ANNUAL REPORT 2012

Redefining our role in the new economy

CANADA POST POSTES CANADA

Understanding the Financial Results

	GROUP OF COMPANIES	CANADA POST SEGMENT
In 2012, the Canada Post Group of Companies had a before-tax profit of $127 million. The core Canada Post segment had a before-tax[1] profit of $98 million.	$127M	$98M
The Canada Post segment profit was created by non-recurring, non-cash adjustments worth roughly $152 million.	$152M	
The non-cash adjustments are largely due to reductions in sick leave and post-retirement health benefits in the new collective agreements signed with the Canadian Union of Postal Workers on December 21, 2012.		
In a year marked by a historic decline in Lettermail volumes, the Group of Companies would have had a loss of $25 million and the Canada Post segment would have had a loss of $54 million if not for these non-cash, non-recurring adjustments.	-$25M	-$54M

The Group of Companies reported a loss in 2011, essentially due to the performance of the Canada Post segment. The Group expects to incur a substantial loss again in 2013. In fact, an accounting profit alone is not a sign that Canada Post can afford to conduct business as usual.

1. All subsequent references to profit or loss on this page are before tax.

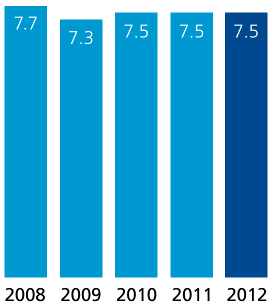
The Canada Post Group of Companies: By the Numbers

(in millions of dollars)	2012	2011	% Change[1]
Operations			
Revenue from operations	7,529	7,484	0.2 %
Profit (loss) from operations	131	(226)	–
Operating profit margin (%)	1.7 %	(3.0)%	–
Profit (loss) before tax	127	(253)	–
Net profit (loss)	94	(188)	–
Cash provided by operating activities	310	196	58.8 %
Cash used in capital expenditures	575	540	6.5 %
Financial position			
Cash and marketable securities	868	1,113	(22.0)%
Total assets	7,018	6,744	4.1 %
Loans and borrowings	1,143	1,127	1.4 %
Equity of Canada	(2,668)	(1,655)	(61.2)%
Volume			
Total volume – Consolidated (millions)	9,755	10,101	(3.8)%
Domestic Lettermail™ erosion (Canada Post segment)	6.4 %	3.6 %	–
Transaction Mail volume percentage decline per address	7.0 %	4.6 %	–
Canada Post Corporation Registered Pension Plan			
Pension assets – fair market value	16,780	15,427	8.8 %
Going concern deficit – to be funded[2]	37	404	(90.8)%
Solvency deficit – to be funded[2]	5,883	4,689	25.5 %
Employer contributions – current	308	291	5.7 %
Employer contributions – special	63	219	(71.1)%

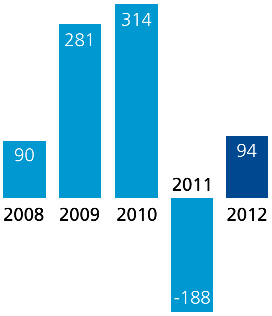
1. Adjusted for trading days, where applicable.
2. Number for 2012 is an estimate.

The Canada Post Group of Companies

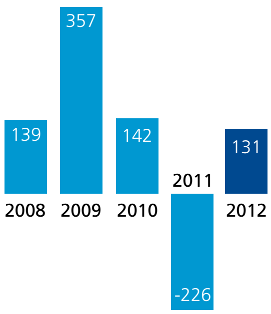
Revenue from operations
(in billions of dollars)



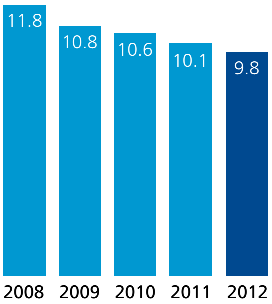
Net profit (loss)*
(in millions of dollars)



Profit (loss) from operations*
(in millions of dollars)



Volume
(in billions of pieces)



* 2008 to 2009 is based on previous Canadian generally accepted accounting principles. 2010 to 2012 is based on International Financial Reporting Standards.

"Canada Post" and "the Canada Post segment" do not include subsidiaries. "The Canada Post Group of Companies" and "the Group of Companies" include the Canada Post segment and its principal subsidiaries, which are Purolator Inc., SCI Group Inc. and Innovapost Inc.

President's Message

Canada Post finds itself at a pivotal moment in its storied history. After successfully adjusting to fax machines, email, and dial-up then broadband Internet, the combination of fast Internet and smart tablets has shaken the mail business at its core. For the first time in modern history, paper-based communication has a credible alternative. This is a seismic change. Our Transaction Mail volumes have declined 23.6 per cent per household since 2008 and this decline has accelerated in 2012.

This is a new phase in our journey. The value of our exclusive privilege to deliver mail has essentially evaporated; it cannot give us stability or sustain us as it once did. Now we must manage our business as a true commercial enterprise that competes in every product line. Even the Direct Marketing business is facing digital rivals that use mobile and smart technologies, and our Parcels business operates in a highly competitive environment. On the cost side, we carry an unprecedented level of pension solvency deficit caused by a prolonged period of low interest rates and volatile investment returns. Together, these two forces – competition and cost – are creating a perfect storm. We must fundamentally rethink our business.

We are listening carefully as Canadians and Canadian businesses tell us about their changing needs. We must reshape our business to stay relevant.

While challenging, this new reality offers us ample opportunity to redefine our role and stay relevant in the digital economy. Electronic commerce is boosting our Parcels business. Canadians want a trusted brand to deliver their digital bills and statements. This demand and a renewed focus on data-centric permission marketing are creating new growth anchors. That is why we are embarking on the most ambitious makeover in our 250-year history.

Laying the foundation

For the past few years, we have been working hard to fix our operations. We have streamlined mