance levels in 2011 were demoralizing for many employees. This is evident in the fall 2011 employee engagement survey, which showed a five-point drop in our Employee Engagement Index. Specific efforts are now underway to re-engage employees.

Going forward, our employee engagement strategy will aim to develop leadership capability and confidence among our front-line team leaders and seek common ground through quality customer service. We will help front-line team leaders build constructive relationships, improve their competencies and their credibility by communicating with them more directly and ensuring that they receive effective and timely training.

For all employees, we are improving respect and fairness in the workplace, and involving employees in decisions that affect their work.

Most importantly, our open, honest dialogue with employees will continue to be a priority.

Purolator

In 2011, Purolator focused on making its "People First" value come alive with a number of people initiatives.

In March 2011, Purolator conducted an organizational employee engagement survey (MyVoice) to gain a deeper understanding of the engagement levels of its employees. With 92 per cent of Purolator's employees participating in the survey, Purolator achieved an organizational engagement score of 62 per cent. With 76 per cent responding positively to the engagement question "I feel proud to work for Purolator," Purolator employees are both engaged and very proud to work for the Corporation. Action plans were documented and are currently being executed to drive engagement and results.

For learning and development, over 97 per cent of all Purolator employees received a meaningful learning experience—either through internal or external development programs. Training was targeted and relevant for each employee in all functional areas and for all levels within the organization. Purolator partnered with the Schulich School of Business to launch its management learning programs, focusing on building and managing high-performance teams.

4.3 Labour relations

Number of employees covered by collective agreements – Canada Post

Bargaining agent	# of represented employees*	Collective agreement expiry date
CUPW (1)	38,493	January 31, 2015
CUPW-RSMC (2)	6,794	December 31, 2011
CPAA (3)	6,086	December 31, 2014
APOC (4)	3,585	March 31, 2014
PSAC/UPCE (5)	1,586	August 31, 2012
Total	**56,544**	

* Includes full-time and part-time employees including those on unpaid leave, as at December 31, 2011; excludes temporary, casual and term employees
(1) CUPW = Canadian Union of Postal Workers, which represents plant and retail employees as well as letter carriers and mail service couriers
(2) CUPW-RSMC = Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada
(3) CPAA = Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants
(4) APOC = Association of Postal Officials of Canada, which represents supervisors as well as supervisory support groups such as trainers and route measurement officers, and sales employees
(5) PSAC/UPCE = Public Service Alliance of Canada / Union of Postal Communications Employees, which represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting, as well as technical employees from finance and engineering

Legal developments

On November 17, 2011, the Supreme Court of Canada ruled in favour of the Public Service Alliance of Canada ("PSAC") and the Canadian Human Rights Commission ("the Commission") in a pay equity complaint. Originally filed in 1983, the complaint alleged that women performing clerical work were being systematically discriminated against in that they were earning less than men in comparable positions. The Commission referred the complaint to the Canadian Human Rights Tribunal which ruled in 2005 that a discriminatory gap did exist from 1982 until 2002. That decision was overturned in February 2008 by the Federal Court Trial Division. This decision was then subsequently appealed by the PSAC and the Commission to the Federal Court of Appeal, which, in 2010, agreed with the Trial Division's decision. After the PSAC and the Commission were granted leave to appeal, the Supreme Court of Canada allowed the appeal and ultimately re-instated the decision of the Tribunal. The Corporation is working with the PSAC/UPCE to review the best approach to move this issue forward. An internal committee has been set up to review thousands of individual employee files that date back almost 30 years.

In January 2010, the Canadian Union of Postal Workers ("CUPW") applied to the Canada Industrial Relations Board (the "Board"), requesting the establishment of a single bargaining unit for all operations employees, excluding supervisory personnel. The CUPW argued that employees covered by the urban operations agreement (CUPW), the rural and suburban mail carriers ("RSMC"), and the employees in semi-staff and rural post offices (Canadian Postmasters and Assistants Association or "CPAA") should be merged into a single bargaining unit. In September 2011, the CUPW's request was denied and the Board ruled that sufficient evidence was not presented to show that the existing bargaining unit structure at Canada Post is no longer appropriate for collective bargaining.

Labour negotiations activities

Canada Post faced several challenges with regards to collective bargaining in 2011. The ongoing decline in mail volumes and increase in competition have only reinforced the need for structural changes including affordable terms and conditions of employment for employees in the long run. The Corporation continues to consult regularly with labour representatives to ensure they are aware of issues faced by Canada Post and of the changes necessary to ensure the Corporation's long-term viability.

Collective bargaining in 2011 focused on the bargaining units represented by the CUPW as well as CUPW-RSMC. Below is a summary of collective bargaining activity that occurred in 2011 with each of the employees' labour representatives. Collective bargaining with the PSAC/UPCE is expected to begin in the spring of 2012.

CUPW

Canada Post began negotiating a new contract in October 2010 with its largest labour union, the CUPW, prior to the expiry of the collective agreement on January 31, 2011. In January 2011, the CUPW applied for conciliation as provided for under the *Canada Labour Code*. On June 14, 2011, following 12 days of increasingly costly rotating strikes by the CUPW, including rotating strikes in our two largest centres, Canada Post shut down urban operations, thus suspending operations across the country. The Government of Canada tabled back-to-work legislation on June 20, 2011 and the legislation received Royal Assent on June 26, 2011. On June 27, 2011, the Corporation began progressively reinstating service. On July 22, 2011, as provided for in legislation, the Honourable Justice Coulter Osborne was appointed arbitrator by the Minister of Labour for final offer selection arbitration and the parties began preliminary meetings before him. In September 2011, the CUPW filed an application with the Federal Court contesting the arbitrator's appointment. On January 27, 2012, the Federal Court overturned the Minister of Labour's appointment of Justice Osborne. The CUPW has also filed an application contesting the constitutionality of the legislation itself on October 11, 2011. Justice Osborne submitted his resignation as arbitrator effective November 1, 2011. On March 13, 2012, the Minister of Labour appointed Guy Dufort as the new arbitrator in the negotiations between Canada Post and the CUPW, effective March 19, 2012. The CUPW has asked Mr. Dufort to recuse himself from the arbitration.

CUPW-RSMC

The eight-year collective agreement between Canada Post and the CUPW-RSMC expired on December 31, 2011. The parties concluded submissions regarding the third and final contract reopener in September 2011 after the union referred all unresolved matters to interest arbitration. The arbitrator rendered his awards which included wage increases, the implementation of the Short-Term Disability Program, and eligibility for the Corporate Team Incentive, as well as the prescription drug plan. Bargaining for the new collective agreement began in November 2011. The Corporation remains confident that a negotiated settlement can be reached.

Number of employees covered by collective agreements – Purolator

Bargaining agent	# of represented employees*	Collective agreement expiry date
Teamsters (1)	9,105	December 31, 2016
Other (2)	425	January 31, 2015 December 31, 2012 December 31, 2013
Total	**9,530**	

* Includes all full-time and part-time employees including those on unpaid leave, as at December 31, 2011; excludes temporary, casual and term employees
(1) Teamsters = operations
(2) Other = clerical and administrative

In 2011, Purolator and the Canada Council of Teamsters, which represents all hourly operations employees in Canada, reached a mutually beneficial collective agreement. This agreement is effective from January 1, 2012 to December 31, 2016. Purolator's strong partnership with its employees and its unions helped facilitate this agreement which, for the first time in Purolator's history, concluded prior to the expiry of the previous collective agreement.

Collective agreements with various Teamsters local unions, representing the hourly clerical and administrative employees, as well as the Union of Postal Communications Employees, affiliated with the Public Service Alliance of Canada, expire on December 31, 2012. Negotiations will begin in 2012.

Number of employees covered by collective agreements – Logistics – SCI Group

Bargaining agent	# of represented employees*	Collective agreement expiry date
CEP (1) – Toronto	257	December 31, 2014
SCEP (2) 82Q1 – Laval	36	November 30, 2016
Total	**293**	

* Includes all full-time and part-time employees including those on unpaid leave, as at December 31, 2011; excludes temporary, casual and term employees
(1) CEP = Communications, Energy and Paperworkers Union of Canada
(2) SCEP = Syndicat canadien des communications, de l'énergie et du papier

A settlement was reached on December 2, 2011 between Progistix-Solutions Inc. and the SCEP representing the client service representatives in the call centre.

4.4 Health and safety

Canada Post is following a multi-year strategy to encourage a culture of health and safety and strengthen its health and safety programs. The strategy focuses on building safety leadership; identifying, preventing and controlling hazards; training; and continuous improvement. Despite the various initiatives implemented to reduce the number of workplace accidents, we fell short of our accident frequency reduction target for 2011. However, some areas showed improvement; for example, we sustained our lowest ever injury frequencies in Delivery operations in the last several months of 2011 and continued a three-year decline in plant operations injury frequencies.

In 2011 we approved a new Corporate Safety Policy which outlines the principles we must follow every day to realize our goal of becoming an organization that creates a strong safety culture by building safety into our decision making, adhering to high standards of performance and encouraging the right behaviours from employees and management to prevent workplace injuries. Safety leadership is also key to building a safety culture. After several years of using strict safety leadership criteria to drive management actions, in 2012 Operations will be developing more specific safety leadership action plans that focus on the key issues that must be addressed to sustain improvement in their workplaces.

Slips, trips and falls continue to be our main cause of workplace injuries. In 2011, the slips, trips and falls awareness campaign again provided a standard approach across all regions to deal with those types of injuries. In addition, after experiencing snow-clearing issues with our snow removal contractors in some municipalities, we improved the communication channels for reporting snow problems and were proactive in reaching out to key municipalities and the public with encouragement to keep walkways clear.

Ergonomic injuries related to manual material handling and musculoskeletal-related injuries represent our second highest source of workplace injuries. The Occupational Health and Safety team was restructured in 2011 to enable Health and Safety officers to increase their time spent on coaching management staff and supervisors on preventing injuries and encouraging good ergonomic and material-handling techniques. The officers were also trained on coaching supervisors on safety behaviours and root-cause incident investigation. In 2012 we will continue to ensure our Health and Safety officers increase their visibility in the field and continuously promote a true safety culture within Canada Post.

In 2011, in order to completely address the lingering findings from a 2008 third-party (URS) audit, we focused on ensuring compliance with statutory health and safety requirements, particularly for activities which pose a higher risk to employees and contractors. These activities include: machine guarding, electrical safety, working at heights and in confined spaces, emergency response, and motorized equipment handling. Compliance assessments have been completed in all areas and remediation efforts have commenced. In 2012, Canada Post will continue in these important compliance efforts. We will also develop a robust safety management system that will capture the safety status of our facilities and assist the Occupational Health and Safety team in setting safety priorities and managing our safety programs. This will in turn lay the foundation for building an ongoing audit program in 2013.

In 2012 Canada Post will be introducing sets of new safety rules for specific areas and employees of the Corporation such as delivery depots, collection and delivery employees, mail-processing facilities, corporate vehicle drivers and retail post offices. These rules will set clear expectations for all employees, contractors and visitors and provide an opportunity to motivate and engage all employees in improving safety at work.

Rural and suburban mail carriers' health and safety

Our rural customers receive their mail in a variety of ways, including rural mailboxes ("RMBs"), which are typically located at the end of their driveways. Rural customers represent approximately 5 per cent of the 15 million Canadian addresses. Continued urbanization throughout Canada has raised potential safety hazards for rural and suburban mail carriers ("RSMCs"), our employees who deliver mail to these boxes.

To evaluate the risk to an RMB, Canada Post uses the Traffic Safety Assessment Tool ("TSAT"), which was designed by third-party experts. Approximately 76 per cent of the total 843,000 RMBs across the country have been reviewed to date and Canada Post has preserved delivery to about 90 per cent of those RMBs. Over the next few years, the costs for assessing and resolving health and safety risks for RMBs are estimated to be $113 million in operating costs and approximately $11 million in capital investment.

To avoid potential repetitive strain injuries, where requested by an RSMC, we hire ergonomic assistants to assist rural mail carriers with mailbox delivery through the passenger-side window of their vehicles. We are assessing the feasibility and cost of introducing right-hand-drive vehicles. Canada Post is also looking at other alternatives to mitigate ergonomic concerns such as a reaching device that could be used by an RSMC to place mail in the RMB.

Canada Post continues to follow a robust community outreach process, whereby we inform Members of Parliament, municipal officials and customers of the safety review in their community and the results. We also seek their input on potential solutions such as site selection for community mailboxes.

4.5 Infrastructure

The sustainability of our business requires investment in critical infrastructure to ensure business continuity and to position us for the future. The implementation of Postal Transformation remains the primary conduit to renewing our asset base, leveraging new technologies, and improving productivity. However, other business-sustaining investments are also required to support our priorities of saving costs, improving efficiencies, and growing our business. *This section should be read in conjunction with Section 6.3 – Investing activities on page 49 and Section 6.6 – Liquidity and capital resources on page 50.*

Canada Post

In 2011, Canada Post invested $504 million in capital assets, primarily on buildings, systems and equipment. In 2012, Canada Post plans to invest approximately $707 million in capital, mainly related to land, facility upgrades, equipment, and technology infrastructure upgrades. Postal Transformation will continue to be our top priority; however, in 2012, we will also increase our focus on Operational Excellence and the implementation of a new IT services delivery model. Over the next five years, Canada Post's investment plan provides for up to $2.1 billion in capital projects, including $900 million for Postal Transformation. Projects will continue to be prioritized based on the greatest need and we will spend only what we can afford.

The success of the Postal Transformation program is crucial to Canada Post's future sustainability. The optimization of our work processes will reduce the manual handling of our products, increase automation, enhance safety and provide the capability to introduce new products and services. Our aggressive deployment plan addresses our most critical infrastructure replacement needs. New letter carrier depots are being constructed and a number of existing depots are being retrofitted to support the process changes introduced by Postal Transformation. Construction of a new mail-processing plant in Vancouver, situated close to air and road links, began in 2011, with completion expected in 2014. In addition, we expanded the Toronto and Edmonton mail-sorting plants. The deployment of national equipment continued, with the installation of new equipment in 11 cities. The new delivery model has been migrated to six cities in Canada.

In 2012, we plan to continue the deployment of facility equipment and delivery transformation across the country with a focus on realizing planned benefits, while supporting successful customer transition. We will focus on developing a closer relationship between Postal Transformation and Operations in order to ensure the continued success of the modern post. The entire project will require total investment of approximately $2.1 billion and we are on track to realize an estimated $250 million in savings per year at full implementation in 2017.

Purolator

In 2011, Purolator increased its investment in technology and infrastructure in comparison to prior years, as it focused on completion of a customer migration project developed as part of the "Purolator 2010" transformation strategy. In 2011, Purolator invested $39 million of capital into increased aircraft parking capabilities, the Calgary LTL Facility and the continuation of the Profitability Management project. Purolator's 2011 vehicle purchases were financed through a capital lease facility, bringing the total capital invested in 2011 to $70 million.

During 2011, Purolator conducted an assessment of business-critical systems as part of the technology planning exercise. Based on the results of the assessment, an action plan was developed for 2012 to address resiliency, responsiveness and recovery capability of critical applications. Purolator will also continue to monitor its investment activities, focusing on those areas with the most potential for profitable growth, customer service improvement and employee development and engagement.

4.6 Delivery

Canada Post delivers to over 15 million addresses through post office boxes, rural mailboxes, group and community mailboxes and door-to-door. In 2011, points of call increased by more than 150,000. The continued growth in delivery points increases our need for equipment. For example, in 2011, almost half of the $25-million installation costs for community mailboxes were due to new points of call. The growth in delivery points also increases our delivery costs, which, in conjunction with the decrease in the number of pieces of transaction mail per address, have made improved productivity an increasingly important objective.

We continued to restructure our letter carrier routes, RSMC routes and mail service courier routes throughout the country, which improved productivity, and we have added resources to increase the pace of restructuring. In some areas of the country, competitive labour markets have made it difficult to hire and retain letter carriers and RSMCs, and we have increased our recruitment efforts in these areas. We also continued to focus on controlling staffing levels and the use of supplementary hours, such as overtime and the use of casual employees.

We continued to increase employee awareness on the quality of our delivery operations through improved reporting of quality issues, and through engagement with employees. We have rolled out Portable Data Terminals ("PDTs") to most letter carrier routes to provide more timely scanning information and to enable on-demand pickups. We continued to focus on improving delivery quality by increasing and improving the address data in our Address Management System. The Address Inventory Management ("AIM") program which has been implemented in all letter carrier depots is providing a more accurate and timely update of point-of-call information.

In 2011, we completed our program to equip our mailboxes with high-security locks, and we continued to highlight security issues with our employees to assist them in protecting our customers' mail. Canada Post also continued to collaborate with law enforcement agencies and other postal administrations to address this very important area.

In 2012, we will build on our progress towards implementing a culture of quality, enhancing employee safety and ensuring the security of mail. Improving productivity through an accelerated program of route restructures will be a high priority.

4.7 Sales channels

Retail network

Canada Post has the largest retail network in Canada, with almost 6,500 retail post offices serving consumers and businesses. This extensive network consists of close to 4,000 corporate-managed post offices, and over 2,500 outlets managed by private dealers. Dealer-managed outlets are particularly convenient for Canadians as they provide greater access through longer hours of operation, available parking, and locations in areas where they shop.

The Retail strategy progressed in 2011, with a strong focus on maximizing the profitability of this important network. We continued to leverage our retail point-of-sale system to capture new revenue opportunities that build on the existing Retail program. For example, the MoneyGram™ electronic money transfer service was extended to include same-day and next-day bill payment solutions, and gift cards were added to the successful Visa™ prepaid card program.

To reinforce our sales objectives, improved functionality was incorporated into the point-of-sale system. We also continued to conduct Mystery Shopper visits to our post offices (to assess postal clerk performance and evaluate in-store merchandising) and focus on the Feature Product program (which involves promoting the right products at the right time to allow post offices to optimize their sales).

To serve our rural clients, the retail network includes over 3,800 locations in diverse and remote areas across Canada. Occasionally, unforeseen events, such as resignation, retirement or fire, can affect the operation of a post office in a small community. In such circumstances, Canada Post ensures that local mail delivery is maintained by using a process called community outreach. Community outreach includes open consultation with federal and local officials to ensure that all parties are informed and have an opportunity to provide input. Decisions are made on a case-by-case basis as we seek to find practical solutions that satisfy the community while providing sustainable service.

In 2012, we will further enhance the retail point-of-sale system to include additional functionality to support our overall strategy to monetize the value of our retail network and maximize the return on our existing offerings.

Online

Our customers should be able to access Canada Post via their channel of choice, be it in person, by phone, on paper or online and Canada Post is faced with an increasing need to align our existing systems, the majority of which support physical mail, with those that will support electronic services and the addition of new and innovative products.

In 2012, we will strive to improve the quality of our systems and make them easier for our customers to use by investing in our online channel. Through multi-channel optimization we plan to improve our efficiency, increase the access points for our services and grow our revenues through product and service growth.

Our customers can choose to use the online channel, accessible through the corporate website, and our order-entry systems, EST and EST 2.0, to conduct business transactions, find information, manage orders and interact with the Corporation. To improve our billing process, we are continuing to enhance our order-receiving and verification processes.

Commercial

Our traditional method of dealing with commercial customers is through our highly-skilled sales force. Our commercial sales force will be reconfigured in 2012 to align with our corporate priorities, and we plan on deploying our approximately 200 sales professionals to maximize our opportunities around internet retailing, mail and our new and evolving digital suite of products.

We also plan to exploit the opportunities presented to us from a Group of Companies perspective. By leveraging the resources of Canada Post, Purolator and SCI, we will maximize our coordinated selling effort to bring significant value to our customers.

4.8 Internal controls and procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), so that appropriate decisions can be made regarding public disclosure.

The President and CEO and the CFO have evaluated the effectiveness of the Corporation's disclosure controls and procedures related to the preparation of Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective at December 31, 2011.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

Canada Post Corporation's CEO and CFO have assessed the effectiveness of the Corporation's internal control over financial reporting as at December 31, 2011, in accordance with Internal Control-Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Canada Post Corporation's CEO and CFO have determined that the Corporation's internal control over financial reporting is effective as at December 31, 2011. This process follows the best-practices requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA), although, as a Crown corporation, we voluntarily comply with the rules and regulations of the CSA.

Changes in internal control over financial reporting

Our January 1, 2011 changeover to IFRS from previous Canadian generally accepted accounting principles ("GAAP") impacted the way we present our financial results and the accompanying disclosures. We evaluated the impact of the changeover on our financial reporting systems, processes and controls and concluded that there were no fundamental changes required as a result of the implementation of IFRS.

There were no changes in internal control over financial reporting during the year ended December 31, 2011, that have materially affected, or are reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

A discussion of the key risks and uncertainties inherent in our business and our approach to managing these risks

Canada Post management considers risks and opportunities in all levels of decision-making. A rigorous approach to Enterprise Risk Management ("ERM") has been implemented for the Corporation. As the global postal industry continues to undergo massive structural changes, our ERM framework has helped Canada Post understand and manage the most significant risks to our business. An extensive enterprise risk and control assessment is conducted each year and is reported to senior management and the Audit Committee of the Board of Directors on a semi-annual basis. Significant changes to risks are also highlighted in our published quarterly financial reports.

5.1 Definition of risk

Canada Post defines risk as any event or condition that could have an unplanned effect (positive or negative) on the Corporation's ability to achieve its key strategic, financial and operational goals. Following is a summary of the principal sources of strategic and operational risk and uncertainty facing the Corporation, along with the associated mitigation strategies.

5.2 Strategic risks

Labour agreements

The vast majority of employees at Canada Post are represented by one of four unions. Complex and rigid collective agreements are a significant constraint on Canada Post's performance in an increasingly competitive market place. Negotiations with CUPW, currently in arbitration, resulted in a labour disruption, causing the Canada Post segment an estimated revenue loss of over $200 million. Uncertainty remains about the long-term impact of the labour disruption on customer relationships and future revenues. In addition, until the final arbitration decision is made, the long-term impact of these contract negotiations on revenues, ongoing operating costs and the Corporation's ability to realize benefits from Postal Transformation will also remain uncertain.

In 2012, negotiations will continue with CUPW-RSMC and begin with PSAC/UPCE. In each case, the Corporation faces risks related to negotiating labour agreements that enable us to respond to a changing business environment.

Risk mitigation
Canada Post is fully engaged in protecting its financial viability while limiting the impact to current employees. Submissions to the arbitrator in the CUPW negotiations are being carefully prepared and the corporate proposal is being developed to meet the guiding principles of the legislation. Canada Post's sales team is working to win back customers lost during the economic downturn and the recent labour disruption to mitigate the revenue impact.

The Corporation believes a negotiated settlement can be reached with the bargaining agents for both RSMC and PSAC/UPCE collective agreements and will continue to be mindful of affordability in any new contract.

Significant core volume declines

Erosion of mail revenues has been anticipated for some time as mailers convert to electronic communication and advertising channels. This trend is occurring in Posts around the world and has been compounded recently by persistent global economic uncertainty that has accelerated volume declines in all core postal business areas as customers manage discretionary spending more closely. The potential impact of erosion on our revenues is substantial, as erosion of ½ per cent to 1 per cent across our three core lines of business would mean a $30-million to $60-million revenue loss per year.

New customer demands and the increasing attractiveness of electronic delivery alternatives mean that Lettermail erosion can be managed but not stopped. epost 2.0 will give Canada Post a strong presence in the field of electronic messaging.

Direct Marketing mail faces substitution risks as online advertising continues its rapid growth. Canada Post's parcel market share faces increasing pressure on price, delivery standards and technology. Competitors have cut prices to preserve market share, increased capacity, and demonstrated an appetite for expansion to serve the growing e-commerce sector.

Risk mitigation
Canada Post will continue to respond to revenue risks in our core business through prudent cost management and investment in growth initiatives that leverage the value of our postal offerings. The protection and growth of traditional revenue sources through service improvements, pricing optimization, customer acquisition and retention programs, and product innovations remains a central focus of the management team. Canada Post is focused on preserving the relevance of mail and stimulating revenue generation in targeted areas including parcel e-commerce and digital services. Synergies across the Group of Companies also continue to be expanded to reduce costs and increase revenues. If erosion accelerates well beyond our expectations, Canada Post may find it necessary to pursue significant structural changes. These options could impact the USO and our service standards and would require detailed analysis and discussion with the Government and other stakeholders.

Ability to execute a revenue growth and diversification strategy

While we remain focused on growing our core postal business, we must also explore revenue growth in new areas to sustain a growing delivery network and maintain mandated service to all Canadians. Particular focus has been placed upon developing a winning strategy for the e-commerce market by leveraging the scope of our physical delivery network, and in the development of epost 2.0 as the principal digital communications network for Canadians. Canada Post will however face strong competition in both the e-commerce and digital markets. The Corporation will also continue to develop an expanded suite of products and services that build upon the capabilities of the Group of Companies. Resources, effective innovation and culture are all challenges that Canada Post must address as it pursues growth opportunities.

Risk mitigation
On July 20, 2011, Canada Post's Chief Executive Officer announced the creation of two distinct business units, physical delivery network and digital delivery network, each headed by a Group President. Reorganization of the Corporation along distinct network lines will support revenue growth by focusing efforts on the service offerings and potential of Canada Post's physical and digital networks. Identification and development of growth initiatives continued in 2011 with particular emphasis on opportunities in the rapidly growing e-commerce space.

Achievement of full Postal Transformation (PT) benefits

Postal Transformation was undertaken to deliver a modern and efficient physical mail-network necessary to maintain the competitiveness and relevance of our core business areas. The PT plan is large and complex and risks to achieving the expected benefits arise not only from the ability to achieve milestones on time and on budget, but also from our ability to implement significant changes to facilities and processes while maintaining the required levels of service.

Risk mitigation
We continue to mitigate these risks through detailed execution plans, extensive project management and active engagement with the rest of the Corporation and the Board of Directors to ensure that expected savings can be achieved. The project receives extensive executive and board oversight. A Benefits Management process is in place to ensure effective planning, realization, and measurement of intended financial and non-financial benefits, and to manage related risks. The process also focuses attention on initiatives that are the most critical and that promise the greatest return on investment.

Impacts on employees are being managed through extensive employee engagement efforts, including consultations with our operators and their union representatives, training, and significant safety and ergonomic enhancements.

Pension deficits require significant funding

Canada Post's Pension Plan is one of the largest single-employer pension plans in Canada, and has assets with a market value of over $15 billion. The scale of the pension plan, given its size relative to revenue and earnings, and the funding volatility pose an ongoing risk to the Corporation's cash flows and ability to fund needed investments in modernization and growth. The Canada Post Pension Plan's primary risk factors are: (1) a decline in long-term discount rates, which could increase the pension obligation; and (2) below-expected returns on Canada Post Pension Plan assets, which could create a shortfall in the assets available to meet the pension obligation.

Long-term interest rates have remained low resulting in both a going-concern deficit of approximately $423 million and a solvency deficit of approximately $4,672 million as of December 31, 2011. Canada Post, as the Plan sponsor, is responsible for funding shortfalls in the pension plan. *Further information is provided in Section 6.5 – Canada Post Pension Plan on page 50.*

Risk mitigation
The Corporation continues to evaluate the pension solvency position and has implemented a pension risk management framework. Risk monitoring and mitigating processes are in place and are being renewed regularly by the Board of Directors. In addition, all investment decisions are made in accordance with the Canada Post Pension Plan Statement of Investment Policies and Procedures ("SIPP"). The Pension Committee of the Board of Directors reviews the SIPP annually as part of its fiduciary duty to provide oversight for the Canada Post Pension Plan's investments and administration. As a result of an asset-liability study conducted in 2010, a three-year transition plan was developed for the reallocation of funds to enhance overall return and reduce volatility.

Recent amendments to pension legislation allow Canada Post to reduce solvency payments and create cash relief. The solvency funding relief must be renewed annually with the Government and if this reduction in solvency payments were to be curtailed, it would create significant cash pressure on the Corporation.

5.3 Operational risks

Service quality

On-time delivery performance remained below targets in 2011 as Canada Post moved to sorting more of the mail with new equipment and processes and experienced a labour disruption. The percentage of mail being sequenced for delivery also rose during the year. While the new processing and delivery models show promising results on quality and cost management, they have represented a significant transitional challenge in 2011 and will continue to do so in 2012 as more of the mail is sequenced to the delivery route by machines and as almost 100 depots are restructured. Change management associated with this transition represents the highest risk to on-time delivery in the short term.

Risk mitigation
New training for team leaders at transitional locations began to be deployed in the fall of 2011. This training is based on lessons learned and best practices in sites already implemented. Implementation schedules are being monitored closely to ensure quick detection and correction of any addressing, missort or delivery issues. The recent implementation of a new Quality Service Management system will greatly enhance the ability of Operations to identify issues and root causes, and to resolve service problems. The Corporation is also placing emphasis on process standardization and compliance to reduce service failures.

Health and safety

Canada Post is concerned with health and safety risks to which our employees are exposed as they carry out their duties. The current pace and scope of transformational change could increase the short-term risk of accident and injury as employees adapt to new processes and procedures. The main areas of concern include both inside working conditions and external hazards for our delivery workers.

Risk mitigation
Canada Post is addressing these risks. Change management processes include a focus on health and safety and an approach to employees that is collaborative. Safety programs are being developed to concentrate on emerging risks through development of a safety culture that encourages identification of and adherence to safe practices. On-site Occupational Health and Safety officers will be supplied with a standardized toolkit of safety solutions that support a face-to-face coaching approach to ensuring safe practices and behaviours of all employees, contractors and visitors. F*or further information, see Section 4.4 – Health and safety on page 42.*

Security and privacy

A security or privacy breach is of the utmost concern to the Corporation. Any event that compromises the Corporation's electronic or physical mail, infrastructure or information could result in hardship for customers and employees, as well as serious damage to the Corporation's reputation and brand.

Risk mitigation
Canada Post continues to monitor and invest resources in physical and electronic security, as well as ensure the protection of privacy. The Corporation has established clear security policies and guidelines for everyone who touches the mail on Canada Post's behalf. Numerous physical and electronic security measures are in place to protect the electronic and physical mail, postal facilities, and information; these include cameras, access controls and security screenings. Threat risk assessments are conducted to ensure that new technologies, information systems and initiatives adequately protect the security and privacy interests of the Corporation, our customers and employees. Information security audits of our multi-channel products are conducted frequently to mitigate risks.

Business continuity

Canada Post's physical and electronic delivery networks are vulnerable to natural and man-made disruptions. Furthermore, the Corporation's extensive physical network is increasingly pressured to meet changing customer expectations as shifting peak demands increase the dependency on key operating systems and equipment.

Risk mitigation
Postal Transformation is the Corporation's key response to business continuity risks around the physical network and will result in major improvements to critical infrastructure to minimize negative impact on the continuity of postal services. Canada Post is leveraging its federal Crown corporation status and has established key partnerships to monitor emerging threats and risks, in particular the man-made ones likely to impact its physical and digital delivery networks. The Corporation has a business continuity management program in place to deal with critical equipment failures, risks to our electronic infrastructure (e.g. power failures, computer viruses) and other major events that could have wide-ranging effects (e.g. extreme weather, fire, pandemics). The business continuity plans developed are regularly tested and updated taking into account changes to the business environment.

Attrition

We anticipate that more than half of our current full-time employee population will leave the Corporation over the next ten years, mainly due to retirement. This unprecedented rate of attrition presents two types of risks: (1) a failure to retain key skills and knowledge, and ineffective management of key and vulnerable roles that could impact business continuity; (2) a failure to capture the opportunity to improve productivity through voluntary attrition that could impact our ability to achieve targeted savings. Consequently, Canada Post faces two significant business challenges: (1) introducing training programs and knowledge-management tools to reduce the risks associated with the high loss of knowledge, skill and experience; and (2) recruiting, developing and retaining the leadership talent needed to meet the long-term objectives of the Corporation.

Risk mitigation
The Corporation is actively managing attrition risks and opportunities, and is focused on employee engagement, employment brand and recruitment, skills training and employee development, leadership development, knowledge transfer, and talent management.

Recruitment and retention efforts are focused on key and vulnerable roles. The Corporation is engaged in standardizing and ensuring that corporate knowledge and institutional memory are stored in the corporate systems.

Environmental sustainability

The perception of Canada Post as not being environmentally responsible could have profound consequences for our reputational brand and customer loyalty, resulting in accelerated conversion of mail volumes to electronic or other competing formats.

Risk mitigation
As part of our overall Corporate Social Responsibility ("CSR") strategy, Canada Post is addressing environmental concerns through a variety of investments, including Postal Transformation, and through changes to existing products. Canada Post has committed to register all new building projects for LEED certification and we will also gradually replace a portion of our existing fleet of delivery vehicles with smaller, more fuel-efficient vehicles over the next five years. We are committed to continuously improving the way we conduct our business by following leading environmental and ethical business practices. We proactively disclose our environmental performance through the annual CSR report.

Legal risk

Canada Post has determined that no provision needs to be made for the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, a material future adjustment to the Corporation's financial position and results of our operations could result.

a) Volumetric process – Lee Valley Tools

A class-action suit was commenced in October 2006 in the Superior Court of Ontario, alleging that Canada Post's volumetric process violated the *Weights and Measures Act*. Discovery, prior to a trial date, has continued in 2011.

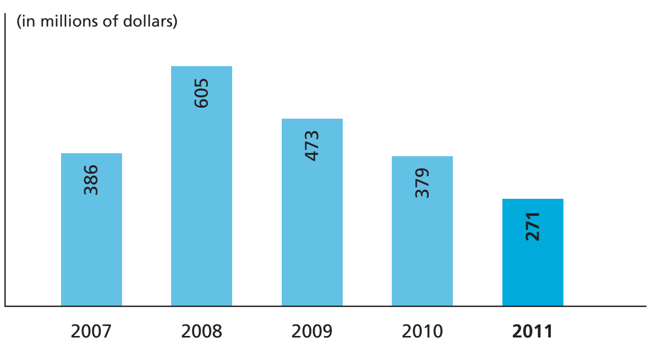
b) Air transportation procurement – Canadian North

On December 18, 2007, Canadian North filed a Statement of Claim alleging that Canada Post conducted an unfair procurement of air transportation services to remote northern communities in relation to the Food Mail Program. The airline is seeking damages in the amount of $75 million plus $1 million in punitive damages. The parties are scheduling dates for examination for discoveries.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents



The Group of Companies held cash and cash equivalents in the amount of $271 million as at December 31, 2011—a decrease of $108 million compared to December 31, 2010. The decrease was largely due to cash required to fund capital expenditures of $540 million offset by $221 million in net proceeds from the sale of short-term investments, the receipt of tax refunds of $112 million and cash provided by operations before interest and taxes of $99 million.

6.2 Operating activities

(in millions of dollars)	2011	2010	Change
Cash provided by (used in) operating activities	196	(41)	237

Cash generated from operating activities was $196 million in 2011—an increase of $237 million, when compared to 2010. The increase in cash provided was substantially from Canada Post ($212 million) due to a decrease in employee future benefits payments of $235 million and a $71-million increase in tax refunds partially offset by an increase in interest paid of $42 million relating to the $1 billion in bonds issued in July 2010. The decrease in employee future benefits is mainly due to lower solvency deficit payments in 2011. In April 2011, amendments to the regulations of the *Pension Benefits Standards Act, 1985* came into effect, which allow companies with federally-regulated pension plans to reduce, through a letter of credit, the solvency payments they make in a given year. Agent Crown corporations can also reduce their payments, if ministerial agreement is provided.

6.3 Investing activities

(in millions of dollars)	2011	2010	Change
Cash used in investing activities	(290)	(1,025)	735

Cash used in investing activities decreased by $735 million in 2011, when compared to 2010, primarily due to a decline in the purchase of short-term investments in 2011. Large purchases of short-term investments were made in 2010 as a result of the $1-billion bond issue in 2010. This decline was partially offset by an increase in capital spending of $129 million, mainly related to Postal Transformation, and a reduction in cash proceeds from internally segregated funds, which had declined by $143 million in 2010 and were completely drawn down by the end of that year.

Capital expenditures

(in millions of dollars)	2011	2010	Change
Canada Post	500	394	106
Purolator	39	17	22
Logistics	4	3	1
Innovapost and intersegment	(3)	(3)	0
Canada Post Group of Companies	**540**	**411**	**129**

Capital expenditures for the Canada Post Group of Companies increased by $129 million in 2011, when compared to 2010:

- Canada Post segment capital expenditures totaled $500 million in 2011, a year-over-year increase of $106 million, primarily due to the continued implementation of Postal Transformation. In 2011, the Postal Transformation capital expenditure was $325 million compared to $227 million in 2010—an increase of $98 million.
- Purolator segment capital expenditures totaled $39 million in 2011—$22 million higher than in 2010 mainly driven by new capital projects to support growth in air services and various health and safety initiatives.

6.4 Financing activities

(in millions of dollars)	2011	2010	Change
Cash provided by (used in) financing activities	(14)	972	(986)

Cash provided by financing activities decreased by $986 million in 2011 when compared to 2010. This decrease was mainly due to the $1-billion bond issue by the Canada Post segment in 2010 and no similar financing activities in 2011.

6.5 Canada Post Pension Plan

The Canada Post Pension Plan is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions ("OSFI"). These actuarial valuations are required to set out the funded status of the Canada Post Pension Plan on a going-concern and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act, 1985* requires us to make special payments into the Canada Post Pension Plan to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, the *Pension Benefits Standards Act, 1985* requires us to make special payments into the Canada Post Pension Plan to eliminate this shortfall over five years.

As of July 1, 2010, a number of amendments to the regulations of the *Pension Benefits Standards Act, 1985* were implemented that allow pension plan sponsors to better manage their funding obligations within overall operations and reduce funding volatility. In addition, regulations supporting the reduction of special solvency contributions made by Crown corporations came into effect in April 2011. In August 2011, Canada Post obtained the agreement from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to reduce the special solvency contributions from January 1, 2011 to June 30, 2012.

The actuarial valuation for the Canada Post Pension Plan as at December 31, 2010, filed in June 2011, disclosed a going-concern deficit of $175 million and a solvency deficit of $3,204[1] million. The Corporation will file an actuarial valuation for the Canada Post Pension Plan as at December 31, 2011, based on legislation in place at the time of filing. Based on existing legislation, the current estimate of the financial position of the Canada Post Pension Plan as at December 31, 2011, is a going-concern deficit to be funded of approximately $423 million (using the smoothed value of plan assets) and a solvency deficit to be funded of approximately $4,672[2] million (using the average solvency ratio basis). The deficits deteriorated during the year as a result of declining discount rates and a lower-than-expected rate of return on investments.

Contributions to the Canada Post Pension Plan are dependent on changes in discount rates, actual returns on plan assets and other factors such as plan amendments. The defined benefit pension current service contributions in 2011 amounted to $291 million. Current service contributions for 2012 are estimated at approximately $360 million.

Employer special contributions of $219 million were made in 2011 compared to $425 million in 2010. The Corporation used the funding relief permitted by legislation which resulted in a reduction in solvency payments of $433 million in 2011. The aggregate amount of the relief is limited to 15 per cent of plan assets and the relief for each year must be agreed to annually by the responsible ministers. Based on the expected actuarial valuation, special contributions for going-concern and solvency deficits are estimated at approximately $955 million before relief in 2012. It is the Corporation's intent to use the relief permitted by legislation and request an agreement from the Minister of Finance and the Minister of Transport, Infrastructure and Communities to obtain a reduction in special solvency contributions in 2012. The aggregate amount of the relief at the end of 2012 is expected to be $1,238 million.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which it defines as loans and borrowings, other non-current liabilities and Equity of Canada. This view of capital is used by management and may not be comparable to definitions used by other postal organizations or public companies. The Corporation's objectives in managing capital include maintaining sufficient liquidity to support its financial obligations and its operating and strategic plans, and maintaining financial capacity and access to credit facilities to support future development of the business.

[1] Solvency deficit when using fair value of Plan assets is approximately $3,692 million.
[2] Solvency deficit when using fair value of Plan assets is approximately $6,578 million.

The *Canada Post Corporation Act* and the *Financial Administration Act* (collectively, "the Acts") and directives issued pursuant to the Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, while maintaining basic postal service and in carrying out its objectives, the Corporation must have regard for the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that meets the needs of the people of Canada. A new Financial Framework was established in 2009 with the objective of maintaining financial self-sustainability. Some of these targets and metrics were revisited in 2011 to take into consideration the net impact of the transition to IFRS. A revised, IFRS-based Financial Framework was submitted for approval as part of the Corporation's 2012-2016 Corporate Plan.

Liquidity

As at December 31, 2011, and during 2011, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,010 million of unrestricted liquid investments on hand as at December 31, 2011, and $250 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

The Canada Post segment believes it has sufficient liquidity to support its operations over the next twelve months, including adequate financial resources for fluctuations in working capital, adverse changes in business results or unforeseen expenditures. This belief is, in part, based upon the expectation that (1) its short-term borrowing authority of $250 million which expires on June 30, 2012 will be renewed by the Government of Canada through December 31, 2012 and (2) its agreement with the Government of Canada under the *Pension Benefits Standards Act, 1985*, which allows the Corporation to reduce its special solvency payments, will be renewed.

The Corporation's subsidiaries and joint venture had a total of $103 million of unrestricted cash on hand as at December 31, 2011 and undrawn credit facilities of $129 million ensuring sufficient liquidity to support their operations over the next twelve months.

Access to capital markets

Pursuant to the *Canada Post Corporation Act*, the Canada Post segment may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No.4*, 2009-10, which received Royal Assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $250 million available for cash management purposes in the form of short-term borrowings.

Canada Post has established a borrowing plan which is approved annually by the Board of Directors, and then is submitted for approval to the Governor-in-Council on the recommendation of the Minister responsible for Canada Post, as part of the Corporate Plan approval process. In addition, the terms and conditions of each borrowing must be approved by the Minister of Finance. The Corporation believes that these arrangements provide the Canada Post segment with sufficient, timely access to capital markets.

With $1,055 million of borrowings as at December 31, 2011, the Canada Post segment had $1,445 million of its $2.5-billion external borrowing limit that had not been utilized. The borrowings of the Corporation's subsidiaries and joint venture as at that date amounted to $72 million resulting in consolidated borrowings of $1,127 million as at December 31, 2011. This represents an increase of only $19 million over the year-end 2010 level of $1,108 million, reflecting that the Corporation funded itself primarily through use of cash-on-hand, funds generated from operations during 2011 and the pension plan funding relief permitted by legislation.

Dividends

The Corporation has historically paid an annual dividend to the Shareholder equal to 40 per cent of the prior year's consolidated net profit. However, given the Corporation's investment demands, it did not pay a dividend in 2009 and 2010 in respect of 2008 and 2009 profits.

Late in 2009, a new Financial Framework was approved by the Government as part of Canada Post's 2010-2014 Corporate Plan. The framework includes a dividend payout ratio of 0 per cent to 20 per cent of the prior year's net profit for 2010 to 2012, and a payout of 15 per cent to 20 per cent for 2013 and 2014. Consistent with the framework, Canada Post did not pay a dividend in 2011 in respect of 2010 profit. In its 2012-2016 Corporate Plan, Canada Post has indicated its intention not to pay a dividend in 2012 on 2011 profit.

Dividends paid over the past five years total $69 million.

(in millions of dollars)	2011*	2010*	2009	2008	2007
Consolidated net profit (loss)	(188)	314	281	90	54
Dividend paid	0	0	0	22	47

* Beginning on January 1, 2011, Canada Post adopted International Financial Reporting Standards ("IFRS") as the required basis of accounting. Accordingly, the Corporation reported under IFRS for the year ending December 31, 2011 and the comparative year ended December 31, 2010. The 2007 to 2009 financial results are based on previous Canadian GAAP and therefore may not be comparable to 2010 and 2011.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out the activities of the business, as summarized in the following table.

(in millions of dollars)

As at December 31	2011				
	Available for sale	**Held for trading**	**Loans and receivables**	**Other liabilities**	**Total**
Financial assets					
Cash and cash equivalents	–	271	–	–	271
Marketable securities	–	842	–	–	842
Trade and other receivables	–	–	662	–	662
Segregated securities	553	–	–	–	553
	553	**1,113**	**662**		**2,328**
Financial liabilities					
Non-interest bearing*	–	–	–	734	734
Bonds	–	–	–	1,051	1,051
Other loans and borrowings	–	–	–	76	76
				1,861	**1,861**

*Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Financial assets are held for liquidity purposes or for longer terms in accordance with the investment policies of the Group of Companies. Financial liabilities consist mostly of trade payables (non-interest bearing) and bonds issued in 2010 to support the Postal Transformation.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in external market factors, such as interest rates, foreign currency exchange rates and commodity prices.

a) Interest rate risk

The Group of Companies' investments consist of cash and cash equivalents, marketable securities and segregated securities, and are designated as fair value through profit or loss or available for sale.

Substantially all investments are fixed-rate debt securities and are therefore exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment obligations to which they are externally restricted. The average duration in the portfolio was 13 years as at December 31, 2011 (2010 – 9 years).

Based on a sensitivity analysis on interest rate risk, it is expected that an increase or decrease of 1 per cent in market interest rates, with all other variables held constant, would increase or decrease the value of the segregated securities by $71 million, which would represent a significant impact on the fair value of the Corporation's investments at December 31, 2011 and other comprehensive income. Such a change in value would be partially offset by the change in value of certain long-term post-employment obligations.

Loans and borrowings of $1,127 million (2010 – $1,108 million) includes fixed-rate debt with prepayment options and capital lease obligations.

b) Foreign currency risk

The Group of Companies' exposure to foreign exchange risk mostly arises from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in Special Drawing Rights, a basket of currencies comprising the US Dollar ("US$"), Euro, British Pound and Japanese Yen, whereas payment is usually denominated in US$.

In 2011, an economic hedging program was implemented to mitigate the exposure to foreign exchange balances. Where possible, exposures are netted internally and any remaining exposure may be hedged using foreign exchange forward contracts. These forward contracts are not designated as hedges for accounting purposes. Net exchange gains included in net profit or loss amounted to $2 million (2010 – losses of $4 million). The effect on the remaining foreign exchange exposure of a 10-per-cent increase or decrease in prevailing exchange rates at December 31, 2011, all other variables held constant, would have increased or decreased net profit (loss) for the year by $3 million (2010 – $5 million).

c) Commodity risk
The Group of Companies is inherently exposed to fuel price increases but does not currently hold any financial instruments which change in value due to the prices of commodities. Using an industry-accepted practice, it partially mitigates this risk through the use of a fuel price surcharge on some of its products.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including foreign postal administrations.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe it is subject to any significant concentration of credit risk.

There was no impairment loss on investments recognized during the year (2010 – nil) and impairment losses on trade and other receivables were $4 million (2010 – $4 million).

Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Corporation manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Corporation invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors. Liquidity is discussed further in *Section 6.6 – Liquidity and capital resources on page 50.*

For further details on risk associated to financial instruments, see *Note 23 to the consolidated financial statements on page 124.*

6.8 Contractual obligations and commitments

A summary of the Group of Companies' total contractual obligations and commitments to make future payments, excluding non-interest-bearing current liabilities, is presented below. For further details, see *notes 18 and 23(c) to the consolidated financial statements on pages 121 and 126, respectively.*

(in millions of dollars)	Total	< 1 year	1–5 years	> 5 years
Bonds*	1,055	-	55	1,000
Interest on bonds	944	48	189	707
Finance lease obligations	84	19	55	10
Operating leases**	829	162	355	312
Postal Transformation contractual obligations***	388	337	51	-
Total	3,300	566	705	2,029

* Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada. Bonds include two series issued in July 2010, with a nominal value of $500 million each maturing in July 2040 and July 2025, respectively and $55 million of existing bonds maturing in March 2016. Interest is paid semi-annually with a coupon rate ranging from 4.08 per cent to 10.35 per cent.
** Operating leases include the future minimum payment obligations associated with facilities, transportation equipment and other operating leases.
*** In most instances, these contracts are subject to the Corporation's contractual right of termination.

The Canada Post Pension Plan special going-concern and solvency contributions are discussed in *Section 6.5 – Canada Post Pension Plan on page 50.*

6.9 Related party transactions

Government of Canada

As described in *note 22(a) to the consolidated financial statements on page 122,* the Corporation has a variety of transactions with related parties both in the normal course of business and in supporting the Government of Canada's public policies. Revenue earned from related parties for the year was $350 million (2010 – $351 million), the majority of which was from commercial contracts relating to postal services provided to the Government of Canada. Included in this amount was compensation provided by the Government of Canada for two programs, parliamentary mail services and mailing of materials for the blind sent free of postage, for which the Government of Canada provided compensation in the amount of $22 million (2010 – $22 million) and the Food Mail Program. With respect to the Food Mail Program, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada), the Government of Canada compensated the Corporation by $14 million (2010 – $60 million) for the difference between the Corporation's cost of shipping eligible goods under the Food Mail Program and the applicable postage paid by shippers. This agreement was terminated March 31, 2011 and a new northern food subsidy program, Nutrition North Canada, came into effect April 1, 2011. The Corporation has no role in the shipment of goods under the new program. Related party expenditures for the year amounted to $16 million (2010 – $15 million).

Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expense amounts for key management personnel for the years ended December 31, 2011 and 2010, were $11 million and $12 million, respectively and included compensation related to short-term employee benefits, post-employment benefits and other long-term benefits. See *note 22(b) to the consolidated financial statements on page 123* for additional detail.

6.10 Contingent liabilities

In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees. These agreements generally do not contain specified limits on the Group of Companies' liability and therefore, it is not possible to estimate the potential future liability under these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities. Refer to *note 17 to the consolidated financial statements on page 119* for additional detail on other contingent liabilities.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between December 31, 2011, and December 31, 2010

(in millions of dollars)

ASSETS	2011	2010	Change	%	Explanation of change
Cash and cash equivalents	271	379	(108)	(28.6)%	*Refer to Section 6 – Liquidity and Capital Resources (page 49)*
Marketable securities	842	1,082	(240)	(22.2)%	Attributable to securities sold for cash management purposes
Trade and other receivables	662	628	34	5.3 %	Mainly due to increased receivables at Purolator and increased international settlements receivable at Canada Post
Income tax receivable	56	141	(85)	(60.6)%	The net decrease is primarily due to the receipt of the prior year's tax refund partially offset by the current year's expected tax refund generated by a loss carry-back for Canada Post
Other assets	115	73	42	58.8 %	Mainly due to increased assets held for sale and prepaid expenses for Canada Post
Total current assets	1,946	2,303	(357)	(15.6)%	
Property, plant and equipment	2,379	2,127	252	11.8 %	Due to Canada Post capital acquisitions for Postal Transformation and replenishment of certain assets in excess of amortization
Intangible assets	165	161	4	2.5 %	
Segregated securities	553	499	54	10.8 %	Mainly due to unrealized gains and interest income partially reduced by benefit payments for Canada Post
Pension benefit assets	93	112	(19)	(16.5)%	Primarily due to actuarial losses totaling $23 million, offset by regular cost elements as well as contributions and benefits paid.
Deferred tax assets	1,472	1,054	418	39.8 %	Primarily due to the increase of temporary differences resulting from actuarial losses recognized in other comprehensive income for Canada Post's Registered Pension Plan asset and Employee Future Benefits
Goodwill	125	125	0	0.3 %	
Other assets	11	11	(0)	(0.8)%	
Total non-current assets	4,798	4,089	709	17.4 %	
Total assets	6,744	6,392	352	5.5 %	

7 Changes in Financial Position (continued)

(in millions of dollars)

LIABILITIES	2011	2010	Change	%	Explanation of change
Trade and other payables	482	477	5	0.9 %	
Salaries and benefits payable and related provisions	732	537	195	36.1 %	Due to a variety of salary and benefits accruals, including the pay equity ruling at Canada Post
Provisions	75	64	11	16.1 %	
Income tax payable	2	-	2	583.9 %	
Deferred revenue	129	120	9	7.9 %	Primarily due to increased deferred stamp sales
Loans and borrowings	16	13	3	29.3 %	
Other long-term benefit liabilities	86	84	2	2.7 %	
Total current liabilities	1,522	1,295	227	17.5 %	
Loans and borrowings	1,111	1,095	16	1.5 %	Primarily attributable to Purolator's increased debt due to vehicles purchased through financing leases
Pension, other post-employment and other long-term benefit liabilities	5,719	4,255	1,464	34.4 %	Primarily resulting from net actuarial losses from post employment and other long-term benefit plans
Deferred tax liabilities	-	7	(7)	(96.1)%	
Provisions	4	10	(6)	(62.4)%	
Other liabilities	19	24	(5)	(21.5)%	
Total non-current liabilities	6,853	5,391	1,462	27.1 %	
Total liabilities	8,375	6,686	1,689	25.3 %	

(in millions of dollars)

EQUITY	2011	2010	Change	%	Explanation of change
Contributed capital	1,155	1,155	0	0.0 %	
Accumulated other comprehensive income (loss)	45	9	36	413.3 %	Mainly due to net unrealized gains on available for sale financial assets at Canada Post
Accumulated deficit	(2,855)	(1,485)	(1,370)	(92.4)%	Primarily attributable to net actuarial losses from post employment and other long-term benefit plans
Equity of Canada	(1,655)	(321)	(1,334)	(417.1)%	
Non-controlling interests	24	27	(3)	(6.0)%	
Total equity	(1,631)	(294)	(1,337)	(453.8)%	

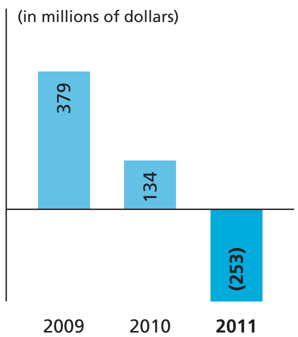
Total liabilities and equity	6,744	6,392	352	5.5 %	

8 Discussion of Operations

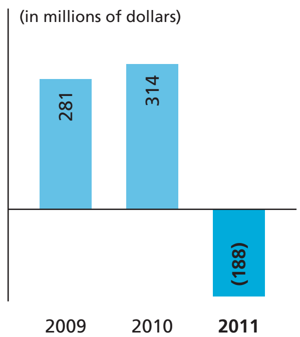
A detailed discussion of our financial performance in 2011

8.1 Consolidated trends

Consolidated profit (loss) before tax



Net profit (loss)



8.2 Consolidated results from operations

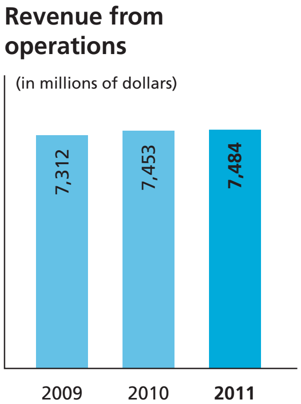
Consolidated results

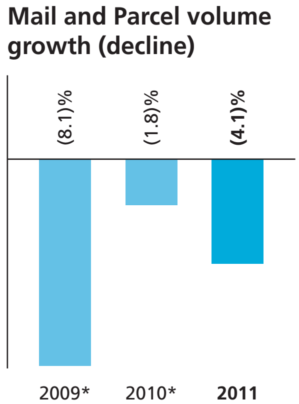
(in millions of dollars)	2011	2010	Change	%
Revenue from operations	7,484	7,453	31	0.8 %*
Cost of operations	7,710	7,311	399	5.5 %
Profit (loss) from operations	(226)	142	(368)	(260.2) %
Investing and financing income (expense)	(27)	(8)	(19)	(253.8) %
Profit (loss) before tax	(253)	134	(387)	(289.5) %
Tax expense (income)	(65)	(180)	(115)	(63.6) %
Net profit (loss)	(188)	314	(502)	(160.1) %

* Adjusted for trading days where applicable

The Canada Post Group of Companies reported a net loss of $188 million in 2011—a decrease of $502 million, when compared with 2010.

Consolidated revenue from operations





* In 2010, a methodology change was implemented for the Canada Post segment and 2009 has been restated for comparability.

Revenue from operations increased by $31 million, or 0.8 per cent, in 2011 when compared with 2010. Revenues were negatively impacted by the June 2011 labour disruption and continued erosion in domestic Lettermail in the Canada Post segment. A detailed discussion of revenue by segment follows.

Consolidated cost of operations

Cost of operations increased by $399 million or 5.5 per cent compared to last year, primarily driven by the PSAC pay equity ruling, inflationary pressures and an increase in employee future benefits expense offset by cost reductions stemming from the labour disruption and exiting the Government of Canada's Food Mail Program in the Canada Post segment. The Purolator segment also experienced increased costs due to increased volumes and inflationary pressures. These cost increases were partially offset by cost-containment activities across the Canada Post Group of Companies.

Consolidated tax expense (income)

Consolidated tax income decreased by $115 million for the year ended December 31, 2011 when compared to the prior year. This decrease is primarily due to the recognition in the third quarter of 2010 of previously unrecognized temporary differences of $192 million for Canada Post, as well as a decrease in the Group of Companies' profit before tax of $387 million. In addition, the Canada Post segment recognized tax income in 2010 pertaining to the effect of the declining statutory tax rate applied to temporary differences.

8.3 Operating results by segment

Segmented results – Profit (loss) before tax

(in millions of dollars)	2011	2010	2009*	2008*	2007*
Canada Post	(327)	56	319	66	78
Purolator	73	76	53	91	84
Logistics	7	11	9	13	6
Innovapost	20	19	15	15	8
Intersegment and unallocated	(26)	(28)	(17)	(24)	(16)
Canada Post Group of Companies	(253)	134	379	161	160

* Amounts have not been restated to IFRS and are presented in accordance with Canadian GAAP.

A detailed discussion of operating results by segment is provided below.

8.4 Canada Post segment

The Canada Post segment experienced a loss before tax of $327 million, a decrease of $383 million when compared with 2010.

Canada Post summary

(in millions of dollars)	2011	2010	Change	%
Revenue from operations	5,861	5,929	(68)	(0.8) %*
Cost of operations	6,190	5,896	294	5.0 %
Profit (loss) from operations	(329)	33	(362)	(1081.3) %
Investing and financing income (expense)	2	23	(21)	(93.0) %
Profit (loss) before tax	(327)	56	(383)	(684.1) %

* Adjusted for trading days where applicable

Revenue from operations

Canada Post generated revenue from operations of $5,861 million in 2011—a decrease of $68 million or 0.8 per cent, when compared with 2010. The labour disruption in June impacted all lines of business and given normal performance, led to an estimated revenue loss of over $200 million for the year. Revenues from the federal election, the 2011 Statistics Canada census ($23 million and $32 million respectively) and pricing action offset some of the losses from the labour disruption. The $68-million revenue decrease was comprised of a $36-million decrease in revenue from Transaction Mail, a $47-million decrease in revenue from Parcels, offset by a $1-million increase in revenue from Direct Marketing, and a $14-million increase from other services.

Revenue and volumes by line of business

	Revenue (in millions of dollars / trading day adjusted per cent)				Volume (in millions of pieces / trading day adjusted per cent)			
	2011	2010	Change	%	2011	2010	Change	%
Transaction Mail								
Domestic Lettermail	2,802	2,836	(34)	(0.8) %	4,270	4,449	(179)	(3.6) %
Outbound Letter-post	167	177	(10)	(5.5) %	111	127	(16)	(12.1) %
Inbound Letter-post	124	118	6	5.0 %	249	261	(12)	(4.5) %
Other	49	47	2	4.2 %	–	–	–	–
Total Transaction Mail	3,142	3,178	(36)	(0.8) %	4,630	4,837	(207)	(3.9) %
Parcels								
Domestic parcels	844	899	(55)	(5.7) %	94	97	(3)	(2.4) %
Outbound parcels	193	196	(3)	(1.2) %	11	12	(1)	(7.8) %
Inbound parcels	153	138	15	11.3 %	38	34	4	11.3 %
Other	38	42	(4)	(8.3) %	–	–	–	–
Total Parcels	1,228	1,275	(47)	(3.2) %	143	143	0	0.4 %
Direct Marketing								
Addressed Admail	600	600	0	0.5 %	1,278	1,327	(49)	(3.3) %
Unaddressed Admail	400	399	1	0.8 %	3,453	3,652	(199)	(5.0) %
Publications Mail	251	254	(3)	(1.0) %	431	445	(14)	(2.9) %
Business Reply Mail and Other mail	30	31	(1)	(1.5) %	30	33	(3)	(6.8) %
Other	75	71	4	5.4 %	–	–	–	–
Total Direct Marketing	1,356	1,355	1	0.5 %	5,192	5,457	(265)	(4.5) %
Other revenue	135	121	14	11.4 %	–	–	–	–
Total	5,861	5,929	(68)	(0.8) %	9,965	10,437	(472)	(4.1) %

Transaction Mail

Total 2011 Transaction Mail revenue of $3,142 million is comprised of the following four product categories: domestic Lettermail ($2,802 million); outbound Letter-post ($167 million); inbound Letter-post ($124 million); and other ($49 million).

Total 2011 Transaction Mail volume declined by 207 million pieces and revenue decreased by $36 million compared to 2010. The volume and revenue decline represent a year-over-year decrease of 3.9 per cent and 0.8 per cent respectively. Year-over-year changes are broken down by product category as follows:

- Domestic Lettermail revenue declined by $34 million or 0.8 per cent compared with 2010. The revenue decline was mainly due to the labour disruption in June and continued erosion, partially offset by the federal election, the 2011 Statistics Canada census and a 2.9-per-cent increase in the average revenue per piece. Retail sales volume sharply declined by 14.5 per cent, while commercial Lettermail volumes decreased by 1.3 per cent.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) declined by $10 million or 5.5 per cent, compared to the previous year. The revenue decline is a result of a volume reduction of 12.1 per cent partially offset by a 7.5-per-cent increase in the average revenue per piece. Most of the revenue decline ($7 million) related to outbound commercial mailings.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering their mail in Canada) grew by $6 million or 5.0 per cent compared to 2010. Most of the increase was due to the application of a retroactive rate adjustment related to 2010 which was approved by the Universal Postal Union.
- Other Transaction Mail service revenue grew by $2 million or 4.2 per cent, compared to 2010.

Parcels

Total 2011 Parcels revenue of $1,228 million is comprised of four product categories: domestic parcels ($844 million); outbound parcels ($193 million); inbound parcels ($153 million); and other ($38 million).

Total 2011 Parcels revenue declined by $47 million, representing a decrease of 3.2 per cent, compared to 2010. Year-over-year changes are explained below by product category:

- Domestic parcels revenue declined by $55 million or 5.7 per cent and volumes declined by 3 million pieces or 2.4 per cent compared with 2010. The revenue decline was primarily driven by the exit from the Food Mail Program at the end of the first quarter in 2011 and the effect of the labour disruption in the second quarter.
- Outbound parcel revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) decreased by $3 million or 1.2 per cent compared to 2010 due to the labour disruption in June.
- Inbound parcel revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering their parcels in Canada) increased by $15 million or 11.3 per cent and volumes grew by 4 million pieces or 11.3 per cent compared to 2010. Growth in this area was predominantly from an increase in goods purchased online and shipped from the United States, due in part to the sustained strength of the Canadian dollar.
- Other Parcels revenue declined by $4 million or 8.3 per cent, compared to 2010.

Direct Marketing

Total 2011 Direct Marketing revenue of $1,356 million is comprised of the following four product categories: Addressed Admail ($600 million); Unaddressed Admail ($400 million); Publications Mail ($251 million); Business Reply Mail and Other Mail ($30 million); and Other ($75 million).

Total 2011 Direct Marketing revenue increased by $1 million or 0.5 per cent, compared to the previous year. The revenue increase was mainly due to a 4.9-per-cent increase in the average revenue per piece which offset volume decline of 4.5 per cent. Year-over-year changes by product category are summarized as follows:

- Addressed Admail revenue was flat at $600 million compared to 2010. This was due to an increase of 3.9 per cent in the average revenue per piece offset by a decrease of 3.3 per cent in volume. The decline in volume of Addressed Admail was mainly due to the labour disruption and the slow economy.
- Unaddressed Admail revenue increased by $1 million or 0.8 per cent, compared to the previous year. The revenue growth is due mainly to an increase in the average revenue per piece of 6.2 per cent offset by a decline of 199 million pieces or 5.0 per cent in volume. Volume decline was caused by the labour disruption, a slow economy, and a 37-per-cent decline in parliamentary mailings.
- Publications Mail revenue declined by $3 million or 1.0 per cent over the prior year. The revenue decline was caused by volume erosion of 2.9 per cent due to a decline in mail publication subscriptions, partially offset by a 2.0-per-cent growth in the average revenue per piece.
- Business Reply Mail and Other Mail experienced declines in both revenue and volume of 1.5 per cent and 6.8 per cent, respectively.
- Other Direct Marketing revenue increased by $4 million or 5.4 per cent, compared to the previous year, mainly due to the price increase on Change of Address products and overall growth in new data products and services.

Other revenue

Other revenue increased by $14 million or 11.4 per cent in 2011 when compared to 2010, mainly due to the successful releases of 2011 Royal Wedding stamps, gifts and collectibles, with revenue totalling $10 million.

Cost of operations

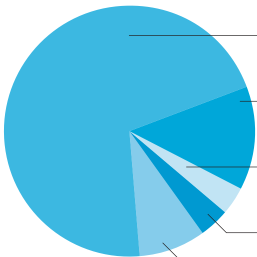
In 2011, the Canada Post segment's cost of operations totaled $6,190 million—an increase of $294 million or 5.0 per cent over the prior year.

Increase (decrease)

(in millions of dollars)	2011	2010	Change	%
Labour	3,384	3,206	178	5.6 %
Employee benefits	993	890	103	11.5 %
Total labour and employee benefits	4,377	4,096	281	6.9 %
Non-labour collection, processing and delivery	822	856	(34)	(4.0) %
Property, facilities and maintenance	232	221	11	4.7 %
Selling, administrative and other	526	505	21	4.2 %
Total other operating costs	1,580	1,582	(2)	(0.2) %
Depreciation and amortization	233	218	15	6.9 %
Total	6,190	5,896	294	5.0 %

The next chart shows the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 70.7 per cent of the total cost of operations, demonstrating the labour-intensive nature of our business.

Cost of operations – 2011



Cost of operations	2011	2010	2009
Labour and employee benefits	70.7%	69.5%	67.6%
Non-labour collection, processing and delivery	13.2%	14.5%	15.7%
Property, facilities and maintenance	3.8%	3.8%	3.9%
Depreciation and amortization	3.8%	3.7%	3.5%
Selling, administrative and other	8.5%	8.5%	9.3%

Labour

The cost of labour increased by $178 million or 5.6 per cent, when compared with 2010. This increase was primarily due to the PSAC pay equity ruling as well as regular salary increases partially offset by the wages not paid to the employees represented by CUPW during the labour disruption in June.

Employee Benefits

Increase (decrease)

(in millions of dollars)	2011	2010	Change	%
Pension expense	249	200	49	24.5 %
Post-employment health benefits	170	150	20	13.3 %
Other post-employment and other long-term benefits	183	146	37	25.3 %
Interest on segregated assets	(28)	(23)	(5)	(21.7) %
Transitional funding	0	(13)	13	100.0 %
Total post-employment and other long-term benefits	574	460	114	24.8 %
Active employee benefits	408	418	(10)	(2.4) %
Other	11	12	(1)	(8.3) %
Net benefit costs	993	890	103	11.5 %

Net benefit costs for employees increased by $103 million, or 11.5 per cent, when compared with 2010 as detailed below:

- Non-cash pension expense increased by $49 million or 24.5 per cent in 2011, due to a pension legislation amendment enhancing the pre-retirement death benefits, as well as a decrease in discount rate from 6.7 per cent to 5.7 per cent. These increases were partially offset by higher than expected return on assets compared to 2010.
- Non-cash post-employment health benefits expense increased by $20 million or 13.3 per cent, primarily due to a decrease in discount rate from 6.9 per cent to 5.8 per cent. In addition, in 2010, new terms and conditions were implemented for CPAA employees and created a gain for past service costs.
- Other post-employment and other long-term benefits expenses increased by $37 million or 25.3 per cent due to an overall decrease in discount rates from 2010 to 2011. In addition, a change to the demographic assumption in 2011 created an actuarial loss for the sick leave/short-term disability plan. Finally, in 2010, the sick leave plan was curtailed for CPAA members, resulting in a curtailment gain.
- The 2010 employee future benefits expense was reduced by $13 million due to transitional funding from the Government of Canada. As described further in *note 2 (j) to the consolidated financial statements on page 92*, declining transitional support was provided to assist the Corporation with the incremental costs incurred as a result of establishing the Canada Post Pension Plan and the associated ancillary benefits. The transitional funding ended in 2010 and no amounts were recorded in 2011.
- Benefits expense for active employees decreased by $10 million or 2.4 per cent in 2011, when compared to the prior year, primarily due to a contribution holiday for disability insurance.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $34 million or 4.0 per cent in 2011 compared to the prior year and include cost reductions associated with the labour disruption. Transportation costs decreased by $41 million mainly due to our exiting the Government of Canada's Food Mail Program (as at March 31, 2011) partially offset by increased fuel costs.

Property, facilities and maintenance

The cost of facilities increased by $11 million to $232 million in 2011, representing a year-over-year increase of 4.7 per cent, mainly due to utilities, repair and maintenance costs.

Depreciation and amortization

Depreciation and amortization expense increased by $15 million to $233 million, a 6.9-per-cent increase compared to 2010, primarily due to increased capital acquisitions relating to Postal Transformation and replenishment of the existing asset base.

Selling, administrative and other

Total selling, administrative and other expenses, which include information technology, administration, program expense, selling and other costs, increased by $21 million or 4.2 per cent when compared to 2010. This increase was primarily due to program expenses, which are expenses directly related to investment projects.

8.5 Purolator segment

The Purolator segment contributed $73 million to 2011 consolidated profit (loss) before tax, a decrease of $3 million, when compared with 2010.

Purolator summary

Increase (decrease)

(in millions of dollars)	2011	2010	Change	%
Revenue from operations	1,615	1,492	123	8.7 %*
Cost of operations	1,539	1,413	126	8.9 %
Profit (loss) from operations	76	79	(3)	(3.5) %
Investing and financing income (expense)	(3)	(3)	(0)	(3.1) %
Profit (loss) before tax	73	76	(3)	(3.8) %

* Adjusted for trading days where applicable

Revenue from operations

Revenue from each of the lines of business increased from the prior year, primarily attributed to the recovering economic environment and increased volumes tempered by severe competition. Revenue from operations increased by $123 million or 8.7 per cent in 2011 compared with 2010. Revenues from the courier business and Purolator Freight™ contributed $87 million and $12 million, respectively, towards this year-over-year increase. Collaboration between Purolator and Canada Post has continued to contribute to synergies in express and air cargo volumes.

Cost of operations

In 2011, the cost of operations increased by $126 million or 8.9 per cent, when compared to 2010, mostly due to the increased volumes and inflationary pressures. Cost of labour in 2011 increased by $35 million or 6.7 per cent mainly due to increased volumes, annual wage increases and filling of vacant positions. Purolator also focused on obtaining greater efficiencies from its national network and leveraging asset utilization across the lines of business.

8.6 Logistics segment

The Logistics segment includes the consolidated financial results of SCI Group.

Logistics summary

Increase (decrease)

(in millions of dollars)	2011	2010	Change	%
Revenue from operations	138	149	(11)	(7.2) %*
Cost of operations	131	138	(7)	(4.8) %
Profit (loss) from operations	7	11	(4)	(42.3) %
Investing and financing income (expense)	0	(0)	0	209.4 %
Profit (loss) before tax	7	11	(4)	(38.9) %

* Adjusted for trading days where applicable

SCI Group (SCI)

SCI's financial performance declined in 2011, with profit before tax of $7 million, a decrease of $4 million, when compared with 2010.

Revenue from operations decreased by $11 million, primarily due to the loss of two key clients in late 2010 and early 2011, as well as the completion of deferred revenue being recognized on a specific contract in 2010. In 2011, 31 per cent of SCI's revenue was derived from its largest customer (2010 – 30 per cent).

Cost of operations decreased by $7 million in 2011, when compared with 2010. This net decrease in costs is due to a reduction in operational expenses due to lower business volume, continuous improvement, and leadership restructuring.

8.7 Other segment

The Other segment includes the financial results of Innovapost. Virtually all of the services provided by Innovapost are provided to the Group of Companies. Accordingly, the Corporation's proportionate share of Innovapost revenue is eliminated against the other segments' cost of operations upon consolidation. Cost of operations included in the consolidated financial statements of the Corporation includes the Corporation's proportionate share of expenses related to these services of approximately $133 million (2010 – $129 million).

Other segment

Increase (decrease)

(in millions of dollars)	2011	2010	Change	%
Revenue from operations	153	148	5	4.7 %*
Cost of operations	133	129	4	3.2 %
Profit (loss) from operations	20	19	1	5.2 %
Investing and financing income (expense)	(0)	0	(0)	(129.5) %
Profit (loss) before tax	20	19	1	4.4 %

* Adjusted for trading days where applicable

Innovapost's financial performance improved slightly in 2011, with profit before tax of $20 million. Revenue from operations increased by $5 million, due to higher application development revenues from Canada Post. Cost of operations increased by $4 million in 2011, when compared to 2010. This increase primarily reflected the higher project activity in application development.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2011 and future years

9.1 Critical accounting estimates

Our significant accounting policies are described in *note 2 to the consolidated financial statements on page 86*. The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from the estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods. Refer to *notes 2 and 3 to the consolidated financial statement on pages 86 and 94*, respectively, for additional detail around significant accounting policies, critical accounting judgments and key sources of estimation uncertainty.

Capital assets

Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets, and are provided in *note 2 to the consolidated financial statements on page 86*. The useful lives of capital assets are assessed annually for continued appropriateness. Due to the long lives of many of the assets, changes to the estimates of useful lives could result in a material impact to the consolidated financial statements. In 2010, the Corporation decided to apply component accounting to its buildings in order to facilitate the Group of Companies' transition to International Financial Reporting Standards ("IFRS"). Component accounting was available under Canadian GAAP, but it was a more explicit requirement under IFRS.

Component accounting requires that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item be depreciated separately if there is a difference between the useful lives or depreciation methods of the different parts. Buildings were the only category of property, plant and equipment of the Group of Companies where management identified significant parts with different useful lives. With the help of external advisors, management identified six different components with five different useful lives for the Group of Companies' buildings. The depreciation periods of the building components range between 10 and 65 years.

At the end of each reporting period, capital assets with definite useful lives are assessed for any indication of impairment. If an indication of impairment exists, the Group of Companies determines the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Capital assets which are not yet available for use are tested for impairment at the end of each reporting period, even if no indication of impairment exists.

When necessary, determining the asset's fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. If future conditions were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Group of Companies could potentially experience future material impairment charges in respect of our capital assets.

Goodwill

Goodwill is not amortized but is tested for impairment annually, at the same time every year for each cash-generating unit, or more frequently if events and circumstances indicate that there may be an impairment. Goodwill is tested by comparing the carrying value of a cash-generating unit to its estimated recoverable amount. The Purolator segment represents the significant portion of the goodwill balance in the consolidated statement of financial position. The estimated recoverable amount of this segment is based on its value in use, which is derived using a discounted cash flow analysis and requires making assumptions and estimates relating to future cash flows and discount rates.

The future cash flows of the Purolator segment are estimated using its approved plans. These plans reflect management's best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be able to control. Growth and profitability levels are compared to other competitors in the industry and general economic conditions prevailing at the valuation date. The discount rate applied to the future cash flows of the Purolator segment is based on its estimated weighted average cost of capital at the valuation date. A change in future cash flows or discount rates could have a significant impact on the outcome of the goodwill impairment test. For assumptions related to goodwill impairment testing, refer to *note 12 to the consolidated financial statements on page 114*.

Provisions and contingent liabilities

A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Closely tied to the concept of a provision is a contingent liability, which is a possible legal or constructive obligation that arises from a past event, or a present legal or constructive obligation that arises from a past event but is not recognized because it is either not probable that an outflow of resources will be required to settle the obligation, or a reliable estimate of the obligation cannot be made. As such, a contingent liability is not recognized and is instead disclosed in the notes to the financial statements.

In determining whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability in the notes, management must exercise judgment and make various assumptions. Such judgments include whether or not the obligation is a present obligation or a possible obligation, whether it is probable that an outflow of resources will be required to settle the obligation and whether a reliable estimate of the obligation can be made. As well, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood of outflows, the timing of outflows, as well as the discount rate to use. Should the actual amount or timing of the outflows deviate from the assumptions made by management, there could be a significant impact to the Corporation on the consolidated results of operation, financial position and liquidity. Further information on the Group of Companies' provisions and contingent liabilities are provided in *notes 15 and 17, respectively, to the consolidated financial statements on pages 117 and 119*.

Pension, other post-employment benefits and other long-term benefit plans

The Canada Post Group of Companies sponsors plans that provide pensions and other post-employment and other long-term benefits for most of its employees. The Corporation believes the accounting estimates related to its employee benefit plan costs are critical accounting estimates because: (1) the amounts are based on complex actuarial calculations using several assumptions; and (2) given the magnitude of the estimated costs, differences in actual results or changes in assumptions could materially affect the consolidated financial statements.

Assumptions

Due to the long-term nature of these benefit plans, the calculation of expenses and obligations depends on various assumptions. These assumptions bear the risk of change as they require significant judgment and have inherent uncertainties that management may not be able to control. Other than the discount rate, the assumptions are determined by management and are reviewed annually by the Canada Post Group of Companies' actuaries.

- **Discount rates –** The Canada Post Group of Companies' discount rate assumptions, which are set annually at the measurement date, are used to determine the present value of the projected benefit obligation at the end of the year and the net periodic benefit cost for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for the benefit plans as they become due. The actuary determines the discount rate using a yield curve approach, which is based on pricing and yield information for high-quality AA-rated corporate bonds. The selected discount rate will have a cash flow pattern that resembles that of the plan being valued. The actuary determines the future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.
- **Expected long-term rate of return on plan assets –** The expected rate of return on plan assets assumption is based on the statement of investment policies and procedures. It is a long-term assumption for which the accuracy can only be measured over a long period based on past experience. The investment strategy for the assets in the pension plans is to maintain a diversified portfolio of assets, invested in a prudent manner to maintain the security of funds while maximizing returns within the guidelines provided in the investment policy.

- **Long-term rate of compensation increase –** The rate of compensation increase is another significant assumption in the measurement of the defined benefit obligation for pension benefit plans and some of the other non-pension benefit plans. The short-term assumptions for projected compensation increases are as reflected in the current active collective agreements; otherwise, an average long-term compensation increase assumption of three per cent is used.
- **Corporate Team Incentive –** The Corporate Team Incentive, which is included in the pensionable earnings of the Group's major pension plan, is assumed to be paid out at 100 per cent.
- **Medical costs –** The medical cost assumptions are used in the measurement of certain non-pension benefit plans. The claims cost assumption used is derived from actual claims experience. Other assumptions such as health-trend factors or provincial coverage are supported by third-party studies.
- **Demographics –** The demographic assumptions are used to project the future number of retirees and dependants from year to year who will be eligible for benefits under the benefit plans. These assumptions include expected mortality, termination and retirement experience.
- **Other assumptions –** Other assumptions are based on actual experience and management's best estimates.

As a result of applying these actuarial assumptions, actuarial gains or losses on the defined benefit plans arise from the difference between actual and expected experience and changes in the actuarial assumptions used. For most plans, actuarial gains and losses are recognized in other comprehensive income and are included immediately in retained earnings or deficit without reclassification to net profit or loss in a subsequent period. For long-term benefit plans, these adjustments are recognized in the period's net profit or loss.

In addition, when a funded plan gives rise to a pension benefit asset and the Group of Companies cannot fully benefit from the asset in the future, a valuation allowance needs to be recorded. In establishing the economic benefit, the Group of Companies projects gains resulting from an expected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In circumstances where there is an existing shortfall on a funding basis, the minimum funding requirements, with respect to services already provided, may give rise to a further reduction of the pension benefit asset and could even create or increase a pension benefit liability.

In *note 10(f) to the consolidated financial statements*, a table has been included disclosing the actuarial gains and losses on other comprehensive income as well as the effect of asset limit adjustments, if any.

Sensitivity to assumptions

The benefit obligations and associated expense are very sensitive to actuarial assumptions, namely changes in the discount rate, expected long-term return on plan assets, rate of compensation increase, and medical-trend rate assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status. Similarly, poor fund performance results in a lower fair value of plan assets and a lower funded status.

Sensitivity to changes in key assumptions for the Corporation's principal pension plan is as follows:

	Change in assumption	
(in millions of dollars)	Increase	Decrease
Change in discount rate of 50 basis points		
Increase (decrease) in annual pension expense	(50)	55
Increase (decrease) in defined pension obligation	(1,252)	1,407
Change in expected return on plan assets of 50 basis points		
Increase (decrease) in annual pension expense	(78)	78

The Corporation's principal health-care plan is sensitive to the following assumptions:

	Change in assumption	
(in millions of dollars)	Increase	Decrease
Change in discount rate of 50 basis points		
Increase (decrease) in annual health-care expense	(7)	8
Increase (decrease) in defined health-care obligation	(152)	171
Change in health-care cost trend rates of 100 basis points		
Increase (decrease) in annual health-care expense	42	(32)
Increase (decrease) in defined health-care obligation	396	(313)

For complete details on our annual cost and obligation, see *note 10 to the consolidated financial statements starting on page 103*.

Income taxes

The Group of Companies is subject to income tax in numerous jurisdictions and significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of the additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities are comprised of temporary differences between the carrying values and the tax basis of assets and liabilities, as well as tax losses carried forward. The timing of the reversal of the temporary differences may take many years, and the related deferred tax is calculated using the tax rate substantively enacted for the period of reversal that is applied to the temporary difference. The carrying values of assets and liabilities are based upon the amounts recorded in the consolidated financial statements and are therefore subject to accounting estimates that are inherent in those balances. The Group of Companies has significant deductible temporary differences and related deferred tax assets. In 2010, management recognized the entire deferred tax asset related to accrued other retirement and post-employment benefit liabilities as the realization of the deferred tax asset was determined to be probable. The recognition of this asset resulted in a $192-million decrease in the 2010 deferred tax expense. See *note 11 to the consolidated financial statements on page 112*.

The tax basis of assets and liabilities as well as tax losses carried forward are computed based upon the applicable income tax legislation, regulations and interpretations, all of which, in turn, are subject to interpretation. In computing deferred tax assets and deferred tax liabilities, assumptions are made about their respective timing of reversal and future results of operations. These assumptions also affect classification between current tax expense or current tax income and deferred tax expense or deferred tax income. It is reasonable to expect that the composition of deferred tax assets and deferred tax liabilities may change from period to period because of the significance of these uncertainties. If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred tax adjustments would not result in an immediate cash outflow nor would they affect the Group of Companies' immediate liquidity.

9.2 International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board replaced Canadian GAAP with IFRS for publicly accountable enterprises effective January 1, 2011. In 2009, the Public Sector Accounting Board approved an amendment to the scope of public sector accounting, confirming that government business enterprises ("GBEs") are required to follow IFRS for periods beginning January 1, 2011. Accordingly, as the Corporation meets the definition of a GBE, the 2011 annual consolidated financial statements represent the first annual consolidated financial statements of the Corporation prepared in accordance with IFRS. The Corporation's transition date for converting to IFRS was January 1, 2010, and the comparative consolidated statement of financial position as at December 31, 2010, the comparative statements of consolidated comprehensive income, consolidated changes in equity and consolidated cash flows for the year ended December 31, 2010, which were previously presented in accordance with Canadian GAAP, have been restated in accordance with IFRS. During 2011, the Corporation also complied with the *Financial Administration Act* amendment effective April 1, 2011, requiring the preparation and publication of quarterly financial reports by parent Crown corporations. The Corporation published interim quarterly financial reports for its second and third quarters of 2011, as required by the amendment. The unaudited interim condensed consolidated financial statements in the quarterly financial reports were prepared in accordance with the Treasury Board of Canada Standard on Quarterly Financial Reports for Crown Corporations, IAS 34, "Interim Financial Reporting" and IFRS 1, "First-time Adoption of International Financial Reporting Standards."

Overview of IFRS changeover plan

The transition to IFRS entailed a multi-year changeover plan beginning in 2008 to support the conversion from Canadian GAAP to IFRS. We established a multidisciplinary IFRS implementation team led by the Vice-President, Finance and Comptroller, and instituted regular progress reporting to the Corporation's Audit Committee of the Board of Directors. An IFRS Steering Committee was also established to provide oversight of, and insights into the overall IFRS changeover process, and external advisors were also engaged to facilitate an effective changeover. The IFRS changeover plan addressed all key areas identified by the Corporation that could be affected by the conversion, such as financial statement preparation, financial reporting expertise, information technology, internal control over financial reporting, disclosure controls and procedures and business activities. All elements of the IFRS changeover plan were completed by early 2011 and the focus for the rest of the year has been the preparation of Treasury Board and IFRS-compliant quarterly reports, and the maintenance of sustainable IFRS-compliant financial data and processes for the fiscal year 2011 and beyond.

Impact of adoption of IFRS

The transition to IFRS did not impact how the Corporation conducts its various businesses or the cash it generates, however the adoption of IFRS did have a substantial impact on the Corporation's significant accounting policies, and subsequently on its consolidated statements of financial position, comprehensive income and changes in equity. The Corporation's significant accounting policies under IFRS can be found in *note 2 to the consolidated financial statements on page 86*.

The most significant impact of the conversion to IFRS on our financial statements has been in the area of employee benefits, and more specifically the recognition of actuarial gains and losses. Of the $1,262-million pre-tax decrease in equity on transition and the $3,387-million pre-tax decrease in equity as at December 31, 2010, between Canadian GAAP and IFRS, the differing recognition of actuarial gains and losses accounted for decreases in equity of $1,194 million and $3,213 million, respectively, without considering the tax impact. The decreases in equity were the result of the Corporation's policy choice on transition to IFRS to immediately recognize actuarial gains and losses resulting from post-employment benefit plans in full as they arise in other comprehensive income, without recycling to net profit or loss in subsequent periods, as well as from the corresponding IFRS 1 election to recognize all cumulative actuarial gains and losses in equity as at the date of transition. Under the previous Canadian GAAP policy, the Corporation recognized actuarial gains and losses resulting from post-employment benefit plans over a longer period, as opposed to immediately, by systematic amortization through net profit or loss. While this policy was also available under IFRS, the new chosen policy was more aligned with the proposed direction of the International Accounting Standards Board. The new policy also provides greater transparency regarding the impact of post-employment benefits on the Corporation and at the same time removes the impact of actuarial gains and losses related to post-employment benefit plans from net profit or loss, as they are recorded directly in equity through other comprehensive income. Refer to *note 26 to the consolidated financial statements on page 131* for detailed reconciliations between Canadian GAAP and IFRS of equity as at January 1 and December 31, 2010, and of comprehensive income for the year ended December 31, 2010. The notes to these reconciliations provide explanations for each major difference.

Furthermore, the Corporation has prepared reconciliations of the consolidated statement of financial position as at January 1, 2010, and December 31, 2010, and a reconciliation of the consolidated statement of comprehensive income for the year ended December 31, 2010. These reconciliations can also be found in *note 26 to the consolidated financial statements on page 131*.

Income taxes

Changes to the opening balance sheet require that a corresponding deferred tax asset or liability be established based on the resulting differences between the IFRS carrying value of assets and liabilities and their associated tax basis. Based on the adjustments discussed above, the resulting effect is an expected increase of $374 million in the deferred tax asset and the opening IFRS equity on transition. Since this amount is directly tied to the adjustments upon transition to IFRS, any changes in the expected adjustments will trigger a change in the deferred tax adjustment.

9.3 Accounting policy developments

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as required by the Canadian Accounting Standards Board and the Canadian Public Sector Accounting Board for annual periods beginning on or after January 1, 2011. The impact of future changes in IFRS is described below.

Future year accounting changes

New standards and amendments issued by the International Accounting Standards Board ("IASB") that may affect the Canada Post Group of Companies in the future are described below. The resulting impact on its consolidated financial statements is being assessed by the Corporation.

(a) IFRS 9 "Financial Instruments" ("IFRS 9") • In November 2009, the IASB issued IFRS 9 as the first part of Phase 1: Classification and Measurement in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). This first part of the standard addressed the classification and measurement of financial assets. Initial measurement will be at fair value, and for financial assets not classified at fair value through profit or loss, certain transaction costs will be included. Subsequent measurement of financial assets will be at amortized cost or fair value.

In October 2010, the IASB completed Phase 1 by adding requirements for liabilities to the standard, which are mostly unchanged from IAS 39.

IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2015, with early adoption permitted (refer to (f) below).

(b) IFRS 10 "Consolidated Financial Statements" ("IFRS 10"), IFRS 11 "Joint Arrangements" ("IFRS 11"), IFRS 12 "Disclosure of Interests in Others" ("IFRS 12"), IAS 27 "Separate Financial Statements" ("IAS 27") and IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") • In May 2011, the IASB issued five standards to replace IAS 27 "Consolidated and Separate Financial Statements," IAS 28 "Investments in Associates," IAS 31 "Interests in Joint Ventures," SIC 12 "Consolidation – Special Purpose Entities," and SIC 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers." These standards are effective for annual periods beginning on or after January 1, 2013. Entities may apply these standards earlier if adopted concurrently however, providing some disclosures under IFRS 12 does not compel an entity to early adopt the entire standard or the other four standards.

IFRS 10 defines the principle of control, establishes control as the basis for determining which entities are consolidated, and sets out accounting requirements preparing consolidated financial statements. This standard is applied retrospectively.

IFRS 11 requires an entity to determine the type of joint arrangement (joint operation or joint venture) by assessing its rights and obligations arising from the arrangement. This standard requires the use of the equity method, in accordance with IAS 28 to account for an interest in a joint venture. Application of this standard is prospective for joint ventures previously accounted for using the proportionate consolidation methods, such that the initial investment of these joint ventures, as measured at the beginning of the earliest period presented, is the aggregate of the carrying amounts of assets and liabilities previously proportionately consolidated.

IFRS 12 requires an entity to disclose information to enable users to evaluate the nature of, and risks associated with, interests in other entities, and the effects of those interests on the entity's financial position, performance and cash flows.

IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This standard is applied retrospectively.

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the use of the equity method in accounting for both investments in associates and joint ventures. This standard is applied retrospectively.

(c) IFRS 13 "Fair Value Measurement" ("IFRS 13") • In May 2011, the IASB issued IFRS 13, which defines fair value, sets out in a single IFRS a framework to measure fair value, and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013 and is applied prospectively. Early adoption is permitted.

(d) Amendments to IAS 19 "Employee Benefits" ("IAS 19") • In June 2011, the IASB issued amendments to IAS 19, which include: elimination of the corridor method to defer actuarial gains and losses; immediate recognition in net profit or loss of vested and unvested past service costs resulting from plan amendments or curtailments; streamlining of the presentation of assets and liabilities; requirement for the discount rate to be used as the expected return on assets; and additional disclosure highlighting risks arising from the defined benefit plans. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted. The amended standard will have a significant impact on entities with funded defined benefit plans. This is principally because it introduces a new approach to calculating the employee benefit expense. As of 2013, the Corporation will no longer be able to recognize the long-term expected return on the plan asset actually held. Instead, the long-term return will be capped at the value of the discount rate used to value the liability. This accounting change is expected to significantly increase our employee benefits cost.

(e) Amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") – Presentation of Items of Other Comprehensive Income • In June 2011, the IASB issued amendments to IAS 1, which require grouping of items in other comprehensive income based on whether they are potentially reclassifiable to net profit or loss subsequently and disclosure of tax related to each of the two groups of other comprehensive income items (reclassifying and non-reclassifying) if items are shown before related tax effects. These amendments are to be applied retrospectively for annual periods beginning on or after July 1, 2012, with early adoption permitted.

(f) Amendments to IFRS 9 and IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) – Mandatory Effective Date and Transition Disclosures • In December 2011, the IASB issued amendments to IFRS 9 and IFRS 7. The amendments to IFRS 9 change the required application date to periods beginning on or after January 1, 2015 rather than January 1, 2013. The amendments to IFRS 7 modify the relief from restating prior periods.

(g) **Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities** • In December 2011, the IASB issued amendments to IFRS 7, which require disclosures of information to enable users of financial statements to evaluate the effect on an entity's financial position of netting arrangements, including rights of offset. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(h) **Amendments to IAS 32 "Financial Instruments: Presentation" (IAS 32) – Offsetting Financial Assets and Financial Liabilities** • In December 2011, the IASB issued amendments to IAS 32, which clarify existing guidance concerning legally enforceable rights to set off the recognized amounts of assets and liabilities, as well as intentions to settle assets and liabilities on net basis or simultaneously. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Early adoption is permitted if disclosure under Amendments to IFRS 7 is also made (refer to (g) above).

10 Outlook for 2012

Our prospects for 2012

10.1 Economic outlook

After several setbacks in 2011, the global economy is expected to continue to experience slow growth in 2012 and into 2013. The Eurozone's inability to arrive at strong solutions to the expanding sovereign debt crisis may have already triggered a double-dip recession in that region. Growth in the emerging markets, especially India and China, is expected to slow to some extent as well, as those countries come to grips with high inflation. The American economy began to recover in the second half of 2011, however growth in 2012 is expected to be slow as the country continues to wrestle with deficit reduction and uncertainty around the outcome of the presidential election in November 2012.

In Canada, economic forecasters call for slow growth until at least the fourth quarter of 2012. On an annual basis economic growth is expected to hover around 2 per cent as a result of fiscal and household restraint. Oil prices are projected to return to the $100 range by the end of 2012 and should keep the Canadian dollar above parity.

In 2011, Canada's Consumer Price Index ("CPI") grew at 2.9 per cent, a considerable increase over last year's 1.8 per cent. The accelerated growth was largely attributable to higher prices for gasoline and food. 2011 saw the largest annual average rise in gasoline prices in 10 years; consumers paid on average 20 per cent more at the pump than in 2010, with most of that increase occurring early in the year. The Bank of Canada has reaffirmed its commitment to a headline inflation target of 2 per cent for the next five years. As a major user of fuel for its transportation network, the Canada Post Group of Companies has had to manage significant costs associated with higher gasoline, diesel and aviation fuel prices in recent years.

In 2011, the number of households increased 1.0 per cent across Canada. Housing starts are expected to continue to add on average 175,000 addresses to the network per year, increasing the cost pressure on delivery operations.

Economic Outlook

	2012	2013	2014	2015	2016
Economic (% change)					
Real Gross Domestic Product	2.0%	2.4%	2.4%	2.3%	2.3%
Inflation (Consumer Price Index)	1.8%	2.0%	2.0%	2.0%	2.0%
Demographic (% change)					
Total population growth	1.1%	1.1%	1.1%	1.1%	1.1%
Households growth	1.2%	1.2%	1.1%	1.1%	1.1%

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, CMHC and The Bank of Canada.
Population growth per Statistics Canada projections.

10.2 Canada Post Group of Companies outlook

Looking ahead to 2012, the Canada Post Group of Companies will continue to face many of the same critical challenges that it did in 2011. The uncertain economic climate, volatile markets, unsettled labour agreements, mail-volume erosion and competitive pressures continue to make it difficult to predict future revenue, profit and cash position.

We still expect physical-mail volumes to continue to decline due to electronic substitution, bill consolidation, and aggressive competition on many fronts but the degree of domestic Lettermail erosion is uncertain and represents a major risk going forward. The Canada Post Group of Companies' planned revenue for 2012 is $7.86 billion, which represents growth of 5.1 per cent compared to the previous year, and the planned profit before tax is $36 million. With slim operating margins and increasing network costs due to continual increases in the number of delivery points, cost containment will continue to be a significant priority. In order to reach our profit target, the Corporation must continue to grow revenues profitably and continue transformational efforts to manage costs.

In 2012, we will need to continue to implement structural changes to reduce our costs to be able to overcome our challenges and improve our competitiveness. Our most significant cost is labour with much of this cost tied to our collective agreements. Going forward our cost-containment efforts will need to include transformation of our collective agreements for us to remain competitive and profitable in the long term.

Our objective, through the arbitration process with the Canadian Union of Postal Workers ("CUPW") and through negotiations with our other labour groups, is to reach agreements that allow us to achieve a lower cost structure and greater flexibility in our use of labour to help us grow the business, modernize operations, and make Canada Post more competitive.

Pension and employee future benefits will continue to be a major issue in 2012 given the size of the obligations compared to revenue and profit. The estimated pension solvency shortfall to be funded of $4,672 million and the going-concern shortfall of $423 million to be funded as at December 31, 2011 are concerning, although 2011 changes to pension legislation allowing Crown corporations, including Canada Post, to reduce special payments and allow pension plan sponsors to better manage their funding obligations and reduce funding volatility have helped.

Canada Post Group of Companies segments – 2012

Canada Post

In 2012, Canada Post will continue to build on its key strategic priorities of growing revenue profitably and transforming our operations. Although we expect Lettermail volumes to continue to decline, we will continue to focus on enhancing the value of mail and protecting mail volumes and concentrate on growing our parcel volumes and revenues, especially in the business-to-consumer area which we expect will continue to grow driven by the strength of e-commerce. We will also focus on growing our direct-marketing products and establishing an unparalleled address database by supplementing our exclusive point-of-call data with digital addresses and relevant market intelligence, and are looking to expand our presence in digital services through our epost platform to mirror what we deliver physically.

Purolator

In 2012, Purolator will be externally-driven and market-focused, ensuring it delivers on its commitments to its customers and employees. The Corporation will focus its efforts on profitable growth in all lines of business, continue to investigate areas of efficiencies and maintain cost controls as efforts are made to regain market volume.

Logistics

In 2012, SCI's profitability is expected to increase year over year. This improvement will come from annualization of new clients in 2011, growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives. SCI fully expects to renew several key customer contracts in 2012, including its largest with Bell Canada.

Other

The newly restructured Innovapost will provide IS/IT services to the Group of Companies and is an important part of a strategy to strengthen synergies among the Group of Companies by building increased business capabilities. Restructuring is expected to provide a means for reducing costs, driving efficiencies, improving service delivery and extracting greater business value from Innnovapost.

HISTORICAL FINANCIAL INFORMATION

(unaudited, in millions of Canadian dollars)	Based on IFRS 2011	Based on IFRS 2010	Based on Canadian GAAP* 2009	Based on Canadian GAAP* 2008	Based on Canadian GAAP* 2007
OPERATIONS					
Revenue from operations	**7,484**	7,453	7,312	7,733	7,473
Cost of operations	**7,710**	7,311	6,955	7,594	7,346
Profit (loss) from operations	**(226)**	142	357	139	127
Per cent of revenue from operations	**(3.0) %**	1.9 %	4.9 %	1.8 %	1.7 %
Investing and financing income (expense), net	**(27)**	(8)	22	22	33
Profit (loss) before tax	**(253)**	134	379	161	160
Tax expense (income)	**(65)**	(180)	95	67	102
Net profit before non-controlling interests **	**N/A**	N/A	284	94	58
Non-controlling interests in net profit of subsidiaries	**N/A**	N/A	3	4	4
Net profit (loss)	**(188)**	314	281	90	54
Other comprehensive loss	**(1,148)**	(1,457)	(1)	–	–
Comprehensive income (loss)	**(1,336)**	(1,143)	280	90	54
Net profit (loss) attributable to:					
Government of Canada	**(191)**	310	N/A	N/A	N/A
Non-controlling interests **	**3**	4	N/A	N/A	N/A
	(188)	314	N/A	N/A	N/A
Comprehensive income (loss) attributable to:					
Government of Canada	**(1,334)**	(1,146)	N/A	N/A	N/A
Non-controlling interests **	**(2)**	3	N/A	N/A	N/A
	(1,336)	(1,143)	N/A	N/A	N/A
Return on (adjusted) equity of Canada ***	**(9.7) %**	16.2 %	17.0 %	6.1 %	3.8 %
STATEMENT OF FINANCIAL POSITION					
Assets					
Current	**1,946**	2,303	1,497	1,384	1,388
Segregated securities	**553**	499	654	862	632
Capital assets	**2,544**	2,288	2,216	2,034	1,855
Pension benefit assets	**93**	112	1,335	898	944
Deferred tax assets	**1,472**	1,054	179	270	203
Other assets	**136**	136	148	143	145
Total assets	**6,744**	6,392	6,029	5,591	5,167
Liabilities and equity					
Current	**1,522**	1,295	1,179	1,181	1,073
Pension, other post-employment and other long-term benefit liabilities	**5,719**	4,255	2,835	2,722	2,513
Other liabilities	**1,134**	1,136	199	155	120
Non-controlling interest	**24**	27	29	26	22
Equity of Canada	**(1,655)**	(321)	1,787	1,507	1,439
Total liabilities and equity	**6,744**	6,392	6,029	5,591	5,167
ACQUISITION OF CAPITAL ASSETS					
Land and buildings	**105**	122	65	145	110
Other capital assets	**470**	313	347	246	221
	575	435	412	391	331

* Effective January 1, 2011, the Canadian Accounting Standards Board and Public Sector Accounting Board required publicly accountable enterprises, such as Canada Post, to adopt International Financial Reporting Standards (IFRS) as the basis of accounting under Canadian generally accepted accounting principles (GAAP). Accordingly, the Corporation is reporting under IFRS effective January 1, 2011, with IFRS comparative figures from January 1, 2010 throughout all periods presented. In this Annual Report, the term Canadian GAAP refers to GAAP in Canada prior to the Corporation's transition to IFRS. Comparative figures prior to 2010 may no longer be comparable and remain presented under Canadian GAAP.

** Non-controlling interests are presented outside equity under Canadian GAAP.

*** Under IFRS, the calculation of return on equity of Canada is adjusted by removing the impact of Other Comprehensive Income non-reclassifying items from reported equity.

HISTORICAL FINANCIAL INFORMATION

	2011	% Change	2010	% Change	2009[3]	% Change	2008	% Change	2007
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS (unaudited, in millions of Canadian dollars / trading day adjusted per cent)									
Transaction Mail									
Domestic Lettermail	**2,802**	**(0.8) %**	2,836	1.4 %	2,798	[3]	2,914	0.3 %	2,894
Outbound Letter-post (to other postal administrations)	**167**	**(5.5) %**	177	(3.7) %	184	[3]	144	(13.4) %	166
Inbound Letter-post (from other postal administrations)	**124**	**5.0 %**	118	(4.5) %	124	(1.2) %	126	9.7 %	114
Total Mail	**3,093**	**(0.8) %**	3,131	0.8 %	3,106	(2.1) %	3,184	(0.1) %	3,174
Other	**49**	**4.2 %**	47	11.8 %	42	(14.5) %	50	24.5 %	40
Canada Post segment[1]	**3,142**	**(0.8) %**	3,178	1.0 %	3,148	(2.3) %	3,234	0.2 %	3,214
Elimination of intersegment	**(4)**		(4)		(4)		(5)		(5)
Canada Post Group of Companies	**3,138**	**(0.8) %**	3,174	1.0 %	3,144	(2.3) %	3,229	0.2 %	3,209
Parcels									
Domestic parcels	**844**	**(5.7) %**	899	1.2 %	888	(2.5) %	915	6.9 %	852
Outbound parcels (to other postal administrations)	**193**	**(1.2) %**	196	1.6 %	193	(3.2) %	200	(0.7) %	201
Inbound parcels (from other postal administrations)	**153**	**11.3 %**	138	(1.6) %	140	(4.4) %	147	9.5 %	134
Total Mail	**1,190**	**(3.1) %**	1,233	0.9 %	1,221	(2.8) %	1,262	5.9 %	1,187
Other	**38**	**(8.3) %**	42	(10.8) %	47	(4.6) %	49	(5.9) %	52
Canada Post segment[1]	**1,228**	**(3.2) %**	1,275	0.5 %	1,268	(2.9) %	1,311	5.4 %	1,239
Purolator segment	**1,615**	**8.6 %**	1,493	4.1 %	1,433	(7.9) %	1,563	7.4 %	1,448
Logistics segment	**138**	**(7.2) %**	149	(1.1) %	151	(3.2) %	156	6.4 %	146
Elimination of intersegment	**(126)**		(113)		(108)		(97)		(84)
Canada Post Group of Companies	**2,855**	**2.3 %**	2,804	2.2 %	2,744	(6.1) %	2,933	6.3 %	2,749
Direct Marketing									
Addressed Admail	**600**	**0.5 %**	600	5.4 %	569	(10.1) %	635	1.9 %	621
Unaddressed Admail	**400**	**0.8 %**	399	4.9 %	380	(4.3) %	399	5.6 %	376
Publications Mail	**251**	**(1.0) %**	254	(1.8) %	259	(9.9) %	289	0.9 %	285
Business Reply Mail & Other mail	**30**	**(1.5) %**	31	(4.5) %	32	(17.4) %	39	(4.0) %	41
Total Mail	**1,281**	**0.2 %**	1,284	3.5 %	1,240	(8.6) %	1,362	2.6 %	1,323
Other	**75**	**5.4 %**	71	5.2 %	68	(1.0) %	69	0.3 %	68
Canada Post segment[1]/ Group of Companies	**1,356**	**0.5 %**	1,355	3.6 %	1,308	(8.2) %	1,431	2.5 %	1,391
Other revenue									
Canada Post segment	**135**	**11.4 %**	121	4.1 %	116	(11.4) %	132	18.7 %	111
Purolator segment[2]	**(0)**	**100.0 %**	(1)	(82.2) %	(0)	(109.2) %	4	617.5 %	(1)
Other segment	**153**	**3.9 %**	148	(11.9) %	168	(4.4) %	176	0.3 %	175
Elimination of intersegment	**(153)**		(148)		(168)		(172)		(161)
Canada Post Group of Companies	**135**	**12.0 %**	120	3.9 %	116	(16.8) %	140	11.9 %	124
Revenue from operations									
Canada Post segment	**5,861**	**(0.8) %**	5,929	1.5 %	5,840	(4.0) %	6,108	2.2 %	5,955
Purolator segment	**1,615**	**8.7 %**	1,492	4.1 %	1,433	(8.2) %	1,567	7.8 %	1,447
Logistics segment	**138**	**(7.2) %**	149	(1.1) %	151	(3.2) %	156	6.4 %	146
Other segment	**153**	**3.9 %**	148	(11.9) %	168	(4.4) %	176	0.3 %	175
Elimination of intersegment	**(283)**		(265)		(280)		(274)		(250)
Canada Post Group of Companies	**7,484**	**0.8 %**	7,453	1.9 %	7,312	(5.1) %	7,733	3.1 %	7,473

HISTORICAL FINANCIAL INFORMATION

	2011	**% Change**	2010	% Change	2009[3]	% Change	2008	% Change	2007
LINE OF BUSINESS DIMENSIONS									
VOLUME (unaudited, in millions of pieces / trading day adjusted per cent)									
Transaction Mail									
Domestic Lettermail	**4,270**	**(3.6) %**	4,449	(4.5) %	4,657	[3]	4,937	(1.3) %	4,982
Outbound Letter-post (to other postal administrations)	**111**	**(12.1) %**	127	(5.3) %	134	[3]	108	(19.5) %	134
Inbound Letter-post (from other postal administrations)	**249**	**(4.5) %**	261	6.2 %	246	(9.8) %	274	(6.1) %	290
Canada Post segment	**4,630**	**(3.9) %**	4,837	(4.0) %	5,037	[3]	5,319	(2.0) %	5,406
Elimination of intersegment	**(4)**		(5)		(5)		(6)		(7)
Canada Post Group of Companies	**4,626**	**(3.9) %**	4,832	(4.0) %	5,032	[3]	5,313	(2.0) %	5,399
Parcels									
Domestic parcels	**94**	**(2.4) %**	97	(4.7) %	102	(5.8) %	108	(0.3) %	108
Outbound parcels (to other postal administrations)	**11**	**(7.8) %**	12	(6.9) %	13	(6.2) %	14	(3.7) %	15
Inbound parcels (from other postal administrations)	**38**	**11.3 %**	34	4.7 %	33	(10.6) %	37	(26.7) %	51
Canada Post segment	**143**	**0.4 %**	143	(2.8) %	148	(6.9) %	159	(8.3) %	174
Purolator segment	**141**	**0.3 %**	141	1.8 %	138	(3.0) %	143	0.2 %	142
Elimination of intersegment	**(1)**		(1)		(2)		(3)		(2)
Canada Post Group of Companies	**283**	**0.3 %**	283	(0.3) %	284	(4.9) %	299	(4.6) %	314
Direct Marketing									
Addressed Admail	**1,278**	**(3.3) %**	1,327	2.0 %	1,301	(13.1) %	1,503	(1.8) %	1,525
Unaddressed Admail	**3,453**	**(5.0) %**	3,652	0.3 %	3,640	(10.0) %	4,061	2.7 %	3,940
Publications Mail	**431**	**(2.9) %**	445	(5.5) %	471	(9.4) %	522	(2.9) %	535
Business Reply Mail & Other mail	**30**	**(6.8) %**	33	(11.0) %	37	(34.1) %	56	(16.0) %	66
Canada Post segment / Group of Companies	**5,192**	**(4.5) %**	5,457	0.1 %	5,449	(10.9) %	6,142	0.9 %	6,066
Total Volume									
Canada Post segment	**9,965**	**(4.1) %**	10,437	(1.8) %	10,634	[3]	11,620	(0.6) %	11,646
Purolator segment	**141**	**0.3 %**	141	1.8 %	138	(3.0) %	143	0.2 %	142
Elimination of intersegment	**(5)**		(6)		(7)		(9)		(9)
Canada Post Group of Companies	**10,101**	**(4.1) %**	10,572	(1.8) %	10,765	[3]	11,754	(0.6) %	11,779
EMPLOYMENT[4]									
Canada Post segment	**56,212**	**(1.2) %**	56,917	(3.0) %	58,665	(1.9) %	59,808	(1.3) %	60,606
Purolator segment	**11,962**	**9.0 %**	10,979	0.1 %	10,970	(0.6) %	11,038	2.0 %	10,818
Logistics segment	**849**	**(18.6) %**	1,043	(6.3) %	1,113	(3.6) %	1,154	7.9 %	1,070
Canada Post Group of Companies	**69,023**	**0.1 %**	68,939	(2.6) %	70,748	(1.7) %	72,000	(0.7) %	72,494
MAIL NETWORK									
Post offices	**6,460**	**(0.6) %**	6,499	(0.5) %	6,532	(1.3) %	6,618	0.1 %	6,614
Points of delivery (in thousands)	**15,181**	**1.0 %**	15,028	1.0 %	14,874	1.2 %	14,696	1.4 %	14,493
Pick-up points (in thousands)[5]	**962**	**(1.5) %**	976	(1.9) %	994	(1.3) %	1,008	(0.7) %	1,015

[1] 2007 revenues were restated to reflect minor realignments made in 2008 between lines of business. In addition, the groupings within the lines of business have been expanded.
[2] The 2007 and 2008 revenues for the Purolator segment were restated to include foreign exchange gains and losses.
[3] In 2010, a methodology change has been implemented and 2009 has been restated for comparability. Had 2008 been restated, the volume per cent change to 2009 for Transaction Mail would have been (3.6)% for Domestic Lettermail, (5.7)% for Outbound Letter-post (to other postal administrations) and (4.0)% for the Canada Post segment. The change for the total Canada Post segment would have been (7.7)% and (7.6)% for the Canada Post Group of Companies. The comparable change to revenue would have been (1.9)% for Domestic Lettermail and (6.0)% for Outbound Letter-post (to other postal administrations).
[4] Includes paid full-time and part-time employees and excludes temporary, casual and term employees.
[5] Includes rural mailboxes (RMBs), which are collection points for customers with this mode of delivery.

ADDITIONAL INFORMATION

In 2009 the Government of Canada approved a five-year Financial Framework for the Corporation that sets out financial performance targets for 2010 to 2014 (Note 16). With the conversion to IFRS by all Canadian publicly accountable entities, a revised IFRS-based Financial Framework was approved as part of Canada Post's 2012-2016 Corporate Plan by the Governor in Council on March 12, 2012.

The following chart presents the financial ratios calculated in accordance with IFRS for the two years from 2010 to 2011 under the revised Financial Framework:

Consolidated Ratios* (unaudited)		Financial Framework	**2011**	2010
Profitability				
(1) EBITDA margin		5.0% - 7.5%	**0.9 %**	5.7 %
(2) Return on adjusted equity		0% - 5%	**(9.7) %**	16.2 %
Leverage				
(3) Total debt to EBITDAR		2.5x - 4.0x	**9.6 x**	3.9 x
(4) Total debt to adjusted book capital		45% - 65%	**55.5 %**	53.2 %
Liquidity				
(5) (EBITDAR - capex) ÷ interest		1.0x - 2.5x	**(1.8) x**	2.5 x
Dividend payout				
(6) Dividend payout ratio				
	2010-2012	0% - 20%	**0.0 %**	0.0 %
	2013-2014	15% - 20%		
Based on IFRS				

Ratio Definitions
(1) Earnings before interest, taxes, depreciation and amortization ÷ revenue
(2) Net profit (loss) ÷ ((adjusted equity$_E$ of Canada beginning of year + adjusted equity$_E$ of Canada end of year) ÷ 2)
(3) (Total debt + long-term financial obligations$_A$) ÷ (earnings before interest, taxes, depreciation and amortization with adjustment for operating leases$_B$)
(4) (Total debt + long-term financial obligations$_A$) ÷ (total debt + long-term financial obligations$_A$ + adjusted equity$_E$ of Canada)
(5) (Earnings before interest, taxes, depreciation and amortization with adjustment for operating leases$_B$ - Capex$_C$) ÷ interest$_D$
(6) Dividend paid ÷ prior year net profit (loss)

Notes
(A) Long-term financial obligations include decommissioning obligations, obligation to repurchase shares (Purolator) and capitalization of operating leases.
(B) Operating leases are removed from earnings and capitalized using a factor of 7.0x .
(C) Capex refers to estimated maintenance capital, which includes all capital purchases and finance leases, but excludes approximately $127M (2010 – $37M) of capital purchases for Postal Transformation.
(D) Interest includes imputed interest on capitalized operating leases (calculated as 1/3 of lease expense).
(E) Adjusted equity is reported equity with the impact of Other Comprehensive Income non-reclassifying items removed.

* Comparative results for years prior to 2010 are presented in the following table according to Canadian GAAP under the old Policy Framework that had been in place since 1998.

The following chart presents the financial ratios for the three years from 2007 to 2009 under the former Policy Framework:

Consolidated Ratios (unaudited)	Policy Framework	2009	2008	2007
Profitability				
(1) Return on equity of Canada	11.0 %	17.0 %	6.1 %	3.8 %
(2) Operating profit margin		4.9 %	1.8 %	1.7 %
(3) Productivity	97.0 %	95.1 %	98.2 %	98.3 %
Leverage				
(4) Total debt to total capital	40.0 %	7.6 %	5.8 %	4.9 %
(5) Cash flow to debt		90.3 %	644.6 %	459.6 %
Liquidity				
(6) Current ratio		1.27	1.17	1.29
(7) Gross interest coverage		55.65	14.12	12.47
Investment				
(8) Cash flow to capital expenditures		32.1 %	153.0 %	104.0 %
(9) Capital asset investment rate		7.2 %	8.1 %	5.7 %
Dividend payout				
(10) Dividend payout ratio	25.0 %	0.0 %	40.0 %	40.0 %
Dividend payout ratio once return on equity of Canada ≥ 11%	40.0 %			
Based on Canadian GAAP				

(1) Net income ÷ ((equity of Canada beginning of year + equity of Canada end of year) ÷ 2)
(2) Income from operations ÷ revenue from operations
(3) Cost of operations ÷ revenue from operations
(4) (Total debt + long-term financial obligations) ÷ (total debt + long-term financial obligations + equity of Canada)
(5) Cash flows from operating activities ÷ (total debt + long-term financial obligations)
(6) Current assets ÷ current liabilities
(7) Income from operations ÷ (interest expense + long-term financial expense)
(8) Cash flows from operating activities ÷ cash acquisition of capital assets
(9) (Acquisition of capital assets - proceeds from sale of capital assets) ÷ ((cost of capital assets beginning of year + cost of capital assets end of year) ÷ 2)
(10) Dividend ÷ net income

AUDITOR'S REPORT ON ANNUAL COST STUDY CONTRIBUTION ANALYSIS

To the Board of Directors of Canada Post Corporation

We have audited the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2011, prepared in accordance with the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis.

Management's Responsibility for the Annual Cost Study Contribution Analysis

The financial information described in the notes to the Annual Cost Study Contribution Analysis is the responsibility of the Corporation's management and has been prepared using Canada Post Corporation segment revenues and expenses contained in note 24a to the audited consolidated financial statements for the year ended December 31, 2011, and other unaudited operational data extracted from Canada Post Corporation's systems. Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial information resulting from the application of the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion. We did not perform any audit work on the validity of the methodology nor on Canada Post's operational systems and special studies that yield operational data used to allocate costs to products.

Opinion

(a) The Annual Cost Study Contribution Analysis presents fairly, in all material respects, the contribution by exclusive privilege, competitive and concessionary services for the year ended December 31, 2011, in accordance with the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis, and using Canada Post Corporation segment revenues and expenses contained in note 24a to the audited consolidated financial statements for the year ended December 31, 2011, and other unaudited operational data extracted from Canada Post Corporation's systems; and

(b) Using the Cost Methodology described in the notes, Canada Post Corporation did not cross-subsidize its competitive services group by using revenues protected by exclusive privilege for the year ended December 31, 2011.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants, Licensed Public Accountants
Ottawa, Canada
March 21, 2012

ANNUAL COST STUDY CONTRIBUTION ANALYSIS

Canada Post Corporation

The Annual Cost Study provides costing data that serves as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services.

In conjunction with external experts, Canada Post Corporation maintains a costing methodology based on the principles of long-run incremental costs, which was designed to leverage the structure of an activity-based costing system. Canada Post Corporation applies this methodology each year in its Annual Cost Study for cost-attribution purposes.

The methodology, which is summarized in the notes to the Annual Cost Study Contribution Analysis below, recognizes that some costs are caused by the provision of individual services or groups of services while others are common costs of Canada Post Corporation's infrastructure.

As the Annual Cost Study Contribution Analysis indicates, for the year ended December 31, 2011, the competitive grouping of services generated positive long-run incremental contribution. Under the methodology in the Annual Cost Study, a positive long-run incremental contribution for the competitive grouping of services establishes that this grouping of services has not been cross-subsidized using revenues from exclusive privilege services.

Annual Cost Study Contribution Analysis

Year ended December 31, 2011

(in millions of dollars)

Long-run incremental contribution of exclusive privilege, competitive, and concessionary services

The following analysis is based on the assignment of 60% of the total non-consolidated costs of Canada Post Corporation to individual services or groups of services.

	Exclusive privilege	Competitive	Concessionary	Other	**Total**
Revenue from operations	$ 3,401	$ 2,201	$ 41	$ 218	$ 5,861
Long-run incremental costs	$ (1,925)	$ (1,595)	$ (35)	$ (131)	$ (3,686)
Long-run incremental contribution to the fixed costs	**$ 1,476**	**$ 606**	**$ 6**	**$ 87**	**$ 2,175**
	43 %	28 %	15 %	40 %	37 %
Unallocated fixed costs					$ (2,504)
Contribution before the under noted items					**$ (329)**
Investment and other income					$ 50
Interest and other expense					$ (48)
Income from the Canada Post segment before income taxes					**$ (327)**

The accompanying notes are an integral part of the Annual Cost Study Contribution Analysis.

NOTES TO ANNUAL COST STUDY CONTRIBUTION ANALYSIS

Year ended December 31, 2011

1. General

The Annual Cost Study calculates the long-run incremental contribution from exclusive privilege services, competitive services and concessionary services. The long-run incremental contribution is defined as the revenues from such services, less their long-run incremental cost.

2. Cost methodology

a) **Long-run incremental cost** • The cost methodology employed by Canada Post Corporation measures the long-run incremental cost of individual services and groups of services according to the current operating plan. Long-run incremental cost is the total annual cost caused by the provision of a service.

b) **Activity-based** • Services provided by Canada Post Corporation are analyzed to determine the various activities involved in their fulfillment. Each activity is then analyzed to determine the causal relationship between the costs of the activity and the services that require the performance of that particular activity. Service volumes or other data are used to attribute those activity costs to services.

c) **Attribution principles** • The relationship between the cost of resources and the activities performed and between the activities performed and the services delivered are identified using the principles of causality and time horizon. Those activity costs which are incurred because of the provision of a service are attributed to that service. Activity costs which cannot be attributed to the provision of a service but which are common to a specific group of services are attributed at that higher level of aggregation. The remaining business sustaining or common fixed costs are "unallocated fixed costs."

d) **Source data** • The source of the financial data used to produce the Annual Cost Study results is the Canada Post Corporation general ledger revenues and costs. Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data is used to determine revenue by services. Where operational data is not available, an appropriate proxy is used to make the attribution.

e) **Reconciliation to financial records** • Total revenues and costs considered in the Annual Cost Study are agreed to the total revenues and expenses forming the Canada Post Corporation segment of the audited consolidated financial statements, which have been reported on by another firm of chartered accountants.

f) **Cross-subsidization test** • Under the Cost Methodology in the Annual Cost Study a positive long-run incremental contribution (revenue exceeds long-run incremental cost) for a competitive grouping of services establishes that the grouping of services has not been cross-subsidized using revenues from other services or groups of services.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the consolidated financial statements and all other information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as required by the Canadian Accounting Standards Board and the Public Sector Accounting Board for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

In support of its responsibilities, management established a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable financial information in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and regulations and by-laws of the Corporation. Internal audits examine and evaluate the application of the Corporation's policies and procedures and the adequacy of the system of internal controls.

The Board of Directors has delegated responsibility for oversight of the financial reporting process to the Audit Committee. The Committee acts on behalf of the Board of Directors in fulfilling the Board's responsibilities, which are prescribed by Section 148 of the *Financial Administration Act*. The Audit Committee is entirely constituted of non-executive directors and currently composed of four members who are therefore independent in accordance with the Corporation's standards of independence. The Audit Committee is responsible for reviewing the consolidated financial statements and the Annual Report and for meeting with management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee meets not less than four times a year, focusing in particular on the areas of financial reporting, risk management and internal control.

The Board of Directors, on the recommendation of the Audit Committee, approves the consolidated financial statements.

Canada Post Corporation is a Crown corporation included since 1989 in Part II of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and KPMG LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2011, in accordance with the *Financial Administration Act*. The Auditor General and KPMG LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as the Minister of Transport, Infrastructure and Communities.

President and Chief Executive Officer

Chief Financial Officer

March 21, 2012

INDEPENDENT AUDITORS' REPORT

To the Minister of Transport, Infrastructure and Communities

Report on the Consolidated Financial Statements
We have audited the accompanying consolidated financial statements of Canada Post Corporation, which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010, and January 1, 2010, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and December 31, 2010, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Post Corporation as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements
As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards, adopted as explained in Note 26 to the consolidated financial statements, have been applied on a consistent basis for all periods presented.

Further, in our opinion, the transactions of Canada Post Corporation and its wholly-owned subsidiaries that have come to our notice during our audits of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly-owned subsidiaries and the directives issued pursuant to section 89 of the *Financial Administration Act*.

Michael Ferguson, FCA
Auditor General of Canada

March 21, 2012
Ottawa, Canada

KPMG LLP

Chartered Accountants, Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at (in millions of Canadian dollars)	**Notes**	**December 31, 2011**	December 31, 2010	January 1, 2010
Assets				
Current assets				
Cash and cash equivalents	**6**	**$ 271**	$ 379	$ 473
Marketable securities	**6**	**842**	1,082	270
Trade and other receivables	**23**	**662**	628	584
Income tax receivable		**56**	141	70
Other assets	**8**	**115**	73	82
Total current assets		**1,946**	2,303	1,479
Non-current assets				
Property, plant and equipment	**9**	**2,379**	2,127	1,964
Intangible assets	**9**	**165**	161	169
Segregated securities	**6**	**553**	499	654
Pension benefit assets	**10**	**93**	112	196
Deferred tax assets	**11**	**1,472**	1,054	500
Goodwill	**12**	**125**	125	125
Other assets		**11**	11	17
Total non-current assets		**4,798**	4,089	3,625
Total assets		**$ 6,744**	$ 6,392	$ 5,104
Liabilities and equity				
Current liabilities				
Trade and other payables	**13**	**$ 482**	$ 477	$ 422
Salaries and benefits payable and related provisions	**15**	**732**	537	508
Provisions	**15**	**75**	64	97
Income tax payable		**2**	–	2
Deferred revenue		**129**	120	142
Loans and borrowings	**14**	**16**	13	10
Other long-term benefit liabilities	**10**	**86**	84	82
Total current liabilities		**1,522**	1,295	1,263
Non-current liabilities				
Loans and borrowings	**14**	**1,111**	1,095	120
Pension, other post-employment and other long-term benefit liabilities	**10**	**5,719**	4,255	2,824
Deferred tax liabilities	**11**	**–**	7	8
Provisions	**15**	**4**	10	8
Other liabilities		**19**	24	32
Total non-current liabilities		**6,853**	5,391	2,992
Total liabilities		**8,375**	6,686	4,255
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income (loss)		**45**	9	(1)
Accumulated deficit		**(2,855)**	(1,485)	(329)
Equity of Canada		**(1,655)**	(321)	825
Non-controlling interests		**24**	27	24
Total equity		**(1,631)**	(294)	849
Total liabilities and equity		**$ 6,744**	$ 6,392	$ 5,104
Contingent liabilities	**17**			
Commitments	**18**			
Subsequent event	**25**			

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board:

Marc Courtois

Chairperson of the Board of Directors

Chairperson of the Audit Committee

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31 (in millions of Canadian dollars)	Notes	2011	2010
Revenue from operations		**$ 7,484**	$ 7,453
Cost of operations			
Labour		**4,028**	3,822
Employee benefits, net of transitional support	**10**	**1,125**	1,012
		5,153	4,834
Other operating costs	**19**	**2,266**	2,202
Depreciation and amortization		**291**	275
Total cost of operations		**7,710**	7,311
Profit (loss) from operations		**(226)**	142
Investing and financing income (expense)			
Investment and other income	**6, 20**	**24**	21
Finance costs and other expense	**14, 20**	**(51)**	(29)
Investing and financing income (expense), net		**(27)**	(8)
Profit (loss) before tax		**(253)**	134
Tax expense (income)	**11**	**(65)**	(180)
Net profit (loss)		**$ (188)**	$ 314
Other comprehensive income (loss)			
Non-reclassifying to Net profit (loss)			
Actuarial losses on defined benefit plans	**10**	**$ (1,581)**	$ (2,002)
Asset limit and minimum funding requirements	**10**	**–**	46
Reclassifying to Net profit (loss)			
Unrealized gains on available-for-sale financial assets		**54**	16
Realized gains reclassified to Net profit (loss)		**(6)**	(3)
Tax relating to all components of Other comprehensive loss	**11**	**385**	486
Other comprehensive loss		**(1,148)**	(1,457)
Comprehensive loss		**$ (1,336)**	$ (1,143)
Net profit (loss) attributable to:			
Government of Canada		**$ (191)**	$ 310
Non-controlling interests		**3**	4
		$ (188)	$ 314
Comprehensive income (loss) attributable to:			
Government of Canada		**$ (1,334)**	$ (1,146)
Non-controlling interests		**(2)**	3
		$ (1,336)	$ (1,143)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended December 31, 2011 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2010	**$ 1,155**	**$ 9**	**$ (1,485)**	**$ (321)**	**$ 27**	**$ (294)**
Net profit (loss)	**–**	**–**	**(191)**	**(191)**	**3**	**(188)**
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(1,575)**	**(1,575)**	**(6)**	**(1,581)**
Reclassifying to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	**–**	**54**	**–**	**54**	**–**	**54**
Realized gains reclassified to Net profit (loss)	**–**	**(6)**	**–**	**(6)**	**–**	**(6)**
Tax relating to all components of Other comprehensive loss	**–**	**(12)**	**396**	**384**	**1**	**385**
Other comprehensive income (loss)	**–**	**36**	**(1,179)**	**(1,143)**	**(5)**	**(1,148)**
Comprehensive income (loss)	**–**	**36**	**(1,370)**	**(1,334)**	**(2)**	**(1,336)**
Transactions with shareholders						
Dividend	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Total transactions with shareholders	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Balance at December 31, 2011	**$ 1,155**	**$ 45**	**$ (2,855)**	**$ (1,655)**	**$ 24**	**$ (1,631)**

Year ended December 31, 2010 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income (loss)	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at January 1, 2010	$ 1,155	$ (1)	$ (329)	$ 825	$ 24	$ 849
Net profit	–	–	310	310	4	314
Other comprehensive income (loss)						
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(1,997)	(1,997)	(5)	(2,002)
Asset limit and minimum funding requirements	–	–	43	43	3	46
Reclassifying to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	–	16	–	16	–	16
Realized gains reclassified to Net profit	–	(3)	–	(3)	–	(3)
Tax relating to all components of Other comprehensive loss	–	(3)	488	485	1	486
Other comprehensive income (loss)	–	10	(1,466)	(1,456)	(1)	(1,457)
Comprehensive income (loss)	–	10	(1,156)	(1,146)	3	(1,143)
Balance at December 31, 2010	$ 1,155	$ 9	$ (1,485)	$ (321)	$ 27	$ (294)

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 (in millions of Canadian dollars)	Note	2011	2010
Cash flows from operating activities			
Net profit (loss)		$ (188)	$ 314
Adjustments to reconcile Net profit (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization		291	275
Pension, other post-employment and other long-term benefit expense	10	635	516
Pension, other post-employment and other long-term benefit payments	10	(731)	(955)
Transitional support offsetting pension reform incremental costs	10	–	(13)
Gain on sale of capital assets		(8)	(11)
Tax expense (income)		(65)	(180)
Net interest expense		33	20
Change in non-cash operating working capital:			
Increase in trade and other receivables		(30)	(42)
Increase in trade and other payables		10	35
Increase in salaries and benefits payable and related provisions		194	29
Increase (decrease) in provisions		7	(33)
Net increase in other non-cash operating working capital		(15)	(17)
Other income not affecting cash, net		(34)	(37)
Cash provided by (used in) operations before interest and taxes		99	(99)
Interest received		36	27
Interest paid		(51)	(9)
Tax received		112	40
Cash provided by (used in) operating activities		196	(41)
Cash flows from investing activities			
Acquisition of securities		(2,011)	(2,019)
Proceeds from sale of securities		2,232	1,393
Acquisition of capital assets		(540)	(411)
Proceeds from sale of capital assets		10	19
Other investing activities, net		19	(7)
Cash used in investing activities		(290)	(1,025)
Cash flows from financing activities			
Transitional support received from the Government of Canada		–	13
Repayment of loans and borrowings		–	(35)
Proceeds from loans and borrowings		–	1,010
Payments on finance lease obligations		(13)	(10)
Dividend paid to non-controlling interests		(1)	(1)
Other financing activities, net		–	(5)
Cash provided by (used in) financing activities		(14)	972
Net decrease in cash and cash equivalents		(108)	(94)
Cash and cash equivalents, beginning of year		379	473
Cash and cash equivalents, end of year		$ 271	$ 379

The accompanying notes are an integral part of these consolidated financial statements.

(December 31, 2011)

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* ("the Act") in 1981, Canada Post Corporation ("the Corporation") is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty. The Corporation's head office is located at 2701 Riverside Drive, Ottawa, Ontario, Canada.

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the Act requires the Corporation to carry out its statutory objects, with regard to the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.

Under the Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include parcels and direct marketing products and services. The Corporation's principal subsidiaries, Purolator, Inc. ("Purolator") and SCI Group Inc. ("SCI"), offer courier, transportation and logistics services. Innovapost Inc. ("Innovapost"), a joint venture, provides information technology services to the Corporation and its subsidiaries. The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation on September 1, 2005, while respecting all applicable laws. In 2011, the Corporation continued assessing the safety risks related to all the rural roadside mailboxes, focusing on those mailboxes affected by the directive.

2. Basis of Presentation and Significant Accounting Policies

Statement of compliance • The Corporation has prepared its consolidated financial statements in compliance with International Financial Reporting Standards ("IFRS") as required by the Canadian Accounting Standards Board ("AcSB") and the Canadian Public Sector Accounting Board for annual periods beginning on or after January 1, 2011. Accordingly, these are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS. In these consolidated financial statements, the term "Canadian generally accepted accounting principles ("GAAP")" refers to GAAP in Canada prior to the Corporation's transition to IFRS.

Subject to certain transition elections and exceptions disclosed in Note 26, the Corporation has consistently applied the accounting policies used in the preparation of its opening IFRS consolidated statement of financial position at January 1, 2010, and throughout all periods presented, as if these policies had always been in effect. Note 26 discloses the impact of the transition to IFRS on the Corporation's reported consolidated statement of financial position as at January 1, 2010, and December 31, 2010, and consolidated statement of comprehensive income, including the nature and effects of significant changes in accounting policies from those used in the Corporation's consolidated financial statements for the year ended December 31, 2010, prepared under Canadian GAAP.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 21, 2012.

Basis of presentation • The consolidated financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes. Amounts are generally shown in millions, unless otherwise noted.

Functional and presentation currency • These consolidated financial statements are presented in Canadian dollars, which is the functional and presentation currency of the Corporation.

2. Basis of Presentation and Significant Accounting Policies (continued)

Significant accounting policies • A summary of the significant accounting policies used in these consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented, including the opening IFRS statement of financial position as at January 1, 2010, unless otherwise indicated.

(a) Basis of consolidation • These consolidated financial statements include the accounts of the Canada Post Group of Companies. The results of Purolator and SCI are consolidated, whereas the investment in Innovapost qualifies as an interest in a jointly controlled entity under IAS 31 "Interests in Joint Ventures," to which the Corporation has chosen to apply the proportionate consolidation method of accounting.

For acquisitions or disposals, the results of operations of any subsidiary or joint venture are included in the consolidated statement of comprehensive income from the date that control commences, or up to the date that control ceases, as appropriate.

(b) Financial instruments • Upon initial recognition, all financial assets are classified based on the nature and purpose of the financial instruments, or designated by the Group of Companies as (i) financial assets at fair value through profit or loss, (ii) held to maturity investments, (iii) loans and receivables, or (iv) available-for-sale financial assets. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss, or (ii) other financial liabilities.

Financial instruments are initially recognized at fair value. Subsequent measurement depends on the classification of the financial instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Group of Companies has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Group of Companies' financial instruments consist of the following:

(b.1) Cash equivalents and marketable securities are designated as fair value through profit or loss. Cash equivalents consist of investments with maturities of three months or less, while marketable securities consist of investments that have maturities of twelve months or less from the date of acquisition. These investments are principally used to manage cash flow requirements while maximizing return on investment.

Interest income, changes in fair value and realized gains and losses are recorded in investment and other income.

(b.2) Segregated securities are designated as available-for-sale and consist of investments segregated to manage certain defined benefit plans (Note 6(c)). Interest income and realized gains and losses on sale of available-for-sale investments are included in employee benefit costs. Changes in fair value are included in other comprehensive income until the investment is sold, impaired, or otherwise derecognized.

The Corporation's investment policy restricts the type of investments to debt securities; therefore impairment of segregated securities is recognized when there is a significant increase in counterparty credit risk. When segregated securities are impaired, the unrealized decline in fair value recorded in other comprehensive income is reclassified to employee benefit costs recorded within profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in employee benefit costs is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in employee benefit costs.

(b.3) Risk management financial assets (liabilities) are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will settle in future periods. They are classified as financial assets or liabilities at fair value through profit or loss and presented within either trade and other receivables or trade and other payables. Fair value adjustments are recognized in investment and other income. These derivatives have not been designated as hedges for accounting purposes.

All transactions for cash equivalents, marketable securities and segregated securities are recognized at the settlement date; transactions for risk management financial assets (liabilities) are recognized at the trade date. Changes in fair value are recognized as they occur.

2. Basis of Presentation and Significant Accounting Policies (continued)

(b.4) **Trade and other receivables** are financial assets classified as loans and receivables. These financial assets are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment. Where the time value of money is not significant due to short-term settlement, trade and other receivables are recorded at the original invoice amount less allowances for doubtful accounts.

Trade and other receivables that are known to be uncollectible are written off when identified. An allowance for doubtful accounts is established when there is objective evidence that the Group of Companies will not be able to collect all amounts due according to the original terms of trade and other receivables. The amount of the allowance is the difference between the receivable's recorded amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.5) **Trade and other payables and salaries and benefits payable** are classified as other financial liabilities and include financial liabilities as well as obligations created by statutory requirements imposed by governments, which are not financial liabilities. After initial recognition at fair value, other financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not significant due to short-term settlement, other financial liabilities are carried at payment or settlement amounts.

(b.6) **Loans and borrowings** are classified as other financial liabilities and initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs, and any discount or premium on settlement. Interest expense on loans and borrowings is recognized in finance costs and other expense.

(c) **Capital assets** • Property, plant and equipment and intangible assets are referred to collectively as capital assets. The carrying value of capital assets is calculated as follows:

(c.1) **Recognition and measurement** • Capital assets acquired or developed internally are initially recorded at cost. In connection with the adoption of IFRS, the Corporation established fair value as deemed cost for certain items of property, plant and equipment at the date of transition to IFRS (Note 26).

Assets acquired under finance leases are initially recorded at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments as determined at the inception of the lease.

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset for which the commencement date for capitalization is on or after January 1, 2010, as permitted under IFRS 1.

When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

(c.2) **Subsequent costs** • The cost of replacing a part of a capital asset is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group of Companies, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized concurrent with the replacement. The costs of day-to-day servicing of capital assets are recognized in net profit or loss as incurred.

2. Basis of Presentation and Significant Accounting Policies (continued)

(c.3) Depreciation and amortization • Depreciation or amortization commences when assets are available for use and is calculated on the cost (or deemed cost) of an asset less residual value. Depreciation and amortization are recognized over the estimated useful lives of the capital assets as described in the table below. When a capital asset includes major components, depreciation or amortization is recognized at this level; the depreciation or amortization periods noted below incorporate those applicable for major components, if any, contained within the overall asset.

Type of capital asset	Depreciation or amortization method	Depreciation or amortization period or rate
Buildings	Straight-line	10 to 65 years
Leasehold improvements	Straight-line	Shorter of lease term or the asset's economic useful life
Plant equipment	Straight-line	5 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 20 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer contracts	Straight-line	Term of contract plus period of renewal options, maximum of 5 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

Capital assets held under finance leases are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group of Companies will obtain ownership by the end of the lease term.

The appropriateness of depreciation and amortization methods and estimates of useful lives and residual values is assessed on an annual basis and revised on a prospective basis where appropriate.

(c.4) Decommissioning obligations • Obligations associated with the retirement of property, plant and equipment are recorded when those obligations result from the acquisition, construction, development or normal operation of the assets. The Group of Companies recognizes these obligations in the period they are incurred at the present value of the best estimate of the expenditures required to settle the present obligation, discounted at a risk-free interest rate. Subsequently, at each reporting date, the obligation is adjusted to reflect the passage of time through accretion expense, and any changes in the estimated amounts required to settle the obligation and significant changes in the discount rate. The associated costs are capitalized as part of the carrying value of the related asset.

(c.5) Impairment of capital assets • The Group of Companies assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of the assets may be impaired. If such indication exists, or when annual impairment testing for an asset or group of assets is required, the Group of Companies makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset(s). When the carrying amount exceeds the recoverable amount, the asset or group of assets is considered impaired and is written down to its recoverable amount. For the purpose of assessing recoverability, capital assets are grouped at the cash-generating unit level, which is the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized as part of net profit or loss for the year. After the recognition of an impairment loss, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

2. Basis of Presentation and Significant Accounting Policies (continued)

An assessment is also made at each reporting date as to whether there is an indication that any previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such cases, the carrying amount of the asset is increased to its recoverable amount subject to an upper limit. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized during the period. After any such reversal, depreciation or amortization is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(c.6) Capital assets to be disposed of by sale • When the Group of Companies intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in current other assets. The asset to be sold is measured at the lower of carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded once the held for sale classification is met. The impairment loss, if any, resulting from the remeasurement of an asset to fair value less costs to sell is recorded as a charge to net profit or loss. If subsequently the asset's fair value less costs to sell increases, the gain is recognized, however only to the extent of cumulative impairment losses already recognized for that particular asset. The gain or loss on the sale of a capital asset held for sale is realized at the time the asset is disposed of by sale.

(d) Goodwill • Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortized but is tested for impairment annually, as at the same date each year, or more frequently if events and circumstances indicate that there may be an impairment. Impairment losses recognized for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill arising on the acquisition of a business is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units to which it relates. An impairment loss is recognized when the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its estimated recoverable amount. The impairment loss is the excess of the carrying value over the estimated recoverable amount, and is recognized in net profit or loss in the period in which it is determined. The impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

(e) Borrowing costs • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Any borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare for their intended use, are capitalized as part of the cost of those assets until such time as they are substantially ready for use. The Group of Companies' qualifying assets primarily relate to the Corporation's Postal Transformation Program, a multi-year infrastructure-renewal program that will deliver a modern, more flexible and efficient physical-mail network capable of fulfilling mail service requirements now and in the future. All other borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

(f) Provisions and contingent liabilities • A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation at the end of the reporting period. When there are a number of similar obligations, the likelihood that an outflow will be required in the settlement of obligations is determined by considering the class of obligations as a whole. Discounting, using a risk-free interest rate specific to the liability, is applied in the measurement of amounts to settle the obligation when the expected time to settlement extends over many years, and when coupled with the settlement amounts, would result in material differences if discounting was not considered. Provisions are remeasured at each reporting date using the current discount rate, as applicable. The accretion is presented in net profit or loss as part of finance costs and other expense.

A contingent liability is disclosed in the notes to the consolidated financial statements if there is a possible outflow of resources embodying economic benefits or if no reliable estimate can be made. No contingent liability is disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

2. Basis of Presentation and Significant Accounting Policies (continued)

(g) Revenue recognition • The Group of Companies' revenue is derived primarily from providing products and services represented by three distinct lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes the physical and electronic delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Addressed Admail, Unaddressed Admail and Publications Mail, such as newspapers and periodicals. Other mail products and services include money orders and postal box rentals, as well as retail and philatelic products.

Revenue is recognized when the service has been rendered, goods have been delivered or work has been completed. Revenue from meter customers for which services have not been rendered prior to year end is deferred based on a sampling methodology that closely reflects the meter-resetting practices of customers. Payments received in advance are deferred until services are rendered or products are delivered. Deferred revenue is also recorded when resellers are billed for postal product shipments prior to the Group of Companies rendering the related services to customers.

The Group of Companies may enter into arrangements with subcontractors to provide services to customers. If the Group of Companies acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained, which is the amount billed to the customer less the amount paid to the subcontractor, is recognized as revenue.

Consideration given to a customer is recorded as a reduction of revenue, unless an identifiable and separable benefit is received by the Group of Companies, in which case the fair value of the benefit is recognized as an expense.

(h) Incentive and lease inducements • The incentive received upon signing of a ten-year outsourcing contract in 2002 was deferred, and is being amortized on a straight-line basis over the term of the contract. Lease inducements are deferred, and are amortized on a straight-line basis over the initial fixed lease term. Amortization of the incentive and the lease inducement are presented as reductions of other operating costs. The current portion of the deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in non-current other liabilities.

(i) Pension, other post-employment and other long-term benefit plans

(i.1) Defined contribution pension plans • Employer contributions to the defined contribution pension plans are expensed as employees render the service entitling them to the contributions.

(i.2) Defined benefit pension and other post-employment plans • The obligation for providing defined pension and other post-employment benefits is recognized over the period of employee service. The defined benefit obligations and related estimated costs are determined annually, on an actuarial basis using the projected unit credit method. This actuarial method sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The actuarial calculations include management's best estimate of the rates of return on plan assets, inflation, rates of compensation increase, retirement age, rates of employee disability and mortality, and growth rates of health-care and dental costs, as applicable. The expected long-term rates of return on plan assets are based on historical long-term returns provided by various asset categories weighted according to each pension plan's targeted asset allocations. The discount rates used to value the defined benefit obligations are determined by reference to market conditions at year end, assuming a theoretical portfolio of Corporate AA bonds with overall duration equal to the weighted-average duration of the respective defined benefit obligations.

Actuarial gains or losses on plan assets arise from the difference between the actual and expected returns on plan assets. Actuarial gains or losses on defined benefit obligations arise from the difference between actual and expected experience and changes in the actuarial assumptions used to determine the present value of the benefit obligations. On an annual basis, at a minimum, the plans' key assumptions are assessed and revised as appropriate. When the plans' key assumptions fluctuate significantly relative to their immediately preceding year-end values, actuarial gains or losses arising from such significant fluctuations are recognized on an interim basis. Actuarial gains or losses are recognized in other comprehensive income and are included immediately in retained earnings or deficit without reclassification to net profit or loss in a subsequent period.

2. Basis of Presentation and Significant Accounting Policies (continued)

In addition, when a funded plan gives rise to a pension benefit asset, an asset limit adjustment may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the pension benefit asset and even create or increase a pension benefit liability. The effect of asset limit adjustments, if any, is recognized in other comprehensive income and is included immediately in retained earnings or deficit without reclassification to net profit or loss in a subsequent period.

The pension benefit assets and the pension and other post-employment benefit liabilities are presented as non-current items on the consolidated statement of financial position.

Defined benefit costs include, as applicable, the estimated cost of employee benefits for current year's service, interest on defined benefit obligations, expected return on plan assets, gain or loss on curtailment or settlement and plan amendments. The vested portion of past service costs arising from plan amendments is recognized immediately as a benefit cost. The unvested portion is amortized on a straight-line basis over the average remaining period until the benefit becomes vested. Benefit costs are presented in employee benefits on the consolidated statement of comprehensive income.

(i.3) Other long-term employee benefits • Other long-term employee benefits include sick leave, workers' compensation benefits, the continuation of benefits for employees on long-term disability and long-service awards. The same methodology and assumptions as for the defined benefit plans are applicable, except for the following:

- The obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs;
- Management's best estimate takes into account the sick leave utilization experience as well as the experience and assumptions for provincial workers' compensation boards;
- Any actuarial gains and losses are recognized in net profit or loss in the period in which they arise;
- Past service costs are recognized immediately; and
- Other long-term benefit liabilities are segregated between current and non-current components on the consolidated statement of financial position.

(i.4) Termination benefits • Termination benefits are generally payable when employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group of Companies recognizes termination benefits when it demonstrates commitment to terminating the employment of current employees according to a detailed formal plan without realistic possibility of withdrawal.

(j) Transitional support from the Government of Canada • The Government of Canada, as part of the *Federal Public Sector Pension Reform*, committed to provide transitional support to assist the Corporation with the incremental costs incurred as a result of establishing the Canada Post Corporation Pension Plan and the associated ancillary benefits. The final tranche of the transitional support was received in 2010. Receipt of the transitional support was conditional on the Corporation maintaining other retirement enhancements similar to those offered to the *Public Service Superannuation Act* participants and, also, on the Corporation showing visible commitment and progress towards achieving the financial and service performance objectives set out in the Policy Framework and reflecting them in future corporate plans. Therefore, transitional support was accounted for only when received. The entire amount of transitional support was deferred and drawn down on a first-in, first-out basis to cover the incremental costs incurred. The draw-down from deferred transitional support was recorded as a reduction of expense.

(k) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between the carrying values and tax basis of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Deferred tax assets and deferred tax liabilities are measured using substantively-enacted income tax rates and income tax laws. These amounts are reassessed each reporting period in the event of changes in income tax rates.

Scientific research and experimental development ("SR&ED") tax credits are recorded as a reduction of the current cost of operations or property, plant and equipment, when there is reasonable assurance that the SR&ED tax credit will be realized.

2. Basis of Presentation and Significant Accounting Policies (continued)

(l) Foreign currency translation

(l.1) Subsidiaries and joint venture • Items included in the consolidated financial statements of each of the Corporation's subsidiaries and joint venture are measured using the currency of the primary economic environment in which the subsidiary or joint venture operates (the "functional currency").

(l.2) Transactions and balances • Foreign currency transactions for each entity within the Canada Post Group of Companies are translated into Canadian dollars, the functional and presentation currency of the Corporation, using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities not denominated in the functional currency of the Corporation are recognized in net profit or loss. Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period-end rates of exchange, and the results of their operations are translated at exchange rates at the dates of the transaction. The resulting translation adjustments are recognized in other comprehensive income. Additionally, foreign exchange gains and losses related to certain intercompany loans that are permanent in nature are recognized in other comprehensive income.

(m) Leases • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance or an operating lease by assessing whether substantially all the risks and rewards of ownership have passed to the Group of Companies. Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the Group of Companies. All other leases are classified as operating leases.

Assets held under finance leases are recognized as assets of the Group of Companies at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is recorded as a finance lease obligation included in loans and borrowings. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net profit or loss under finance costs and other expense.

Rent payable under operating leases is recognized in net profit or loss on a straight-line basis over the term of the respective lease.

(n) Segmented information

(n.1) Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of the legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Logistics segment is comprised of SCI.

The Canada Post segment provides transaction mail, parcels and direct marketing services, as well as other products and services. The Purolator segment derives its revenues from specialized courier services. The Logistics segment provides third-party logistics services in supply chain management and transportation services in the small to medium enterprise market.

Operating segments below the quantitative thresholds for determining reportable operating segments are combined and disclosed in the "Other" category. The revenue relating to this segment is attributable to information technology services.

(n.2) Geographic area information • Revenue recognition is based on the location of the customer hiring the service. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no assets located outside of Canada. Because all intersegment revenue is domestic, revenue for geographic areas is reported net of elimination of intersegment revenue.

(n.3) Products and services information • Revenue reported for core products and services is based on information available at the time of sale, such that stamps and meter revenue are reported separately rather than being attributed to either of the Corporation's lines of business of Transaction Mail or Parcels.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from the judgments, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

(a) Critical judgments in applying accounting policies • The following are the critical judgments, apart from those involving estimations (see (b) below), that management has made in the process of applying the Group of Companies' accounting policies and that have the most significant effects on the amounts recognized in the consolidated financial statements.

(a.1) Capital assets • Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities • In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether the Group of Companies has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is considered to be remote.

(a.3) Leases – The Canada Post Group of Companies as lessee • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance or an operating lease by assessing whether substantially all the risks and rewards of ownership have passed to the Group of Companies. Factors used by management in determining whether a lease is a finance or an operating lease include, but are not limited to, whether there is a transfer of ownership at the end of the lease term, whether the lease term is for the major part of the economic life of the leased asset and whether at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset.

(b) Key sources of estimation uncertainty • The following are the key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next twelve months.

(b.1) Capital assets • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets, and are included in Note 2 (c.3). The appropriateness of useful lives of these assets is assessed annually. Changes to the useful life estimates would affect future depreciation or amortization expenses and the future carrying values of assets.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

Capital assets are tested for impairment as described in Note 2 (c.5). The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the consolidated financial statements, both in determining whether impairment exists and in determining the amount of impairment.

(b.2) Goodwill • The Group of Companies tests annually, or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in Note 2 (d). Performing goodwill impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to Note 12.

(b.3) Deferred revenue • The Group of Companies estimates deferred revenue at the end of the reporting period relating to parcels deposited but not yet delivered, stamps distributed to dealers but not yet resold to customers, and meters filled but not yet used by customers. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by the Group of Companies. The estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively.

(b.4) Pension, other post-employment and other long-term benefit plans • Pension, other post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of the benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan, and the investment and funding decisions made. This accounting requires the Group of Companies to make assumptions regarding variables such as discount rates, expected long-term rates of return on plan assets, long-term rates of compensation increase, retirement age, future health-care and dental costs and mortality rates. The Group of Companies consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on the defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For funded plans, assets are recognized only to the extent that the Group of Companies can realize future economic benefits from them. In establishing the economic benefit, the Group of Companies projects gains resulting from an expected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In addition, to establish the asset limit adjustments, it is assumed that a contribution holiday is taken whenever possible and that the Corporation intends to seek permission, from the Government of Canada, to use additional relief in solvency payments as permitted by legislation.

Funded plans for which the Canada Post Group of Companies has a unilateral right to the surplus are not subject to the asset limit adjustment requirements.

For a description of the pension, other post-employment and other long-term benefit plans, and a sensitivity analysis of the most critical assumptions, see Note 10.

3. Critical Accounting Judgments and Key Sources of Estimation Uncertainty (continued)

(b.5) Provisions • When it has been determined by management that the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of the outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, the opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Group of Companies intends to handle the obligation. The actual amount and timing of outflows may deviate from the assumptions, and the difference might materially affect future consolidated financial statements, with a potentially adverse impact upon the consolidated results of operations, financial position and liquidity.

Refer to Note 15 for the Group of Companies' provisions.

(b.6) Income taxes • The Group of Companies operates in many jurisdictions requiring calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of the additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amount that was initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities are comprised of temporary differences between the carrying values and tax basis of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of the temporary differences may take many years and the related deferred tax is calculated using substantively enacted tax rates for the related period.

If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred income tax adjustments would not result in an immediate cash outflow nor would they affect the Group of Companies' immediate liquidity.

4. Accounting Pronouncements Requiring Implementation in Future Years

The following new standards and amendments issued by the International Accounting Standards Board (the "IASB") have been assessed as having a possible effect on the Group of Companies in the future. The Corporation is currently determining the impact of these standards and amendments on its consolidated financial statements.

(a) IFRS 9 "Financial Instruments" ("IFRS 9") • In November 2009 the IASB issued IFRS 9 as the first part of Phase 1: Classification and Measurement in its project to replace IAS 39 "Financial Instruments: Recognition and Measurement" ("IAS 39"). This first part of the standard addressed the classification and measurement of financial assets. Initial measurement will be at fair value, and for financial assets not classified at fair value through profit or loss, certain transaction costs will be included. Subsequent measurement of financial assets will be at amortized cost or fair value.

In October 2010, the IASB completed Phase 1 by adding requirements for liabilities to the standard, which are mostly unchanged from IAS 39.

IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2015, with early adoption permitted (refer to (f) below).

4. Accounting Pronouncements Requiring Implementation in Future Years (continued)

(b) **IFRS 10 "Consolidated Financial Statements" ("IFRS 10"), IFRS 11 "Joint Arrangements" ("IFRS 11"), IFRS 12 "Disclosure of Interests in Others" ("IFRS 12"), IAS 27 "Separate Financial Statements" ("IAS 27") and IAS 28 "Investments in Associates and Joint Ventures" ("IAS 28") •** In May 2011, the IASB issued five standards to replace IAS 27 "Consolidated and Separate Financial Statements," IAS 28 "Investments in Associates," IAS 31 "Interests in Joint Ventures," SIC 12 "Consolidation – Special Purpose Entities" and SIC 13 "Jointly Controlled Entities – Non-monetary Contributions by Venturers." These standards are effective for annual periods beginning on or after January 1, 2013. Entities may apply these standards earlier if adopted concurrently, however, providing some disclosures under IFRS 12 does not compel an entity to early adopt the entire standard or the other four standards.

IFRS 10 defines the principle of control, establishes control as the basis for determining which entities are consolidated, and sets out accounting requirements for preparing consolidated financial statements. This standard is applied retrospectively.

IFRS 11 requires an entity to determine the type of joint arrangement (joint operation or joint venture) by assessing its rights and obligations arising from the arrangement. This standard requires the use of the equity method in accordance with IAS 28 to account for an interest in a joint venture. Application of this standard is prospective for joint ventures previously accounted for using the proportionate consolidation method, such that the initial investment of these joint ventures, as measured at the beginning of the earliest period presented, is the aggregate of the carrying amounts of assets and liabilities previously proportionately consolidated.

IFRS 12 requires an entity to disclose information to enable users to evaluate the nature of, and risks associated with, interests in other entities, and the effects of those interests on the entity's financial position, performance and cash flows.

IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This standard is applied retrospectively.

IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the use of the equity method in accounting for investments in associates and joint ventures. This standard is applied retrospectively.

(c) **IFRS 13 "Fair Value Measurement" ("IFRS 13") •** In May 2011, the IASB issued IFRS 13, which defines fair value, sets out in a single IFRS a framework to measure fair value, and requires disclosures about fair value measurements. This standard is effective for annual periods beginning on or after January 1, 2013, and is applied prospectively. Early adoption is permitted.

(d) **Amendments to IAS 19 "Employee Benefits" ("IAS 19") •** In June 2011, the IASB issued amendments to IAS 19, which include: elimination of the corridor method to defer actuarial gains and losses; immediate recognition in net profit or loss of vested and unvested past service costs resulting from plan amendments or curtailments; streamlining of the presentation of assets and liabilities; requirement for the discount rate to be used as the expected return on assets; and additional disclosure highlighting risks arising from defined benefit plans. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation is expecting that the amendments to IAS 19 will have a material negative impact on net profit or loss.

(e) **Amendments to IAS 1 "Presentation of Financial Statements" ("IAS 1") – Presentation of Items of Other Comprehensive Income •** In June 2011, the IASB issued amendments to IAS 1, which require grouping of items in other comprehensive income based on whether they are potentially reclassifiable to net profit or loss subsequently and disclosure of tax related to each of the two groups of other comprehensive income items (reclassifying and non-reclassifying) if items are shown before related tax effects. These amendments are to be applied retrospectively for annual periods beginning on or after July 1, 2012, with early adoption permitted.

(f) **Amendments to IFRS 9 and IFRS 7 "Financial Instruments: Disclosures" ("IFRS 7") – Mandatory Effective Date and Transition Disclosures •** In December 2011, the IASB issued amendments to IFRS 9 and IFRS 7. The amendments to IFRS 9 change the required application date to periods beginning on or after January 1, 2015, rather than January 1, 2013. The amendments to IFRS 7 modify the relief from restating prior periods.

4. Accounting Pronouncements Requiring Implementation in Future Years (continued)

(g) **Amendments to IFRS 7 – Offsetting Financial Assets and Financial Liabilities •** In December 2011, the IASB issued amendments to IFRS 7, which require disclosures of information to enable users of financial statements to evaluate the effect on an entity's financial position of netting arrangements, including rights of offset. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(h) **Amendments to IAS 32 "Financial Instruments: Presentation" ("IAS 32") – Offsetting Financial Assets and Financial Liabilities •** In December 2011, the IASB issued amendments to IAS 32, which clarify existing guidance concerning legally enforceable rights to offset the recognized amounts of assets and liabilities, as well as intentions to settle assets and liabilities on a net basis or simultaneously. These amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. Early adoption is permitted if disclosure under Amendments to IFRS 7 is also made (refer to (g) above).

5. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates for domestic Lettermail and U.S. and international Letter-post items, as well as fees for certain services such as Registered Mail through regulations under the *Canada Post Corporation Act*. These regulations are subject to approval by the Government of Canada, the sole Shareholder and, therefore, a related party of the Corporation. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray the costs incurred by the Corporation in the conduct of its operations under the Act.

The Act requires that proposed rate changes be published in the *Canada Gazette* to provide interested persons with a reasonable opportunity to make representations to the Minister responsible for the Corporation. These representations are considered by the Corporation's Board of Directors when determining the final form of the proposed rate changes. Once approved by the Board of Directors, the regulations are submitted to the Minister responsible for Canada Post for approval by the Government of Canada, specifically the Governor in Council. Regulations are deemed approved 60 days after the Clerk of the Privy Council receives them for submission to the Governor in Council for consideration, unless the Governor in Council previously approved or refused to approve them.

In October 2009, the Government of Canada approved regulations that set the domestic basic letter rate ("BLR") for a five-year period. Under this pricing plan, the BLR increased by 2 cents to 59 cents in January 2011 (2010 – by 3 cents to 57 cents), and will increase by 2 cents each year after that through 2014. Approval from the Government of Canada is sought on a yearly basis for increases to the remaining regulated products for domestic Lettermail and U.S. and international Letter-post items. This approval was received in December 2011 to increase rates for these products effective January 16, 2012.

The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to prepare a bulk mailing in a manner that facilitates processing.

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for mailing of materials for the blind. The Government of Canada provides compensation to the Corporation in respect of these services (Note 22).

The fact that postage rates for certain products and services are subject to regulation does not affect the application of IFRS to these consolidated financial statements.

Revenue from products and services charged to customers at regulated rates comprises 29% (2010 – 30%) of the Canada Post segment revenue (Note 24).

6. Cash and Cash Equivalents, Marketable Securities and Segregated Securities

(a) Cash and cash equivalents, marketable securities and segregated securities consisted of the following:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Cash and cash equivalents			
Cash	$ 167	$ 94	$ 126
Money market instruments issued by:			
Government of Canada	–	–	50
Provincial governments	–	48	35
Financial institutions	35	126	187
Corporations	69	111	75
Total cash and cash equivalents	**$ 271**	$ 379	$ 473
Marketable securities			
Money market instruments issued by:			
Government of Canada	$ 125	$ 530	$ 168
Provincial governments	216	160	102
Financial institutions	342	289	–
Corporations	159	103	–
Total marketable securities	**$ 842**	$ 1,082	$ 270
Illiquid securities*	**$ –**	$ –	$ 4
Segregated securities			
Cash	$ 4	$ 22	$ 14
Money market instruments issued by:			
Government of Canada	–	–	92
Provincial governments	–	–	51
Bonds issued by:			
Government of Canada	128	121	98
Provincial governments	203	169	167
Corporations	218	187	216
Master Asset Vehicle II (“MAVII”)*	–	–	16
Total segregated securities	**$ 553**	$ 499	$ 654

* During 2010, the Group of Companies disposed of non-bank sponsored asset backed commercial paper (“ABCP”) with a carrying value of $20 million (face value of $38 million) and recorded a gain of $3 million. The Group of Companies held various classes of MAVII notes it received when the ABCP programs were restructured under the Montréal Accord, which were included with non-current other assets and segregated securities. The Group of Companies no longer holds any ABCP which is subject to the Montréal Accord.

The remaining term to maturity at December 31, 2011, is 12 months or less with the exception of segregated bond securities that, if held to maturity, have terms expiring over a 30-year period.

All money market instruments and bonds held as at December 31, 2011, were issued by Canadian entities at fixed interest rates or purchased at a discount. The weighted average effective interest rate as at December 31, 2011, was 1.1% for money market instruments (2010 – 1.1%; January 1, 2010 – 0.3%) and 3.4% for bonds (2010 – 4.0%; January 1, 2010 – 3.7%).

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $14 million (2010 – $8 million). Interest income and gains and losses on segregated securities amounted to $28 million (2010 – $23 million) and are presented as a reduction of benefit costs.

6. Cash and Cash Equivalents, Marketable Securities and Segregated Securities (continued)

(c) Segregated securities

Securities have been segregated as follows:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Other retirement dental and life insurance benefits	$ 553	$ 499	$ 511
Internally restricted securities	–	–	143
Total segregated securities	**$ 553**	$ 499	$ 654

Securities are segregated either to conform with externally imposed restrictions or in anticipation of future cash flow requirements as explained below:

- External restrictions were imposed on other retirement dental and life insurance benefit plans repatriated through the *Federal Public Sector Pension Reform*. These defined benefit plans are partially funded by the transitional support and, therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments.
- The Group of Companies had segregated certain funds in anticipation of future cash flow requirements. These segregated funds have been used for significant projects to renew the operational capability of the Group of Companies and required regulatory special deficit payments to the Pension Plan.

7. Fair Value of Financial Instruments

(a) Financial instruments carried at fair value

The following table provides the estimated fair values of financial instruments carried at fair value in accordance with the Group of Companies' accounting policies. Fair values have been measured and disclosed based on a hierarchy described below that reflects the significance of inputs used in making these estimates.

As at December 31, 2011
(in millions)

	Level 1*	**Level 2****	**Level 3*****	**Total**
Cash and cash equivalents	$ 271	$ –	$ –	**$ 271**
Marketable securities	$ 842	$ –	$ –	**$ 842**
Trade and other receivables: risk management assets	$ –	$ 1	$ –	**$ 1**
Segregated securities	$ 553	$ –	$ –	**$ 553**

As at December 31, 2010
(in millions)

	Level 1*	Level 2**	Level 3***	Total
Cash and cash equivalents	$ 379	$ –	$ –	$ 379
Marketable securities	$ 1,082	$ –	$ –	$ 1,082
Segregated securities	$ 499	$ –	$ –	$ 499

7. Fair Value of Financial Instruments *(continued)*

As at January 1, 2010
(in millions)

	Level 1*	Level 2**	Level 3***	Total
Cash and cash equivalents	$ 473	$ –	$ –	$ 473
Marketable securities	$ 270	$ –	$ –	$ 270
Other assets: illiquid securities	$ –	$ –	$ 4	$ 4
Segregated securities	$ 638	$ –	$ 16	$ 654

* Level 1 financial assets are defined as assets with quoted prices in active markets for identical assets.
** Level 2 financial assets are defined as assets measured at fair value with a valuation technique using observable inputs other than quoted prices included in Level 1.
*** Level 3 financial assets are defined as assets measured at fair value with a valuation technique using unobservable market inputs requiring management's best estimate. Level 3 assets comprise investments in MAVII notes.

At year end, the Group of Companies did not have financial liabilities measured at fair value.

Reconciliation of level 3 fair values:

As at (in millions)	**December 31, 2011**		December 31, 2010	
	Illiquid securities included in:		Illiquid securities included in:	
	Other assets	Segregated securities	Other assets	Segregated securities
Opening balance	$ –	$ –	$ 4	$ 16
Proceeds from sales made during the year	–	–	(5)	(18)
Total gains in Net profit (loss) for the year	–	–	1	2
Ending balance	**$ –**	**$ –**	$ –	$ –
Cumulative unrealized gains from assets still held at year end	**$ –**	**$ –**	$ –	$ –

* Gains from illiquid assets classified in non-current other assets are included with Investment and other income and gains from illiquid assets classified in segregated securities are included with Employee benefits on the consolidated statement of comprehensive income.

(b) Fair values of other financial instruments carried at amortized cost

The fair values of the following items approximate their carrying values due to their expected short-term settlement: trade and other receivables; trade and other payables and salaries and benefits payable and related provisions. Fair values of loans and borrowings disclosed in Note 14 are estimated by reference to quoted market prices or in the absence of quoted market prices, fair values are calculated by discounting the future cash flows of the financial instrument using equivalent interest rates at the close of business on the reporting date.

8. Other Assets

Other assets consisted of the following items:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Prepaid expenses	$ 93	$ 72	$ 76
Assets held for sale	22	1	6
Total other assets	**$ 115**	$ 73	$ 82

The Group of Companies had several properties classified as held for sale at the end of 2011, all of them from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

9. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

(in millions)

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
January 1, 2010	$ 268	$ 1,438	$ 215	$ 1,055	$ 239	$ 408	$ 788	$ 139	$ 4,550
Additions	41	81	13	145	45	32	38	11	406
Reclassified as held for sale	–	(4)	–	–	–	–	–	–	(4)
Retirements	–	(3)	(7)	(78)	(10)	(39)	(4)	–	(141)
Transfers (nets to nil with Note 9 (b))	–	78	4	7	–	8	–	(113)	(16)
December 31, 2010	$ 309	$ 1,590	$ 225	$ 1,129	$ 274	$ 409	$ 822	$ 37	$ 4,795
Additions	20	85	17	168	66	33	40	88	517
Reclassified as held for sale	(17)	(29)	–	–	–	–	–	–	(46)
Retirements	–	(15)	(4)	(142)	(11)	(11)	(2)	–	(185)
Transfers (nets to nil with Note 9 (b))	–	13	2	9	–	–	–	(30)	(6)
December 31, 2011	**$ 312**	**$ 1,644**	**$ 240**	**$ 1,164**	**$ 329**	**$ 431**	**$ 860**	**$ 95**	**$ 5,075**
Accumulated depreciation									
January 1, 2010	$ –	$ 755	$ 150	$ 787	$ 157	$ 277	$ 460	$ –	$ 2,586
Depreciation	–	54	17	65	15	36	35	–	222
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	(2)	(7)	(77)	(9)	(38)	(4)	–	(137)
December 31, 2010	$ –	$ 804	$ 160	$ 775	$ 163	$ 275	$ 491	$ –	$ 2,668
Depreciation	–	59	16	63	21	36	36	–	231
Reclassified as held for sale	–	(23)	–	–	–	–	–	–	(23)
Retirements	–	(10)	(5)	(142)	(11)	(10)	(2)	–	(180)
December 31, 2011	**$ –**	**$ 830**	**$ 171**	**$ 696**	**$ 173**	**$ 301**	**$ 525**	**$ –**	**$ 2,696**
Carrying amounts									
January 1, 2010	$ 268	$ 683	$ 65	$ 268	$ 82	$ 131	$ 328	$ 139	$ 1,964
December 31, 2010	309	786	65	354	111	134	331	37	2,127
December 31, 2011	**$ 312**	**$ 814**	**$ 69**	**$ 468**	**$ 156**	**$ 130**	**$ 335**	**$ 95**	**$ 2,379**

As at December 31, 2011, the Group of Companies held assets under finance leases in three asset classes: sales counters, office furniture and equipment held under finance leases with net book value of $4 million (2010 – $5 million; January 1, 2010 – $6 million); vehicles held under finance leases with net book value of $54 million (2010 – $31 million; January 1, 2010 – $20 million); and plant equipment held under finance leases with net book value of $18 million (2010 – $21 million; January 1, 2010 – $24 million).

During 2011, capitalized borrowing costs related to the Postal Transformation Program amounted to $2 million (2010 – nil), with a capitalization rate of 4.3%.

9. Capital Assets *(continued)*

(b) Intangible assets

Intangible assets consisted of the following items:

(in millions)

	Software	Software under development	Customer contracts and relationships	Total
Cost				
January 1, 2010	$ 489	$ 33	$ 27	$ 549
Additions	25	4	–	29
Retirements	(1)	–	–	(1)
Transfers (nets to nil with Note 9(a))	27	(11)	–	16
December 31, 2010	$ 540	$ 26	$ 27	$ 593
Additions	39	19	–	58
Retirements	(1)	–	–	(1)
Transfers (nets to nil with Note 9(a))	7	(1)	–	6
December 31, 2011	**$ 585**	**$ 44**	**$ 27**	**$ 656**
Accumulated amortization				
January 1, 2010	$ 360	$ –	$ 20	$ 380
Amortization	50	–	3	53
Retirements	(1)	–	–	(1)
December 31, 2010	$ 409	$ –	$ 23	$ 432
Amortization	59	–	1	60
Retirements	(1)	–	–	(1)
December 31, 2011	**$ 467**	**$ –**	**$ 24**	**$ 491**
Carrying amounts				
January 1, 2010	$ 129	$ 33	$ 7	$ 169
December 31, 2010	131	26	4	161
December 31, 2011	**$ 118**	**$ 44**	**$ 3**	**$ 165**

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans

(a) Description of benefit plans

The Corporation has a number of funded and unfunded defined benefit plans that provide pension, post-employment and other long-term benefits for most of its employees. The Corporation also provides pension benefits to eligible employees through defined contribution plans. Unfunded plans are plans where benefits are paid directly by the Corporation. With funded plans, funds are transferred to external trusts and the benefits are paid directly from these trusts. The Corporation's defined benefit pension plan is a funded plan based on length of pensionable service, the average of the best five consecutive years of pensionable salary and retirement age. The plan provides for retirement pension, survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plan and the retirement compensation arrangement, for benefits in excess of statutory limits as defined under the *Income Tax Act*. Pension benefits in pay are indexed annually. Both the Corporation's contributions and the employees' contributions to the external trusts are made in accordance with the provisions of the plan. In addition, the Corporation's contributions are determined by actuarial valuations in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire.

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

The post-employment defined benefit plans, other than pension, include unfunded health-care, dental, life insurance plans, and employee termination benefits. Other long-term benefit plans include unfunded sick-leave-compensated absences, workers' compensation and health and dental coverage for employees receiving long-term disability benefits. The benefit costs covered by the Corporation and the costs assumed by employees and retirees are determined in accordance with the rules of each plan and the provisions of labour contracts.

By the end of 2006, the Corporation's employee termination benefit plan was fully curtailed. The curtailment of the plan froze the employees' entitlement based on the accumulation of years of service as of the curtailment date, and further benefit entitlement based on years of service was discontinued. On curtailment, employees were given the option of settlement by receiving the cash value of their accrued termination benefit or the option of deferring receipt of their benefit until departure, at which time the benefit would reflect their base salary at retirement or their base salary at the curtailment date if they resign or their employment is terminated. Most employees chose the option of settlement.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. The Corporation is a self-insured employer, responsible for workers' compensation benefits incurred since incorporation. The Corporation's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential future awards for accidents that occurred up to the measurement date. Workers' compensation benefits are provided according to the respective provincial workers' compensation legislation. Benefit entitlements in the three Territories are based on the Alberta legislation.

Purolator has a number of funded defined benefit pension plans. The defined benefit plans are based either on length of pensionable service and salary paid each year or on negotiated benefit rates, depending on the type of employees. Since these defined benefit plans are subject to the maximum pension payable under the *Income Tax Act*, a supplementary pension plan based on length of pensionable service and final average salary is offered to designated employees. Purolator also provides pension benefits to eligible employees through a defined contribution plan in which both employees and employer contribute. Plan members are not required nor permitted to contribute to the defined benefit pension plans. Purolator also has a long-term benefit plan which consists of a long-service award program.

Certain employees of SCI presently belong to a pension plan sponsored by SCI's former owner, Bell Canada. The BCE Inc. Pension Plan is a non-contributory, defined benefit pension plan that provides for benefits based on length of pensionable service and compensation. The assets of the pension plan are invested in units of the BCE Master Trust Fund with Royal Trust acting as trustee. However, in 2001 the Corporation entered into a Share Purchase Agreement with Bell Canada whereby the employees of SCI started participating in a new pension plan, separate from Bell Canada. The pension plan assets and liabilities for pensions and related benefits accrued at the date of change of ownership will be transferred to the new pension plan on completion of the related actuarial valuations, pending regulatory approval. The amounts of assets and liabilities included in these consolidated financial statements represent current minimum estimates of the amounts to be transferred to the new pension plan, adjusted for all activity subsequent to the change of ownership. The estimate of the transfer amount relating to plan assets includes management's best estimate of the effect of certain events related to the BCE Inc. Pension Plan that occurred prior to the purchase of SCI by the Corporation. The estimate was revised in 2007 based on a report provided by BCE Corporate Services. The amounts to be transferred into the new, separate pension plan will be finalized and transferred over only when regulatory approval has been obtained. SCI and BCE have each made differing submissions to the regulator as to what the final transfer amount should be. In 2005, a supplementary pension plan for designated employees was created to replace the current plan, whereby employees who reach the maximum pension payable from the registered plan would receive the excess pension payable by SCI. The results for this plan are included with those of the regular plan. After the acquisition, a defined contribution provision was added to SCI's pension plan.

The other post-employment benefit plans pertaining to SCI's employees consist of medical and dental benefits, and life insurance after retirement. SCI pays the full cost of these benefits, except for the dental plan which is paid 100% by the retirees who choose this coverage.

Innovapost has a funded defined benefit pension plan. Like the Corporation, pension benefits that are not permissible in the registered pension plan are provided by a retirement compensation arrangement. Pension benefits, based on length of pensionable service and average pensionable salary, are indexed according to the annual increase in the consumer price index. Employer and employee contributions are made in accordance with the plan. After October 31, 2002, no new members are eligible to join Innovapost's pension plan.

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

(b) Obligations and assets

The pension benefit plans of the Group of Companies are funded through contributions made to separately-administered funds.

The other benefit plans, which include the other post-employment and other long-term benefits plans, are unfunded.

A reconciliation of the defined benefit plan obligations, defined benefit plan assets and the surplus (deficit) status of the defined benefit plans to the amounts recorded in the consolidated statement of financial position follows:

Year ended, and as at, December 31 (in millions)	**2011**		2010	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, as reported under Canadian GAAP, as at December 31, 2009	$ –	$ –	$ 13,935	$ 2,698
Impact of change to the attribution period *	–	–	–	(112)
Additional other long-term employee benefits	–	–	–	238
Balance, beginning of year	16,897	3,297	13,935	2,824
Current service cost	398	141	313	118
Interest cost	967	189	934	188
Employee contributions	185	–	187	–
Benefits paid	(618)	(158)	(537)	(153)
Actuarial (gains) losses	583	(173)	2,067	346
Past service costs (credits)	69	–	–	(13)
Curtailment	–	–	(2)	(13)
Balance, end of year	18,481	3,296	16,897	3,297
Fair value of plan assets				
Fair value, beginning of year	16,006	–	14,135	–
Expected return on plan assets **	1,157	–	1,031	–
Actuarial gains (losses)	(1,204)	–	393	–
Employer regular contributions	328	–	356	–
Employer special contributions	239	–	441	–
Employee contributions	185	–	187	–
Benefits paid	(618)	–	(537)	–
Fair value, end of year	16,093	–	16,006	–
Deficit	(2,388)	(3,296)	(891)	(3,297)
Unrecognized past service costs (credits)	–	(28)	–	(39)
Total amount recognized	**$ (2,388)**	**$ (3,324)**	$ (891)	$ (3,336)

* On transition to IFRS, a change in the attribution period of certain other benefit plans reduced the present value of the benefit obligations by $112 million. This consisted of a $169-million reduction of the Canadian GAAP amount recognized on the statement of financial position at January 1, 2010, as detailed in note 26(b.1)(v) *First-time Adoption of IFRS*, offset by a $57-million change in the unrecognized portion of past service costs.

** The actual negative return on plan assets for 2011 totalled $47 million (2010 – positive return of $1,424 million).

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

The amounts recognized and presented in the consolidated statement of financial position were as follows:

As at (in millions)	December 31, 2011	December 31, 2010	January 1, 2010
Pension benefit assets	**$ 93**	$ 112	$ 196
Pension benefit liabilities	**$ 2,481**	$ 1,003	$ 41
Other post-employment and other long-term benefit liabilities	**3,324**	3,336	2,865
Less current other long-term benefit liabilities	**(86)**	(84)	(82)
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,719**	$ 4,255	$ 2,824

(c) Historical information

(c.1) Pension benefit plans

As at (in millions)	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of plan assets	**$ 16,093**	$ 16,006	$ 14,135
Present value of the benefit obligations	**18,481**	16,897	13,935
Surplus (Deficit)	**$ (2,388)**	$ (891)	$ 200
Actuarial gains (losses) from experience adjustment arising on plan assets	**$ (1,204)**	$ 393	$ –
Actuarial gains from experience adjustment arising on plan obligations	**$ 64**	$ 122	$ –
Actuarial losses from change in actuarial assumptions arising on plan obligations	**(647)**	(2,189)	–
Total actuarial losses on plan obligations	**$ (583)**	$ (2,067)	$ –

(c.2) Other benefit plans

As at (in millions)	December 31, 2011	December 31, 2010	January 1, 2010
Present value of the benefit obligations	**$ 3,296**	$ 3,297	$ 2,824
Deficit	**$ (3,296)**	$ (3,297)	$ (2,824)
Actuarial gains from experience adjustment arising on plan obligations	**$ 256**	$ 98	$ –
Actuarial losses from change in actuarial assumptions arising on plan obligations	**(83)**	(444)	–
Total actuarial gains (losses) on plan obligations	**$ 173**	$ (346)	$ –

(d) Investment objective and plan asset allocations

The Board of Directors of the Corporation adopts and reviews at least annually a Statement of Investment Policies and Procedures ("SIPP") addressing the manner in which the Corporation's Pension Plan assets will be invested. Investment principles and beliefs are revisited periodically to ensure that changes to the investment policies may be made if warranted. The Corporation believes that an investment portfolio with an appropriate asset allocation, the target portfolio, can over the long term achieve the investment objective of ensuring that sufficient assets will be available to meet the obligations of the Pension Plan as they come due. Under the current SIPP, it is recognized that it is not always desirable to have the investment portfolio exactly match the long-term asset target allocation and therefore minimum and maximum asset category limits have been established.

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

The Corporation's investment objective for its Pension Plan assets is to achieve a long-term rate of return, net of administrative expenses, which exceeds inflation by at least 4.75%. Investments are made according to criteria and limitations set by the Board of Directors and applicable legislation. Allowable types of investment, individual investment limits, portfolio investment limits, maturity limits and minimum credit quality ratings are set by the Board of Directors to reduce the level of risk and provide diversification between industry sectors, geographic/economic areas and management styles. The asset allocations, by asset category, of the Corporation's Pension Plan were as follows:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
	Actual	Actual	Actual
Cash and money market instruments	2 %	2 %	1 %
Bonds	34 %	32 %	36 %
Canadian equities	23 %	27 %	26 %
U.S. equities	21 %	19 %	17 %
International equities	13 %	14 %	14 %
Real estate	5 %	4 %	4 %
Other assets less liabilities	2 %	2 %	2 %
Pension plan assets of the Corporation	**100 %**	100 %	100 %

The pension plan assets of Purolator, SCI and Innovapost are governed by similar investment objectives and policies and account for 3% (2010 – 2%) of the total plan assets of $16,093 million (2010 – $16,006 million).

Total plan assets include $2,345 million (2010 – $2,220 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $127 million (2010 – $133 million) in refundable taxes held by the Canada Revenue Agency.

The Group of Companies' pension plans do not own financial instruments or any other assets of the Group of Companies.

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

(e) Costs

The elements of employee benefit costs recognized in the year, and presented in employee benefits on the consolidated statement of comprehensive income, were as follows:

Year ended December 31 (in millions)	**2011**			2010		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 398	$ 141	$ 539	$ 313	$ 118	$ 431
Interest cost	967	189	1,156	934	188	1,122
Expected return on plan assets	(1,157)	–	(1,157)	(1,031)	–	(1,031)
Actuarial losses *	–	33	33	–	18	18
Past service cost (credit)	69	(11)	58	1	(15)	(14)
Curtailment gain	–	–	–	(2)	(13)	(15)
Defined benefit costs	277	352	629	215	296	511
Defined contribution costs	6	–	6	5	–	5
Total costs	283	352	635	220	296	516
Transitional support from the Government of Canada	–	–	–	–	(13)	(13)
Return on segregated securities	–	(28)	(28)	–	(23)	(23)
Net costs	**$ 283**	**$ 324**	**$ 607**	$ 220	$ 260	$ 480

* Actuarial gains and losses for other long-term benefit plans are recognized in net profit or loss in the period in which they arise.

In April 2011, certain sections of the *Pension Benefits Standards Act*, 1985, and the regulations thereunder were amended to enhance pre-retirement death benefits. The cost of the pension benefit improvements is attributed to the vested past service and has therefore been immediately recognized in net profit or loss.

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

(f) Amounts recognized in other comprehensive income were as follows:

Year ended December 31 (in millions)	**2011**			2010		
	Pension benefit plans	**Other post-employment benefit plans**	**Total**	Pension benefit plans	Other post-employment benefit plans	Total
Cumulative actuarial gains (losses)*						
Balance, beginning of year	$ (1,674)	$ (328)	$ (2,002)	$ –	$ –	$ –
Actuarial gains (losses)	(1,787)	206	(1,581)	(1,674)	(328)	(2,002)
Balance, end of year	**$ (3,461)**	**$ (122)**	**$ (3,583)**	$ (1,674)	$ (328)	$ (2,002)
Cumulative effects of asset limit adjustments, including minimum funding requirement						
Balance, beginning of year	$ –	$ –	$ –	$ (46)	$ –	$ (46)
Effect of asset limit adjustments, including minimum funding requirement	–	–	–	46	–	46
Balance, end of year	**$ –**	**$ –**	**$ –**	$ –	$ –	$ –
Cumulative amounts recognized in other comprehensive income, end of year	**$ (3,461)**	**$ (122)**	**$ (3,583)**	$ (1,674)	$ (328)	$ (2,002)

* As a result of the employee benefits IFRS 1 exemption, the Group of Companies made the transitional election to recognize all previously unrecognized net actuarial losses in retained earnings at the date of transition of January 1, 2010.

(g) Assumptions

The assumptions used in measuring the present value of the defined benefit obligation and benefit costs for the Group of Companies' significant defined benefit plans were as follows:

As at December 31	**2011**		2010	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	5.3 %	5.5 %	5.7 %	5.8 %
Long-term rate of compensation increase	3.0 %	3.0 %	3.0 %	3.0 %
Consumer price index	2.5 %	2.5 %	2.5 %	2.5 %
Benefit costs:				
Discount rate	5.7 %	5.8 %	6.7 %	6.9 %
Expected long-term rate of return on plan assets	7.25 %	N/A	7.25 %	N/A
Long-term rate of compensation increase	3.0 %	3.0 %	3.0 %	3.0 %
Consumer price index	2.5 %	2.5 %	2.5 %	2.5 %
Assumed health-care cost trend rates:				
Initial health-care cost trend rate	N/A	7.9 %	N/A	8.1 %
Cost-trend rate declines to	N/A	4.9 %	N/A	4.9 %
Year that the rate reaches the rate it is assumed to remain at	N/A	year 18	N/A	year 19

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

(h) Sensitivity analysis

(h.1) Pension benefit plans

The discount rate used to estimate the present value of defined benefit obligations has a significant effect on the obligations at the end of the year, as well as on the pension benefit costs. The latter is also impacted by the expected long-term rate of return on plan assets. A fifty-basis-point change in discount rate and expected long-term rate of return on plan assets would have had the following effects for 2011:

Change in discount rate of 0.5%:

(in millions)	Increase	Decrease
Total of current service and interest costs	$ (45)	$ 49
Present value of the benefit obligations	$ (1,301)	$ 1,459

Change of 0.5% in expected long-term rate of return on plan assets:

(in millions)	Increase	Decrease
Pension benefit costs	$ (80)	$ 80

(h.2) Health-care plans

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care plans. A one-percentage-point change in assumed health-care cost trend rates would have had the following effects for 2011:

(in millions)	Increase	Decrease
Total of current service and interest costs	$ 43	$ (33)
Present value of the benefit obligations	$ 397	$ (314)

The above sensitivities are hypothetical and must be used with caution. Changes in amounts based on the above variations in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

(i) Total cash payments

Cash payments for pension, other post-employment and other long-term benefits were as follows:

Year ended December 31 (in millions)	**2011**	2010
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 158	$ 153
Employer regular contributions to funded pension benefit plans	328	356
Employer special contributions to funded pension benefit plans	239	441
Total cash payments for defined benefit plans	725	950
Contributions to defined contribution plans	6	5
Total cash payments	**$ 731**	$ 955

10. Pension, Other Post-Employment and Other Long-Term Benefit Plans (continued)

In August 2011, as permitted by the amended pension legislation which deals with the reduction of special solvency contributions made by Crown corporations, the Corporation obtained approval from the Minister of Finance and the Minister of Transport, Infrastructure and Communities ("the Ministers"), to reduce special solvency contributions for 2011 by $433 million.

In 2012, the Group of Companies' total contributions to pension benefit plans are estimated to be $500 million. These contributions include the Corporation's special contributions of $63 million, which reflect the Corporation's intent to seek agreement, from the Ministers, to use relief as permitted by the legislation. Without this relief, the Corporation's special payments would be approximately $955 million.

Under current legislation and regulations, the funding valuation of the Corporation's defined benefit pension plans is required to be filed annually unless the ratio of the solvency plan assets to solvency liabilities, at the valuation date, is 1.2 or greater, in which case it would be required at least every three years. In the event of a solvency or going-concern deficit, regulatory authorities require special contributions be made over specified future periods. Relief from these special contributions is available to Crown corporations but must be approved by the Ministers.

The most recent actuarial valuations for funding purposes, and the next required actuarial valuations, are as of the following dates:

	Most recent actuarial valuation for funding purposes	Next required actuarial valuation for funding purposes
Canada Post Corporation	December 31, 2010	December 31, 2011
Purolator	December 31, 2010	December 31, 2011
SCI	December 31, 2010	December 31, 2011
Innovapost	December 31, 2010	December 31, 2013

11. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*. The Corporation's subsidiaries and joint venture are subject to federal and provincial income taxes.

The sources of the temporary differences giving rise to net deferred tax assets (liabilities) affecting net profit or loss and other comprehensive income ("OCI") were as follows:

(in millions)	December 31, 2010	**Recognized in Net profit (loss)**	**Recognized in OCI**	**December 31, 2011**
Net deferred tax assets (liabilities)				
Capital assets	$ (1)	$ (10)	$ –	$ (11)
Salaries and benefits payable and related provisions	25	67	–	92
Pension, other post-employment and other long-term benefit liabilities	1,012	(29)	397	1,380
Other	11	12	(12)	11
Net deferred tax assets	$ 1,047	**$ 40**	**$ 385**	**$ 1,472**

(in millions)	January 1, 2010	Recognized in Net profit (loss)	Recognized in OCI	December 31, 2010
Net deferred tax assets (liabilities)				
Capital assets	$ 10	$ (11)	$ –	$ (1)
Salaries and benefits payable and related provisions	24	1	–	25
Pension, other post-employment and other long-term benefit liabilities	437	86	489	1,012
Other	21	(7)	(3)	11
Net deferred tax assets	$ 492	$ 69	$ 486	$ 1,047

Presented in the consolidated statement of financial position as:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Deferred tax assets	**$ 1,472**	$ 1,054	$ 500
Deferred tax liabilities	**–**	7	8
	$ 1,472	$ 1,047	$ 492

In 2009, the Group of Companies had deductible temporary differences in the amount of $768 million for which no deferred tax assets had been recognized, as they were not expected to reverse in the foreseeable future. Those differences related mainly to the pension, other post-employment and other long-term benefit liabilities. In 2010, the Group of Companies recognized the entire balance of $768 million of previously unrecognized temporary differences as their realization was assessed to be probable.

11. Income Taxes *(continued)*

Deferred tax liabilities have not been recognized for temporary differences associated with investments in subsidiaries as the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2011, was $181 million (2010 – $192 million; January 1, 2010 – $171 million).

The major components of tax expense (income) were as follows:

Year ended December 31 (in millions)	**2011**	2010
Current tax expense (income)	$ (25)	$ (111)
Deferred tax expense (income) relating to:		
Origination and reversal of temporary differences	(43)	122
Post-employment benefits	–	(192)
Reduction in tax rate	3	1
Tax expense (income)	**$ (65)**	$ (180)

Income tax expense differs from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 26.5% (2010 – 28%) to income before income taxes. The reasons for the differences are as follows:

Year ended December 31 (in millions)	**2011**	2010
Profit (loss) before tax	$ (253)	$ 134
Federal tax at parent's statutory rate	(67)	37
Subsidiaries' and joint venture's provincial tax less federal tax abatement	2	3
Previously unrecognized benefit from post-employment benefits	–	(192)
Effect of statutory tax rate changes on deferred taxes	–	(27)
Other	–	(1)
Tax expense (income)	**$ (65)**	$ (180)

The federal statutory tax rate decreased from 28% in 2010 to 26.5% in 2011. The long-term federal statutory tax rate is 25%, which will be applicable as of 2012.

Income tax recognized in other comprehensive income was as follows:

Year ended December 31 (in millions)		**2011**			2010	
	Before tax	**Tax recognized**	**Net of tax**	Before tax	Tax recognized	Net of tax
Non-reclassifying to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (1,581)	$ 397	$ (1,184)	$ (2,002)	$ 501	$ (1,501)
Asset limit and minimum funding requirements	–	–	–	46	(12)	34
Reclassifying to Net profit (loss)						
Net unrealized gains on available-for-sale financial assets	48	(12)	36	13	(3)	10
	$ (1,533)	**$ 385**	**$ (1,148)**	$ (1,943)	$ 486	$ (1,457)

12. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the Logistics segment. The carrying amounts of goodwill for these segments were as follows:

As at (in millions)			**December 31, 2011**	December 31, 2010	January 1 2010
	Purolator segment	**Logistics segment**	**Total**	Total	Total
Goodwill balance	**$ 121**	**$ 4**	**$ 125**	$ 125	$ 125

Goodwill impairment testing

Impairment testing is carried out annually for goodwill as at June 30 for the Purolator segment and September 30 for the Logistics segment. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. As a result, no impairment was recognized in the current or prior year, or on transition to IFRS.

The calculation of the value in use for the Purolator segment, the only segment with a material balance, was based on the following assumptions:

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with how Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 3.5% (2010 – 3.5%; January 1, 2010 – 3.5%), which considers both growth and inflation.
- The recoverable amount was calculated using a pre-tax discount rate of 19% (2010 – 25%; January 1, 2010 – 25%), which is based on Purolator's weighted average cost of capital as at June 30, 2011 (2010 – June 30, 2010; January 1, 2010 respectively).

13. Trade and Other Payables

Trade and other payables consisted of the following items:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Accruals and other payables	$ 255	$ 292	$ 257
Trade payables	130	93	98
Outstanding money orders	35	41	37
Taxes payable	62	51	30
Total	**$ 482**	$ 477	$ 422

Refer to Note 23 for market, credit and liquidity risks relating to trade and other payables.

14. Loans and Borrowings

Loans and borrowings consisted of the following items:

As at (in millions)		**December 31, 2011**		December 31, 2010		January 1, 2010
	Fair value	**Carrying value**	Fair value	Carrying value	Fair value	Carrying value
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16 [1 & 3]	$ 623	$ 498	$ 527	$ 498	$ –	$ –
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16 [1 & 3]	580	498	516	498	–	–
Non-redeemable bonds maturing March 2016, interest at 10.35%, payable semi-annually on March 15 and September 15 [2 & 3]	75	55	75	55	78	55
Finance lease obligations, maturing on various dates from 2012 through 2014, net of implicit interest at rates varying from 5.7% to 7.5% [4]	4	4	6	6	6	6
Finance lease obligations, maturing in 2018, net of implicit interest at rates varying from 3.3% to 5.5% [5]	72	72	51	51	44	44
Revolving term credit facility, interest at Bank of Canada prime plus 1.0%, repayment term three years, due in December 2013 [6]	–	–	–	–	25	25
Total loans and borrowings	**1,354**	**1,127**	1,175	1,108	153	130
Less current loans and borrowings	**16**	**16**	13	13	10	10
Non-current loans and borrowings	**$ 1,338**	**$ 1,111**	$ 1,162	$ 1,095	$ 143	$ 120

[1] In July 2010, the Corporation issued Series 1 & 2 bonds with a combined principal of $1 billion. The net proceeds after deducting transaction costs were $996 million. These proceeds are being used to fund the Corporation's Postal Transformation Program. The Corporation has a right of redemption prior to maturity at a premium to fair value.

[2] Fair value of the non-redeemable bonds is estimated by reference to quoted market prices of similar bonds. The scheduled repayment date of these bonds is March 2016. There are no prepayment terms associated with this debt.

[3] Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.

[4] Finance lease obligations relate to the Corporation's computer refresh program and are repayable in monthly installments.

[5] The leasing facility of a subsidiary, which allows for borrowings of up to $125 million to acquire capital assets, requires on a quarterly basis the funded debt to earnings before interest, tax and amortization covenant ratio be equal to, or less than, 2.5:1. The subsidiary is in compliance with this covenant.

[6] The facility allows a subsidiary to borrow to a maximum of $75 million on an unsecured three-year term revolving line of credit. The fair value of this borrowing approximates its carrying value as a result of the floating interest rate. This credit facility contains two covenant requirements applied to the subsidiary. On a quarterly basis the funded debt to earnings before interest, tax and amortization covenant ratio must be equal to or less than 2.5:1 and the interest coverage ratio must be equal to or greater than 4:1. The subsidiary is in compliance with both covenants.

14. Loans and Borrowings (continued)

Interest expense on loans and borrowings amounted to $48 million (2010 – $28 million).

Principal repayments on loans and borrowings excluding finance lease obligations were as follows:

As at (in millions)	December 31, 2011	December 31, 2010	January 1, 2010
2016	$ 55	$ 55	$ 55
2025	500	500	–
2040	500	500	–
	$ 1,055	$ 1,055	$ 55

Finance lease obligations at December 31, 2011, were as follows:

(in millions)

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 19	$ 3	$ 16
Later than one year but not later than five years	55	5	50
Later than five years	10	–	10
Total finance lease obligations	84	8	76
Less current finance lease obligations	19	3	16
Non-current finance lease obligations	$ 65	$ 5	$ 60

Finance lease obligations at December 31, 2010, were as follows:

(in millions)

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 16	$ 3	$ 13
Later than one year but not later than five years	41	3	38
Later than five years	6	–	6
Total finance lease obligations	63	6	57
Less current finance lease obligations	16	3	13
Non-current finance lease obligations	$ 47	$ 3	$ 44

14. Loans and Borrowings (continued)

Finance lease obligations at January 1, 2010, were as follows:

(in millions)

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 12	$ 2	$ 10
Later than one year but not later than five years	38	3	35
Later than five years	5	–	5
Total finance lease obligations	55	5	50
Less current finance lease obligations	12	2	10
Non-current finance lease obligations	$ 43	$ 3	$ 40

15. Provisions

The following table presents the movement in consolidated provisions for the year ended December 31, 2011:

(in millions)

	Claims	Other	Total
Balance at December 31, 2010	$ 43	$ 31	$ 74
Additional provisions recognized	26	25	51
Payment of provisions	(8)	(26)	(34)
Reduction from re-measurement of provisions	(3)	(6)	(9)
Other	(3)	–	(3)
Balance at December 31, 2011	**$ 55**	**$ 24**	**$ 79**
Current provisions	**$ 54**	**$ 21**	**$ 75**
Non-current provisions	**$ 1**	**$ 3**	**$ 4**

Claims

The provision for claims is management's best estimate of the probable cash outflows related to legal claims, as well as non-litigated disputes. The timing of cash outflows relating to these claims is uncertain, as it often depends on the outcome of specific events including, but not limited to, the length of legal proceedings.

Other

The December 31, 2011, and 2010 balances for the other provisions category consist of a number of items including a decommissioning obligation associated with asbestos removal and site restoration costs for properties, which have planned renovations or are planned to be disposed of by sale. Decommissioning obligations associated with disposals are expected to be transferred to the prospective purchasers of the properties on the date of sale, which are planned within the next four years. The estimated cash outflows have been discounted at a risk-free interest rate between 0.9% and 2.4% (2010 – between 1.4% and 2.4%). The Corporation estimates that the undiscounted cash outflows required to transfer its recognized decommissioning obligations approximate $2 million (2010 – $9 million; January 1, 2010 – $7 million), the present value of which at December 31, 2011, was $2 million (2010 – $9 million; January 1, 2010 – $6 million).

15. Provisions (continued)

A provision for severance is also included in this category and represents management's best estimate of the probable cash outflows related to severance payments. The timing of cash outflows for severance payments is current.

The remaining items making up the December 31, 2011, balance in the other provisions category include lease retirement obligations for significant leases, which is the legal obligation to restore a leased premise to its original state at the termination of the lease, other corporate provisions and tax provisions. With the exception of lease retirement obligations, the timing of cash outflows relating to these remaining items is current. The cash outflows relating to lease retirement obligations are expected to occur over the next ten years.

Claims and other provisions are not recognized when the Group of Companies does not have sufficient information to reasonably estimate the amount of the obligation or the outflow of resources associated with the obligation is possible, rather than probable. Refer to Note 17 regarding contingent liabilities disclosures for these items.

Pay equity

On November 17, 2011, the Supreme Court of Canada upheld the Canadian Human Rights Tribunal's ("the Tribunal") decision, rendered in October 2005, which concluded that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of Public Service Alliance of Canada ("PSAC") members and ordered payment to compensate the found wage gap at a discount of 50%. The complaint was originally filed by the PSAC with the Canadian Human Rights Commission in 1983, alleging discrimination by the Corporation concerning work of equal value.

A provision reflecting management's best estimate of the cost to comply with the Tribunal's decision and subsequent Supreme Court's ruling is included in salaries and benefits payable and related provisions. Uncertainty associated with the final amount and timing of the actual payments remains. Detailed information is not provided as the Corporation will be consulting with the PSAC in order to reach an agreement on the final amount.

16. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* ("the Acts") and any directives issued pursuant to the Acts. These Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, while maintaining basic postal service and in carrying out its objectives, the Corporation must have regard for the need to conduct its operations on a self-sustaining financial basis while providing a standard of service that meets the needs of the people of Canada.

A five-year Financial Framework was approved by the Government of Canada in late 2009. The Financial Framework established financial performance targets and metrics for 2010 to 2014, reflecting the Group of Companies' projected financial position during a period of intensive investment in Postal Transformation. Some of these targets and metrics were revisited in 2011 to take into consideration the impacts of the transition to IFRS. A revised, IFRS-based Financial Framework was approved as part of the Corporation's 2012-2016 Corporate Plan.

The Corporation views capital as the sum of Loans and borrowings, Other liabilities (non-current), and Equity of Canada. This definition of capital is used by management and may not be comparable to measures presented by other postal organizations or public companies.

The total outstanding loans and borrowings was $1,127 million at December 31, 2011, compared to $1,108 million at December 31, 2010, and $130 million at January 1, 2010. The increase of $19 million in 2011 is due to an increase in finance lease obligations, whereas the increase for the comparative period is largely due to the issue of bonds to fund the Postal Transformation Program (as observed in Note 14). Other liabilities (non-current) remain essentially unchanged from prior comparative periods. The decrease in the Equity of Canada is mostly attributable to the recognition of net actuarial losses for pension, post-employment and other long-term benefit plans, as these are recognized in other comprehensive income and are included immediately in retained earnings or deficit by the Corporation under IFRS. The Equity of Canada was in a deficit position of $1,655 million at December 31, 2011, compared to a deficit position of $321 million at December 31, 2010, and equity of $825 million at January 1, 2010.

16. Capital Management (continued)

The Corporation's objectives in managing capital are to:

- Provide sufficient liquidity to support and repay its financial obligations and support its operating and strategic plans;
- Meet the financial targets as laid out in the IFRS-based Financial Framework;
- Generate a reasonable return to the Government of Canada in support of the objectives of the IFRS-based Financial Framework; and,
- Maintain financial capacity and access to credit facilities to support future development of the business.

These objectives and their related strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan, which is then forwarded for Governor-in-Council approval. The Corporation's 2012-2016 Corporate Plan was approved by the Governor in Council on March 12, 2012.

The declaration, amount and payment of a dividend to the Government of Canada are subject to the Acts. In total, $271 million in dividends were paid to the Government of Canada from 2004 to 2008. The Financial Framework approved in 2009 included a dividend payout target of 0% to 20% for 2010 and 2011. There is no change to the dividend payout target in the Financial Framework under IFRS.

No dividend was paid to the Shareholder in the years 2009 to 2011 while the Corporation is in a high asset investment mode. The dividend is reviewed annually as the Corporation is required to submit a dividend proposal each year as part of its Corporate Plan. The Corporation indicated in its 2012-2016 Corporate Plan its intention not to pay a dividend in 2012.

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk in Note 23(c). Pursuant to the *Financial Administration Act*, Part X, the Corporation must indicate its intention to borrow money in the annual Corporate Plan, or in an amendment thereto, which are subject to the approval of the Corporation's Board of Directors and the Governor in Council. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The Corporation's borrowing limit, other than from the Crown, of $2.5 billion was authorized pursuant to *Appropriation Act No. 4, 2009-10*, which stipulates that the borrowings must be in accordance with the terms and conditions approved by the Minister of Finance. Included in the total authorized borrowing limit is a maximum of $250 million available for cash management purposes in the form of short-term borrowings.

In July 2010, the Corporation issued bonds with a face value of $1 billion. Terms of the bonds are described in Note 14. Funds from the bond issue are being used for the Corporation's Postal Transformation Program.

The Corporation's ability to obtain additional capital is subject to market conditions and pursuant to the provisions of the Acts. The *Canada Post Corporation Act* provides for the establishment of a share capital structure giving the Corporation the ability to raise funds through the issuance of shares to the Government of Canada and to the Corporation's employees, however no such shares have been issued.

The Group of Companies is not subject to any externally imposed capital requirements.

17. Contingent Liabilities

(a) A complaint was filed with the Canadian Human Rights Commission ("the Commission") alleging discrimination by the Corporation concerning work of equal value. The complaint, filed by the Canadian Postmasters and Assistants Association initially in December 1982 was, in February 2006, recommended by a conciliator to be declined by the Commission on the basis that the complaint is one that could more appropriately be dealt with under the *Canada Labour Code*. There have been no new developments in respect of this complaint. The outcome of this complaint is currently not determinable and as a result no provision has been recorded in the consolidated financial statements.

Settlement, if any, arising from resolution of this matter, is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*).

17. Contingent Liabilities (continued)

(b) The current collective agreement between the Corporation and the Canadian Union of Postal Workers ("CUPW") expired January 31, 2011. The parties began negotiating a new contract in October 2010. In January 2011, the CUPW applied for conciliation as provided for under the *Canada Labour Code*. The CUPW exercised its right to strike through rotating strikes across the country beginning June 2, 2011, and the Corporation locked out employees on June 14, 2011. The Government of Canada tabled back-to-work legislation on June 20, 2011, and the legislation received Royal Assent on June 26, 2011.

The Honourable Justice Coulter Osborne was appointed arbitrator by the Minister of Labour for final offer selection arbitration as provided for in the legislation, and the parties began preliminary meetings before him. On October 20, 2011, the Federal Court granted a stay application by the CUPW to suspend the proceedings in the final offer selection arbitration pending the CUPW's motion before the Federal Court contesting the appointment of Justice Osborne. Justice Osborne submitted his resignation as arbitrator to the Minister of Labour on November 1, 2011. On January 27, 2012, the Federal Court allowed the union's judicial review and quashed the Minister of Labour's appointment of Justice Osborne, ruling that the decision is not subject to an absolute discretion and that it was unreasonable to not appoint a third party who has labour experience and who is bilingual. The Minister of Labour subsequently appointed Guy Dufort as the new arbitrator in the negotiations between the Corporation and the CUPW, effective March 19, 2012. The CUPW has asked Mr. Dufort to recuse himself from the arbitration. The CUPW has also filed an application contesting the constitutionality of the legislation itself.

The outcome of the arbitration process is currently not determinable and as a result no provision has been recorded in the consolidated financial statements.

(c) In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees to indemnify them, subject to the terms of these agreements, against claims and expenses incurred by them as a result of serving as a director or officer of the Group of Companies or as a director, officer or in a similar capacity of another entity at the request of the Group of Companies.

These agreements generally do not contain specified limits on the Group of Companies' liability and, therefore, it is not possible to estimate the potential future liability under these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(d) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, when an outflow of resources is probable, and amounts can be reasonably estimated (see Note 15 for provisions).

(e) Certain of the Corporation's owned buildings have asbestos-containing materials which the Corporation will be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the consolidated financial statements as there is currently no obligation to remove and dispose of the asbestos-containing material.

The Corporation has recognized decommissioning liabilities associated with asbestos removal and other site restoration costs for properties which are planned to be disposed of by sale (these obligations are expected to be transferred to the prospective purchasers of the properties on the date of sale) or have planned renovations. These liabilities have been recorded in provisions, Note 15.

The fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

18. Commitments

(a) The Group of Companies is committed to the following future minimum lease payments under facilities, transportation equipment and other operating leases:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Not later than one year	$ 162	$ 171	$ 175
Later than one year but not later than five years	355	367	424
Later than five years	312	243	593
Total	**$ 829**	$ 781	$ 1,192

Included in the above are lease payments to be made in the normal course of business in the amount of $16 million with a related party, the Government of Canada, for premises used in postal operations (2010 – $17 million; January 1, 2010 – $20 million).

The Group of Companies leases a number of properties, including industrial buildings, retail stores, offices and land, as well as airplanes under operating leases. Leases run for a period of one to ten years, with the average lease term being five years. Leases are often renewable, containing one to three options to renew the lease for another lease term. Renewals are at the option of the Group of Companies without any obligation to renew the lease. When the Corporation occupies all or the majority of a leased building, the terms of the lease are usually negotiated to provide the Corporation with the right of first refusal to purchase the building.

During the year ended December 31, 2011, $168 million was recognized as an expense in net profit or loss in respect of operating leases (2010 – $165 million). This amount is net of lease revenues of $10 million (2010 – $10 million).

(b) The Corporation has contractual arrangements with third-party suppliers totalling approximately $388 million related to its Postal Transformation Program. These contractual arrangements are subject, in most instances, to the Corporation's contractual right of termination and extend to 2014 as follows:

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Not later than one year	$ 337	$ 184	$ 114
Later than one year but not later than five years	51	100	192
Later than five years	–	–	–
Total	**$ 388**	$ 284	$ 306

(c) In the normal course of business, the Group of Companies enters into contractual arrangements for the supply of goods and services over periods extending beyond one year. Disbursements largely depend on future volume-related requirements and are subject to the Group of Companies' contractual rights of termination.

19. Other Operating Costs

Other operating costs consisted of:

Year ended December 31 (in millions)	**2011**	2010
Non-labour collection, processing and delivery	$ 1,332	$ 1,308
Property, facilities and maintenance	322	308
Selling, administrative and other	612	586
Total other operating costs	**$ 2,266**	$ 2,202

20. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of:

Year ended December 31 (in millions)	2011	2010
Interest revenue	$ 16	$ 9
Gain on sale of capital assets	8	11
Other income	–	1
Investment and other income	**$ 24**	$ 21
Interest expense	$ (49)	$ (29)
Other expense	(2)	–
Finance costs and other expense	**$ (51)**	$ (29)
Investing and financing income (expense), net	**$ (27)**	$ (8)

21. Joint Venture

The Corporation has a 51% ownership interest in Innovapost, the Group of Companies' primary information technology service provider, recognized in the Corporation's consolidated financial statements using proportionate consolidation. Virtually all of Innovapost's services are provided to the Group of Companies based on consideration contractually established and agreed to by the joint venture. All revenue is intersegment and has been eliminated, and all cash flows are operating in nature. The cost of operations in the Corporation's consolidated financial statements includes its proportionate share of Innovapost's expenses of $132 million (2010 – $120 million). The Corporation's proportionate share of the assets and liabilities of Innovapost at December 31, 2011, is $33 million (2010 – $25 million; January 1, 2010 – $35 million) and $21 million (2010 – $23 million; January 1, 2010 – $24 million), respectively. The Corporation has not incurred any contingent liabilities relating to Innovapost. Refer to Note 25, Subsequent Event, for events after the reporting period and the effect on the joint venture.

22. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other governmental agencies and departments, and Crown corporations. The Canada Post Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements:

(a) Government of Canada, its agencies and other Crown corporations

Revenue earned from related parties for the year was $350 million (2010 – $351 million), the majority of which was for commercial contracts relating to postal services with the Government of Canada. Included in this amount was compensation provided by the Government of Canada for two programs, parliamentary mail services and mailing of materials for the blind sent free of postage (Note 5), and the Food Mail Program. With respect to the first program, parliamentary mail services and mailing of materials for the blind sent free of postage, the Government of Canada provided compensation to the Corporation in the amount of $22 million (2010 – $22 million). With respect to the Food Mail Program, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada), the Government of Canada compensated the Corporation $14 million (2010 – $60 million) for the difference between the Corporation's cost of shipping eligible goods under the Food Mail Program and the applicable postage paid by shippers. This agreement was terminated March 31, 2011, and a new northern food subsidy program, Nutrition North Canada, came into effect April 1, 2011. The Corporation has no role in the shipment of goods under the new program.

22. Related Party Transactions *(continued)*

Excluded from the related party revenue amount disclosed above is $7 million (2010 – $7 million) received by the Corporation relating to payments from related parties for premises leased from the Corporation. Future payments from related parties for premises leased from the Corporation are as follows:

As at (in millions)		**December 31, 2011**		December 31, 2010		January 1, 2010
Not later than one year	$	6	$	7	$	7
Later than one year but not later than five years		25		25		26
Later than five years		18		24		30
Total	**$**	**49**	$	56	$	63

Related party expenditures for the year amounted to $16 million (2010 – $15 million). For the year ended December 31, 2011, $28 million (2010 – $37 million; January 1, 2010 – $33 million) was due from related parties and included in trade and other receivables. Similarly, $2 million (2010 – $2 million; January 1, 2010 – $1 million) was due to related parties and remittances of $7 million (2010 – $3 million; January 1, 2010 – $2 million) was due to the Canada Revenue Agency for customs collected on their behalf. Both of these amounts were included in trade and other payables. Deferred revenue from related parties in the amount of $6 million (2010 – $5 million; January 1, 2010 – $5 million) was included in deferred revenue in the statement of financial position at year end.

(b) Key management personnel compensation

Key management personnel ("KMP") are defined as the Board of Directors and members of the senior executive team responsible for planning, controlling and directing the activities of the Group of Companies.

The remuneration of KMP was as follows:

Year ended December 31 (in millions)		**2011**		2010
		KMP Compensation		KMP Compensation
Short-term employee benefits	$	9	$	10
Post-employment benefits		2		1
Other long-term benefits		–		1
Share-based payments[1]		–		–
Total (excluding termination benefits)	**$**	**11**	$	12

[1] Relates to key management personnel of a subsidiary.

The 2011 KMP Group of Companies' compensation relating to the Board of Directors included in the table above was $0.3 million (2010 – $0.5 million).

In addition to the amounts noted in the table above, during 2011 KMP remuneration relating to one-time termination benefits in the amount of $3 million was incurred (2010 – $3 million). There have been no transactions with KMP other than compensation.

(c) Transactions with entities in which KMP of the Canada Post Group of Companies have control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by KMP of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. There were no significant transactions as such to disclose at December 31, 2011 (2010 – nil). Close family members of KMP are considered to be related to the Group of Companies and have been included in this analysis.

22. Related Party Transactions (continued)

(d) Transactions with the Canada Post Corporation Registered Pension Plan

During the year the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $7 million (2010 – $6 million). As at December 31, 2011, $1 million (2010 – $1 million; January 1, 2010 – $1 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables.

Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies are disclosed in Note 10, Pension, Other Post-Employment and Other Long-Term Benefit Plans.

(e) Other

During the year, a subsidiary of the Corporation had business transactions with a company controlled by a minority shareholder of that subsidiary. The minority shareholder is also a director of the subsidiary. This company provided air services to the subsidiary in the amount of $111 million (2010 – $109 million). As at December 31, 2011, $6 million is due to the company from the subsidiary (2010 – $3 million; January 1, 2010 – $6 million) and is included in trade and other payables. These transactions were made at prices and terms comparable to those given to other suppliers of the subsidiary.

23. Nature and Extent of Risks from Financial Instruments

Financial risk factors

The Group of Companies' financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and commodity risk), credit risk and liquidity risk. Risk management for investment activities is carried out by the Corporate Treasury function under policies approved by the Board of Directors. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return in the long-term, consistent with the investment policies approved by the Board of Directors. The Group of Companies has various other financial instruments, such as trade and other receivables, trade and other payables and salaries payable, which arise directly from operations. The Group of Companies enters into and trades derivatives to manage certain risks in accordance with its risk management policy. Derivatives are never purchased for speculative purposes.

Risk management strategies are likely to evolve in response to future conditions and circumstances, including the effects and consequences resulting from changes in the economic environment. These future strategies may not fully insulate the Group of Companies in the near term from adverse effects, the more significant of which relate to liquidity and capital resources as well as exposure to credit losses.

(a) Market risk

Market risk is the potential for loss that may arise from changes in external market factors, such as interest rates, foreign exchange rates and commodities prices.

(i) Interest rate risk

The Group of Companies' investments consist of cash and cash equivalents, marketable securities and segregated securities and are designated as fair value through profit or loss or available-for-sale. Substantially all investments are fixed-rate debt securities and are therefore exposed to a risk of change in their fair value for changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment liabilities to which they are externally restricted. The average duration in the portfolio was 13 years as at December 31, 2011 (2010 – 9 years; January 1, 2010 – 6 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would increase or decrease the value of the segregated securities and other comprehensive income by $71 million at December 31, 2011 (2010 – $42 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. Substantially all of the Group of Companies' loans and borrowings have fixed interest rates with prepayment terms at a premium to fair value.

23. Nature and Extent of Risks from Financial Instruments (continued)

(ii) Foreign exchange risk

The Group of Companies' exposure to foreign exchange risk mostly arises from international settlements with foreign postal administrations and from the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in Special Drawing Rights, a basket of currencies comprising the US Dollar ("US$"), Euro, British Pound and Japanese Yen, whereas payment is usually denominated in US$.

During the year, an economic hedging program was implemented to mitigate the exposure to foreign exchange balances. Where possible, exposures are netted internally and any remaining exposure may be hedged using foreign exchange forward contracts. These forward contracts are not designated as hedges for accounting purposes. The cumulative notional amount of contracts outstanding at December 31, 2011, were US$28 million to sell forward US Dollars, €12 million to sell forward Euros, £2 million to sell forward British Pounds and ¥260 million to sell forward Japanese Yen. These contracts settled within 18 days from year end and were in an asset position of $1 million at December 31, 2011, which was included in trade and other receivables. In addition, an unrealized gain of $1 million reflecting the change in fair value of these contracts was recorded in investment and other income for the year ended December 31, 2011.

Net exchange gains included in net profit or loss amounted to $2 million (2010 – losses of $4 million).

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2011, all other variables held constant, would have increased or decreased net profit or loss for the year by $3 million (2010 – $5 million).

(iii) Commodity risk

The Group of Companies is inherently exposed to fuel price increases. It partially mitigates this risk through the use of a fuel price surcharge charged on some of its products. This practice is an industry-accepted and long-standing risk mitigation technique.

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations resulting in financial loss to the Group of Companies. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards.

The carrying amount of financial assets recorded in the consolidated financial statements, which are to be presented net of impairment losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe it is subject to any significant concentration of credit risk.

Credit risk arising from investments is mitigated by investing with issuers who meet specific criteria and the imposition of dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations must have minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service ratings of R-1 (middle) for short-term investments and A for long-term investments. The Group of Companies regularly reviews the credit ratings of issuers with whom the Group of Companies holds investments and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels. There was no impairment loss on investments recognized during the year (2010 – nil).

Credit risk associated with trade receivables from wholesale and commercial customers is mitigated by the Group of Companies' large customer base, which covers substantially all business sectors in Canada. The Group of Companies follows a program of individual customer credit evaluation based upon financial strength and payment history, and limits the amount of credit extended when deemed necessary. The Group of Companies monitors customer accounts against these credit limits and the aging of past due invoices. The Group of Companies establishes an allowance for doubtful accounts that reflects the estimated realizable value of trade receivables. A general provision is estimated based on prior experience with, and the past due status of, doubtful debtors, and large accounts are assessed individually based on factors that include ability to pay and payment history. Despite continued weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with prior years. Weekly monitoring of aged receivables and day's sales outstanding has indicated no significant change in the trend of the aging of receivables.

23. Nature and Extent of Risks from Financial Instruments (continued)

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service ("USPS"), is generally mitigated by offsetting trade payables to foreign postal administrations on an individual country basis, under the provisions of the Universal Postal Union. Amounts receivable from, and payable to the USPS are settled independently under the bilateral agreement between the Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics in regards to the weights and number of pieces exchanged by the two countries. Final settlement with each foreign postal administration can be billed a year or more after the service is performed. The Corporation's provision for uncollectible receivables from specific foreign postal administrations is based on the period past due after billing of the final settlement.

The following table sets out details of the age of receivables and the allowance for doubtful accounts:

Trade and other receivables

As at (in millions)	**December 31, 2011**	December 31, 2010	January 1, 2010
Trade receivables:			
Current	$ 424	$ 422	$ 360
1-15 days past due	49	63	58
16-30 days past due	20	18	18
Over 30 days past due	38	17	24
Allowance for doubtful accounts	(12)	(12)	(12)
Trade receivables – net	$ 519	$ 508	$ 448
Trade receivables from foreign postal administrations	100	91	86
Risk management financial assets	1	–	–
Other receivables	42	29	50
Trade and other receivables	**$ 662**	$ 628	$ 584

Impairment losses on trade and other receivables recognized during the year were $4 million (2010 – $4 million).

(c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted for approval to the Governor in Council on the recommendation of the Minister responsible for Canada Post, as part of its Corporate Plan approval process. The detailed terms and conditions for each borrowing must also be approved by the Minister of Finance. Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance.

Within these limits, the Corporation's loans and borrowings amounted to $1,055 million as at December 31, 2011 (2010 – $1,057; January 1, 2010 – $61 million). The Corporation has an approved short-term borrowing limit of $250 million for cash management purposes, of which $14 million was used to issue letters of credit.

The Corporation's subsidiaries and joint venture also have access to financing facilities totalling $201 million, of which $72 million (2010 – $51 million; January 1, 2010 – $69 million) was drawn and $4 million (2010 – $4 million) was used to issue letters of credit.

23. Nature and Extent of Risks from Financial Instruments (continued)

The following table details the Group of Companies' remaining contractual maturities for its financial liabilities. The amounts represent the undiscounted cash flows of financial liabilities based on the earliest date on which the Group of Companies can be required to pay. The table includes both principal and interest cash flows.

As at December 31, 2011
(in millions)

	Effective interest rate	Less than one year	Later than one year but not later than five years	Later than five years	**Total**
Non-interest bearing*	N/A	$ 733	$ 1	$ –	$ 734
Bonds, Series 1	4.39 %	22	87	1,023	1,132
Bonds, Series 2	4.12 %	20	82	684	786
Non-redeemable bonds	10.6 %	6	75	–	81
Finance lease obligations	3.1 % - 7.8 %	19	55	10	84
		$ 800	**$ 300**	**$ 1,717**	**$ 2,817**

As at December 31, 2010
(in millions)

	Effective interest rate	Less than one year	Later than one year but not later than five years	Later than five years	**Total**
Non-interest bearing*	N/A	$ 728	$ –	$ –	$ 728
Bonds, Series 1	4.39 %	22	87	1,045	1,154
Bonds, Series 2	4.12 %	20	82	704	806
Non-redeemable bonds	10.6 %	6	23	58	87
Finance lease obligations	3.3 % - 7.5 %	16	41	6	63
		$ 792	$ 233	$ 1,813	$ 2,838

As at January 1, 2010
(in millions)

	Effective interest rate	Less than one year	Later than one year but not later than five years	Later than five years	**Total**
Non-interest bearing*	N/A	$ 680	$ 1	$ –	$ 681
Non-redeemable bonds	10.6 %	6	23	64	93
Other borrowings	Prime + 1.5 %	–	25	–	25
Finance lease obligations	3.1 % - 7.5 %	12	38	5	55
		$ 698	$ 87	$ 69	$ 854

* Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable.

Liquidity risk is also affected by the Group of Companies' management of debt and equity levels that is summarized in Note 16.

24. Segmented Information

(a) **Operating segments** • The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 2).

Transactions occur between the operating segments at commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between operating segments. On a consolidated basis, no individual external customer's purchases account for more than 10% of total revenues.

Year ended, and as at, December 31, 2011
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	Total
Revenue from external customers	$ 5,840	$ 1,518	$ 126	$ –	$ –	$ 7,484
Intersegment revenue	21	97	12	153	(283)	–
Revenue from operations	$ 5,861	$ 1,615	$ 138	$ 153	$ (283)	$ 7,484
Profit (loss) before the undernoted items	$ (96)	$ 132	$ 12	$ 21	$ (4)	$ 65
Depreciation and amortization	(233)	(56)	(5)	(1)	4	(291)
Investment and other income	50	–	–	–	(26)	24
Finance costs and other expense	(48)	(3)	–	–	–	(51)
Profit (loss) before tax	$ (327)	$ 73	$ 7	$ 20	$ (26)	$ (253)
Tax expense (income)	(94)	21	2	6	–	(65)
Net profit (loss)	$ (233)	$ 52	$ 5	$ 14	$ (26)	$ (188)
Assets	$ 6,188	$ 767	$ 83	$ 46	$ (343)	$ 6,741
Unallocated amounts						3
Total assets						$ 6,744
Acquisition of capital assets	$ 504	$ 70	$ 4	$ 2	$ (5)	$ 575
Total liabilities	$ 8,027	$ 308	$ 51	$ 24	$ (35)	$ 8,375

24. Segmented Information (continued)

Year ended, and as at, December 31, 2010
(in millions)

	Canada Post	Purolator	Logistics	Other	Elimination of intersegment	Total
Revenue from external customers	$ 5,910	$ 1,403	$ 140	$ –	$ –	$ 7,453
Intersegment revenue	19	89	9	148	(265)	–
Revenue from operations	$ 5,929	$ 1,492	$ 149	$ 148	$ (265)	$ 7,453
Profit (loss) before the undernoted items	$ 251	$ 131	$ 19	$ 20	$ (4)	$ 417
Depreciation and amortization	(218)	(52)	(8)	(1)	4	(275)
Investment and other income	49	–	–	–	(28)	21
Finance costs and other expense	(26)	(3)	–	–	–	(29)
Profit (loss) before tax	$ 56	$ 76	$ 11	$ 19	$ (28)	$ 134
Tax expense (income)	(211)	23	3	5	–	(180)
Net profit (loss)	$ 267	$ 53	$ 8	$ 14	$ (28)	$ 314
Assets	$ 5,910	$ 696	$ 83	$ 46	$ (342)	$ 6,393
Unallocated amounts						(1)
Total assets						$ 6,392
Acquisition of capital assets	$ 402	$ 32	$ 3	$ –	$ (2)	$ 435
Total liabilities	$ 6,425	$ 225	$ 51	$ 25	$ (40)	$ 6,686

(b) Geographic area information

Year ended December 31 (in millions)	**2011**	2010
Canada	$ 7,087	$ 7,110
United States	310	262
Rest of world	87	81
Total revenue	**$ 7,484**	$ 7,453

24. Segmented Information *(continued)*

(c) Products and services information

Year ended December 31, 2011
(in millions)

	Total revenue	Elimination of intersegment	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 1,936	$ (4)	$ 1,932
Parcels	2,987	(126)	2,861
Direct Marketing	1,356	–	1,356
Other	253	(153)	100
	$ 6,532	$ (283)	$ 6,249
Unattributed revenue			
Stamp postage	$ 521	$ –	$ 521
Meter postage	714	–	714
	$ 1,235	$ –	$ 1,235
Total	**$ 7,767**	**$ (283)**	**$ 7,484**

Year ended December 31, 2010
(in millions)

	Total revenue	Elimination of intersegment	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 1,875	$ (4)	$ 1,871
Parcels	2,925	(113)	2,812
Direct Marketing	1,355	–	1,355
Other	241	(148)	93
	$ 6,396	$ (265)	$ 6,131
Unattributed revenue			
Stamp postage	$ 565	$ –	$ 565
Meter postage	757	–	757
	$ 1,322	$ –	$ 1,322
Total	$ 7,718	$ (265)	$ 7,453

25. Subsequent Event

After receiving approval under the *Financial Administration Act* from Treasury Board of Canada Secretariat, the Canada Post Group of Companies' purchase of all remaining voting shares in Innovapost became effective on March 14, 2012, the "acquisition date." As a result, the equity interest of the Group of Companies in Innovapost increased by a further 47.6%, from 51% to 98.6%.

The consideration for the business combination was $26 million in cash, paid on the acquisition date. The precise allocation of the purchase price to the assets acquired and liabilities assumed requires detailed examination of the statement of financial position at the acquisition date and is therefore preliminary at present. The business combination will be accounted for using the acquisition method and the results of the acquired subsidiary will be included in the consolidated financial statements from the date of acquisition.

Innovapost will continue to provide information systems and information technology (IS/IT) services to the Canada Post Group of Companies. The new ownership structure will strengthen synergies among the Group of Companies by building increased business capabilities and embracing a standardized IS/IT service delivery mode as a means of reducing costs, driving efficiencies, improving service delivery and extracting greater business value from the entity.

Purchase price allocation

The purchase price allocation may be subject to adjustment pending completion of the final valuations. Preliminary fair values approximated carrying amounts at acquisition date and the non-controlling interest in Innovapost has been measured at the proportionate share of the identifiable net assets.

The details of net assets acquired were as follows:

(in millions)	Purchase price allocation (preliminary)
Assets	
Current assets	$ 38
Non-current assets	5
Total assets	**$ 43**
Liabilities	
Current liabilities	$ 17
Non-current liabilities	3
Total liabilities	**$ 20**
Equity	**$ 23**
Equity attributable to Equity of Canada	$ 22
Non-controlling interest	$ 1

26. First-time Adoption of IFRS

These are the Corporation's first consolidated financial statements prepared in accordance with IFRS, as issued by the IASB and adopted by the AcSB. The previous annual consolidated financial statements for the year ended December 31, 2010, were prepared in accordance with Canadian GAAP.

The accounting policies set out in Note 2 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information for the year ended December 31, 2010, and in the preparation of the opening IFRS statement of financial position as at January 1, 2010. The policies selected and applied are based on IFRS issued and effective as at December 31, 2011.

26. First-time Adoption of IFRS (continued)

In preparing the consolidated financial statements, the Canada Post Group of Companies has applied the requirements of IFRS 1 "First-time Adoption of International Financial Reporting Standards" ("IFRS 1"). IFRS 1 requires retrospective application of IFRS, subject to some areas where an alternative treatment is required, or permitted, by the election of an IFRS 1 exemption. As specifically required by IFRS 1, estimates made by the Group of Companies in accordance with IFRS at the date of transition, as well as for all comparative periods, are consistent with estimates made for the same date in accordance with Canadian GAAP.

(a) IFRS 1 exemption elections

A brief description of the exemptions applied by the Group of Companies upon transition to IFRS is set out below. The reconciliation of equity and comprehensive income, and the accompanying explanatory notes, provide additional detail about the significant adjustments recorded by the Group of Companies as a result of the transition to IFRS.

(a.1) Employee benefits

The Group of Companies elected to recognize all previously unrecorded actuarial gains and losses through equity on transition. Without the election of this IFRS 1 exemption, full retrospective application of IAS 19 would have been required.

The Group of Companies also elected to disclose the annual amounts of the present value of the defined benefit obligation, the fair value of the plan assets, the plan surplus or deficit as well as the related experience adjustments prospectively for periods commencing from the date of transition.

(a.2) Fair value as deemed cost

For a few selected buildings and land with some unique characteristics, the Corporation applied the exemption under IFRS 1 to measure items of property, plant and equipment at their fair value as deemed cost at the date of transition.

(a.3) Business combinations

The Group of Companies elected not to apply IFRS 3 "Business Combinations" ("IFRS 3") retrospectively to business combinations that occurred before the date of transition, and adopted IFRS 3 prospectively from January 1, 2010. As required by the use of this exemption, a goodwill impairment test was performed at transition. No goodwill impairment write-down was required.

Concurrent with the election of this exemption, the Group of Companies applied certain specified requirements of IAS 27 "Consolidated and Separate Financial Statements," relating to the allocation of income to any non-controlling interests and to any prior changes in ownership, on a prospective basis.

(a.4) Leases

The Group of Companies elected to apply the IFRS 1 elective exemption relating to IFRIC 4 "Determining whether an Arrangement contains a Lease" ("IFRIC 4") to its outsourcing arrangements on transition. Under the exemption, the Group of Companies was not required to reassess arrangements within the scope of IFRIC 4 where a comparable determination had previously been made under Canadian GAAP. Where no such assessment had previously been made, an assessment as to whether the arrangement contained a lease was carried out based on facts and circumstances at transition, as opposed to the inception date of the applicable arrangement.

(a.5) Cumulative translation differences

The Group of Companies elected to use the exemption to reset the cumulative translation difference related to its foreign operations to zero upon transition to IFRS. The impact of this election on transition to IFRS was negligible.

(a.6) Designation of previously recognized financial instruments

The Group of Companies elected to apply the exemption to designate cash and cash equivalents and marketable securities as fair value through profit or loss, and to designate segregated securities as available-for-sale, at the date of transition, thereby maintaining the same classifications and carrying amounts as recorded under Canadian GAAP at the same date.

26. First-time Adoption of IFRS *(continued)*

(a.7) Decommissioning obligations included in property, plant and equipment

The Group of Companies elected to determine the amount of any liabilities included in the cost of property, plant and equipment using estimates of the liability at transition, the estimated historical risk-free discount rate from inception to transition and current estimates of useful life, as a practical permitted alternative to full retrospective application.

(a.8) Capitalized borrowing costs

The Group of Companies elected to apply IAS 23 "Borrowing Costs" prospectively from January 1, 2010.

(b) Reconciliation of Canadian GAAP to IFRS

In order to explain how the transition from Canadian GAAP to IFRS affected the financial position and performance of the Canada Post Group of Companies, reconciliations of equity as at the date of transition and December 31, 2010, and a reconciliation of comprehensive income for the year ended December 31, 2010, are included below. The Group of Companies' transition to IFRS did not have a material impact on the total operating, investing or financing cash flows. The significant adjustments to equity and comprehensive income, as a result of the adoption of IFRS, are shown in the tables below. The adjustments relating to equity as at the date of transition and to comprehensive income for the year are further explained in the notes accompanying the tables. Following the notes, reconciliations of the consolidated statements of financial position and comprehensive income previously presented under Canadian GAAP to those prepared under IFRS are also presented as additional explanatory material.

(b.1) Reconciliations of equity and comprehensive income as at and for the year ended December 31, 2010

(in millions)	Notes**	Adjustments at transition **January 1, 2010**	Adjustments to comprehensive income: Net profit	Adjustments to comprehensive income: OCI *	Cumulative adjustments **December 31, 2010**
Equity of Canada, net profit and OCI under Canadian GAAP		$ 1,787	$ 439	$ 10	$ 2,236
IFRS differences increasing (decreasing) reported equity of Canada, net profit and OCI:					
Employee benefits					
Net actuarial losses	(i)	(1,194)	(17)	(2,002)	(3,213)
Expected return on plan assets	(ii)	–	(120)	–	(120)
Asset limit and minimum funding requirements	(iii)	(46)	–	46	–
Past service cost and funding excess	(iv)	99	(48)	–	51
Attribution period	(v)	169	(2)	–	167
Other long-term benefits	(vi)	(238)	13	–	(225)
Property, plant and equipment	(vii)	(84)	1	–	(83)
Leases	(viii)	5	(1)	–	4
Provisions	(ix)	(2)	1	–	(1)
Deferred tax	(x)	324	44	489	857
Non-controlling interests' impact	(xi)	5	–	1	6
Equity of Canada, net profit and OCI attributable to the Government of Canada under IFRS		$ 825	$ 310	$ (1,456)	$ (321)
Reclassification of non-controlling interests to equity under IFRS	(xi)	29	4	–	33
Non-controlling interests' share of adjustments	(xi)	(5)	–	(1)	(6)
Total equity, net profit and OCI under IFRS		**$ 849**	$ 314	$ (1,457)	**$ (294)**

* Other comprehensive income (loss).

** The notes referenced provide additional explanatory material for the adjustments to equity on transition and to comprehensive income for 2010. Reconciliations of the statement of financial position at January 1, 2010, and December 31, 2010, and a reconciliation of the statement of comprehensive income are also included following the explanatory material.

26. First-time Adoption of IFRS *(continued)*

(b.2) Explanatory notes to the reconciliations

(i) Employee benefits – Actuarial gains and losses

The Group of Companies made the transitional election to recognize all previously unrecognized net actuarial losses in retained earnings at the date of transition, resulting in a $1,194-million decrease in equity consisting of a decrease in pension benefit assets of $1,149 million and an increase in pension, post-employment and other long-term benefit liabilities of $45 million when compared to amounts recorded under Canadian GAAP at the same date.

Under IFRS, a policy choice for post-employment benefit plans is available allowing the immediate recognition of actuarial gains and losses in other comprehensive income or the deferral and amortization methodology similar to Canadian GAAP. The policy adopted by the Group of Companies is immediate recognition in other comprehensive income. For other long-term benefits, actuarial gains and losses are recorded immediately in net profit or loss as required under IFRS, whereas under Canadian GAAP they were recognized in income over the average duration of the obligations. The combined impact of the policy choice and changes was to decrease net profit by $17 million and decrease other comprehensive income by $2,002 million for the year ended December 31, 2010.

(ii) Employee benefits – Expected return on plan assets using fair value of assets

Under IAS 19, the expected return on plan assets component of the pension expense is calculated using fair value of plan assets. The Group of Companies' policy under Canadian GAAP was to calculate this component using the market-related values of assets (commonly referred to as smoothed value of assets). The IAS 19 requirement to use fair value of plan assets for computation purposes resulted in a decrease in net profit of $120 million in 2010.

(iii) Employee benefits – Pension benefit asset limit and minimum funding ("MFR") liability

Under IAS 19, when a plan gives rise to a defined benefit asset, impairment may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the defined benefit asset and even create or increase a defined benefit liability. The application of these requirements resulted in a reduction in equity of $46 million at the transition date consisting of a $25-million reduction in pension benefit assets and a $21-million increase in pension, post-employment and other long-term benefit liabilities. In 2010, these amounts were reversed through other comprehensive income as no impairment or minimum funding liability was required at December 31, 2010.

(iv) Employee benefits – Vested past service cost and funding excess

Under IFRS, vested past service costs resulting from plan amendments are recognized when plan amendments occur, whereas under Canadian GAAP both vested and unvested past service costs were deferred and amortized. On transition, equity was increased by $42 million due to the recognition of vested negative past service costs. This resulted in a $22-million reduction in pension benefit assets and a $64-million reduction of pension, post-employment and other long-term benefit liabilities. In 2010, the reversal of Canadian GAAP amortization from these vested past service costs resulted in a decrease in net profit of $20 million, which was partially offset by a $4-million increase in net profit due to the negotiation of a new plan amendment during 2010 resulting in immediate recognition of vested negative past service costs.

As part of the *Federal Public Sector Pension Reform*, assets were transferred from the Government of Canada to the Corporation's pension plan. The value of assets exceeded the obligations assumed for the defined benefit pension plan, resulting in a funding excess which was recognized on a straight-line basis under Canadian GAAP. Under IFRS, this amount would have been recognized in net profit or loss immediately. On transition, the unamortized portion of the funding excess was recognized resulting in a $57-million increase in both equity and pension benefit assets. In 2010, the Canadian GAAP amortization relating to the excess funding was reversed thereby decreasing net profit by $32 million.

26. First-time Adoption of IFRS *(continued)*

(v) Employee benefits – Attribution period

In determining the present value of the defined benefit obligation and current service cost, the actuarial method attributes benefits to periods of service under the plan's benefit formula. In some circumstances, where no significant benefits are earned by further service or where benefits are considered to be earned only in later years of service, the determination of the attribution period under IFRS can differ from Canadian GAAP. The Group of Companies' post-employment term life and death benefit plans have terms that reduce the length of the attribution period under IFRS, and as a result the benefit obligation was increased on transition by $34 million. An assessment of the terms of the Group of Companies' post-employment health, dental and other health benefit plans resulted in a change in the start date of the attribution period and a reduction in the benefit liability on transition of $203 million. For the year ended December 31, 2010, the combined impact of the change in the attribution period on all plans was to reduce net profit by $2 million.

(vi) Employee benefits – Other long-term benefits

IFRS requires that an obligation for short-term or long-term compensated accumulating absences be recorded as service is rendered by the employee. Canadian GAAP only address long-term accumulated absences that vest or are paid out on termination. On transition to IFRS, the Group of Companies was required to recognize a liability for sick leave resulting in a reduction in equity and an increase in pension, post-employment and other long-term benefit liabilities of $236 million. Other long-term employee benefits such as an additional liability for long-service awards were also recognized based on the specific requirement of IAS 19 and also resulted in a reduction of equity and an increase in liabilities of $2 million.

For the year ended December 31, 2010, an actuarially-determined expense of $39 million related to these new plans was recognized with employee benefit costs. This amount includes an actuarial loss of $7 million, which is discussed separately with *Employee benefits – Actuarial gains and losses* in (i) above. This new actuarial expense replaces a $32-million sick leave expense which under Canadian GAAP was recognized as incurred and classified with labour costs. In addition, a $13-million gain on the partial curtailment of sick leave as a result of collective agreement negotiations resulted in an increase of $13 million in net profit for the year under IFRS relative to Canadian GAAP for the same period.

(vii) Property, plant and equipment ("PP&E") and depreciation – Fair value as deemed cost

As previously noted, the Corporation elected to apply the fair value as deemed cost exemption to selected items of land and buildings at the date of transition. The fair value of the selected items was measured by an independent appraiser at the date of transition. The aggregate adjustment for these items relative to the carrying amount reported under Canadian GAAP at December 31, 2009, was a decrease of $84 million. The aggregate fair value for the land and buildings for which the exemption was applied was $213 million at the date of transition, with a corresponding Canadian GAAP net book value of $297 million.

For the year ended December 31, 2010, depreciation under IFRS was $1 million lower than the amount reported under Canadian GAAP due to the reduction of the value ascribed to the buildings at the date of transition relative to Canadian GAAP.

(viii) Leases – Sale leaseback transaction

During 2009, the Corporation entered into a sale leaseback transaction whereby a property was sold at a gain and an operating lease was entered into for the same property at fair value. Under Canadian GAAP, a portion of the gain arising from a sale and leaseback transaction was deferred and amortized over the period of the operating lease. Under IFRS, gains arising from a sale and operating leaseback transaction are recognized immediately in net profit or loss provided that the transaction has been entered into at fair value.

The impact of this difference was to increase IFRS equity relative to Canadian GAAP at the date of transition by $5 million and to reduce net profit under IFRS relative to Canadian GAAP during 2010 by $1 million due to the differing requirements relating to the timing of gain recognition.

26. First-time Adoption of IFRS (continued)

(ix) Provisions

IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" ("IAS 37") provides guidance around liabilities for which the amount and timing of the obligation incorporate a considerable degree of uncertainty. The measurement and recognition criteria differ in some respects relative to Canadian GAAP. Specifically, IAS 37 encompasses both legal and constructive obligations, requires a measurement approach where both the discount rate and the incorporation of risk into the cash flows can differ relative to Canadian GAAP and establishes a lower threshold for liability recognition. The collective impact of these differences was to decrease equity upon transition to IFRS by $2 million due to the increase in liabilities within the scope of IAS 37. The impact of this change on net profit for the year ended December 31, 2010, was an increase of $1 million.

(x) Deferred tax

The net impact of the IFRS adjustments on temporary differences between carrying amounts and the tax basis was an increase of $296 million in deferred tax assets, and a decrease of $28 million in deferred tax liabilities, resulting in a net increase of $324 million in equity at the date of transition. In 2010, the IFRS adjustments resulted in a decrease in deferred tax expense of $44 million related to net profit and a decrease in deferred tax expense of $489 million related to other comprehensive income.

(xi) Non-controlling interests

Under IFRS, non-controlling interests are required to be presented as a component of equity, separate from the equity of Canada, and this presentation is reflected in the statement of financial position for all periods presented. Of the overall adjustment to equity of $967 million as a result of transition, $5 million was attributed, and has been allocated, to non-controlling interests. Similarly, net profit and other comprehensive income for the period are required to be attributed to the owners of the parent (the Government of Canada) and to the non-controlling interests based on the respective ownership interests, resulting in a decrease from Canadian GAAP of $1 million in comprehensive income for the year ended December 31, 2010.

(xii) Significant changes in terminology and presentation under IFRS

Under IFRS, the terminology for certain financial statement line items and classification within the consolidated financial statements differ in comparison to Canadian GAAP. Key differences relevant to the Group of Companies' transition are as follows:

- Provisions represent a new category of liabilities and are required to be presented as a separate line item. Certain liabilities included within salaries and benefits payable and accounts payable and accrued liabilities under Canadian GAAP have been reclassified to provisions under IFRS.
- Deferred tax was formerly referred to as future income tax under Canadian GAAP. Additionally, deferred tax is required to be presented as non-current in its entirety under IFRS, whereas Canadian GAAP required it to be segregated between current and non-current components.
- Non-current assets held for sale were previously classified as non-current assets under Canadian GAAP. As per IFRS guidance, non-current assets held for sale are to be presented as current assets, resulting in the reclassification of this balance on transition to IFRS.
- Further to the recognition of additional other long-term liabilities, a portion of this liability was determined to be current and was therefore classified as such on transition to IFRS to appropriately reflect this determination.
- As part of the transition to IFRS and to better reflect the nature of the expenses, the following costs which were presented separately in previous years, have been aggregated in the line 'Other operating costs' in the IFRS consolidated statement of comprehensive income: non-labour collection, processing and delivery; property, facilities and maintenance; and selling, administrative and other.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT JANUARY 1, 2010

As at January 1, 2010 (in millions of Canadian dollars)	Canadian GAAP	Employee benefits: Net actuarial losses	Employee benefits: Asset limit and MFR	Employee benefits: Past service cost and funding excess	Employee benefits: Attribution period	Employee benefits: Other long-term benefits	PP&E	Leases	Provisions	Deferred tax	Non-controlling interests	Recognition and measurement adjustments	Presentation adjustments	IFRS
	Note	(i)	(iii)	(iv)	(v)	(vi)	(vii)	(viii)	(ix)	(x)	(xi)	(i) to (xi)	(xii)	
ASSETS														
Current assets														
Cash and cash equivalents	473											–	–	**473**
Marketable securities	270											–	–	**270**
Trade and other receivables	584											–	–	**584**
Income tax receivable	69											–	1	**70**
Other assets	76											–	6	**82**
Current portion of deferred tax assets	25											–	(25)	**–**
Total current assets	1,497	–	–	–	–	–	–	–	–	–	–	–	(18)	**1,479**
Non-current assets														
Property, plant and equipment	2,047						(84)		1			(83)	–	**1,964**
Intangible assets	169											–	–	**169**
Segregated securities	654											–	–	**654**
Pension benefit assets	1,335	(1,149)	(25)	35								(1,139)	–	**196**
Deferred tax assets	179									296		296	25	**500**
Goodwill	125											–	–	**125**
Other assets	23											–	(6)	**17**
Total non-current assets	4,532	(1,149)	(25)	35	–	–	(84)	–	1	296	–	(926)	19	**3,625**
Total assets	6,029	(1,149)	(25)	35	–	–	(84)	–	1	296	–	(926)	1	**5,104**
LIABILITIES AND EQUITY														
Current liabilities														
Trade and other payables	450											–	(28)	**422**
Salaries and benefits payable and related provisions	575											–	(67)	**508**
Provisions	–								1			1	96	**97**
Income tax payable	2											–	–	**2**
Deferred revenue	142											–	–	**142**
Loans and borrowings	10											–	–	**10**
Other long-term benefit liabilities	–											–	82	**82**
Total current liabilities	1,179	–	–	–	–	–	–	–	1	–	–	1	83	**1,263**
Non-current liabilities														
Loans and borrowings	120											–	–	**120**
Pension, other post-employment and other long-term benefit liabilities	2,835	45	21	(64)	(169)	238						71	(82)	**2,824**
Deferred tax liabilities	36									(28)		(28)	–	**8**
Provisions	–								1			1	7	**8**
Other liabilities	43							(5)	1			(4)	(7)	**32**
Total non-current liabilities	3,034	45	21	(64)	(169)	238	–	(5)	2	(28)	–	40	(82)	**2,992**
Total liabilities	4,213	45	21	(64)	(169)	238	–	(5)	3	(28)	–	41	1	**4,255**
Equity														
Contributed capital	1,155											–	–	**1,155**
Accumulated other comprehensive loss	(1)											–	–	**(1)**
Retained earnings (Accumulated deficit)	633	(1,194)	(46)	99	169	(238)	(84)	5	(2)	324	5	(962)	–	**(329)**
Equity of Canada	1,787	(1,194)	(46)	99	169	(238)	(84)	5	(2)	324	5	(962)	–	**825**
Non-controlling interests*	29										(5)	(5)	–	**24**
Total equity	1,816	(1,194)	(46)	99	169	(238)	(84)	5	(2)	324	–	(967)	–	**849**
Total liabilities and equity	6,029	(1,149)	(25)	35	–	–	(84)	–	1	296	–	(926)	1	**5,104**

* Non-controlling interests are not part of total equity under Canadian GAAP. The presentation above is representative of the IFRS format of the consolidated statement of financial position.

RECONCILIATION OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010

		Employee benefits													
As at December 31, 2010 (in millions of Canadian dollars)	**Canadian GAAP**	Net actuarial losses	Expected return on plan assets	Asset limit and MFR	Past service cost and funding excess	Attribution period	Other long-term benefits	**PP&E**	**Leases**	**Provisions**	**Deferred tax**	**Non-controlling interests**	**Recognition and measurement adjustments**	**Presentation adjustments**	**IFRS**
	Note	**(i)**	**(ii)**	**(iii)**	**(iv)**	**(v)**	**(vi)**	**(vii)**	**(viii)**	**(ix)**	**(x)**	**(xi)**	**(i) to (xi)**	**(xii)**	
ASSETS															
Current assets															
Cash and cash equivalents	379												–	–	**379**
Marketable securities	1,082												–	–	**1,082**
Trade and other receivables	628												–	–	**628**
Income tax receivable	139												–	2	**141**
Other assets	72												–	1	**73**
Current portion of deferred tax assets	26												–	(26)	**–**
Total current assets	2,326	–	–	–	–	–	–	–	–	–	–	–	–	(23)	**2,303**
Non-current assets															
Property, plant and equipment	2,210							(83)					(83)	–	**2,127**
Intangible assets	161												–	–	**161**
Segregated securities	499												–	–	**499**
Pension benefit assets	2,063	(2,790)	(120)		3								(2,907)	956	**112**
Deferred tax assets	204										824		824	26	**1,054**
Goodwill	125												–	–	**125**
Other assets	12												–	(1)	**11**
Total non-current assets	5,274	(2,790)	(120)	–	3	–	–	(83)	–	–	824	–	(2,166)	981	**4,089**
Total assets	7,600	(2,790)	(120)	–	3	–	–	(83)	–	–	824	–	(2,166)	958	**6,392**
LIABILITIES AND EQUITY															
Current liabilities															
Trade and other payables	500												–	(23)	**477**
Salaries and benefits payable and related provisions	576												–	(39)	**537**
Provisions	–												–	64	**64**
Income tax payable	–												–	–	**–**
Deferred revenue	120												–	–	**120**
Loans and borrowings	13												–	–	**13**
Other long-term benefit liabilities	–												–	84	**84**
Total current liabilities	1,209	–	–	–	–	–	–	–	–	–	–	–	–	86	**1,295**
Non-current liabilities															
Loans and borrowings	1,095												–	–	**1,095**
Pension, other post-employment and other long-term benefit liabilities	2,950	423			(48)	(167)	225						433	872	**4,255**
Deferred tax liabilities	40										(33)		(33)	–	**7**
Provisions	–									1			1	9	**10**
Other liabilities	37								(4)				(4)	(9)	**24**
Total non-current liabilities	4,122	423	–	–	(48)	(167)	225	–	(4)	1	(33)	–	397	872	**5,391**
Total liabilities	5,331	423	–	–	(48)	(167)	225	–	(4)	1	(33)	–	397	958	**6,686**
Equity															
Contributed capital	1,155												–	–	**1,155**
Accumulated other comprehensive income	9												–	–	**9**
Retained earnings (Accumulated deficit)	1,072	(3,213)	(120)	–	51	167	(225)	(83)	4	(1)	857	6	(2,557)	–	**(1,485)**
Equity of Canada	2,236	(3,213)	(120)	–	51	167	(225)	(83)	4	(1)	857	6	(2,557)	–	**(321)**
Non-controlling interests*	33											(6)	(6)	–	**27**
Total equity	2,269	(3,213)	(120)	–	51	167	(225)	(83)	4	(1)	857	–	(2,563)	–	**(294)**
Total liabilities and equity	7,600	(2,790)	(120)	–	3	–	–	(83)	–	–	824	–	(2,166)	958	**6,392**

* Non-controlling interests are not part of total equity under Canadian GAAP. The presentation above is representative of the IFRS format of the consolidated statement of financial position.

RECONCILIATION OF CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended December 31, 2010
(in millions of Canadian dollars)

	Notes	Canadian GAAP	Recognition and measurement adjustments	Presentation adjustments	IFRS
Revenue from operations		$ 7,453	$ –	$ –	$ 7,453
Cost of operations					
Labour	(vi)	3,854	(32)		3,822
Employee benefits, net of transitional support of $13 million	(i) (ii) (iv) (v) (vi)	806	206		1,012
		4,660	174		4,834
Other operating costs*		2,202			2,202
Depreciation and amortization	(vii)	276	(1)		275
Total cost of operations		7,138	173		7,311
Profit from operations		315	(173)		142
Investing and financing income (expense)					
Investment and other income	(viii)	22	(1)		21
Finance costs and other expense	(ix)	(30)	1		(29)
Investing and financing income (expense), net		(8)	–		(8)
Profit before tax		307	(173)		134
Tax expense (income)	(x)	(136)	(44)		(180)
Profit before non-controlling interests		443	(129)		314
Non-controlling interests in profit of subsidiaries	(xi)	4		(4)	–
Net profit		$ 439	$ (129)	$ 4	$ 314
Other comprehensive income (loss)					
Non-reclassifying to Net profit (loss)					
Actuarial losses on defined benefit plans	(i)	$ –	$ (2,002)	$ –	$ (2,002)
Asset limit and minimum funding requirements	(iii)	–	46		46
Reclassifying to Net profit (loss)					
Unrealized gains on available-for-sale financial assets		16			16
Realized gains reclassified to Net profit		(3)			(3)
Tax relating to all components of Other comprehensive income (loss)	(x)	(3)	489		486
Other comprehensive income (loss)		10	(1,467)		(1,457)
Comprehensive income (loss)		$ 449	$ (1,596)	$ 4	$ (1,143)
Net profit attributable to:					
Government of Canada	(xi)			$ 310	$ 310
Non-controlling interests	(xi)			4	4
				$ 314	$ 314
Comprehensive income (loss) attributable to:					
Government of Canada	(xi)			$ (1,146)	$ (1,146)
Non-controlling interests	(xi)			3	3
				$ (1,143)	$ (1,143)

* The following costs, which were presented separately under Canadian GAAP, have been aggregated in the line 'Other Operating costs' in the IFRS consolidated statement of comprehensive income: non-labour collection, processing and delivery; property, facilities and maintenance; and selling, administrative and other.

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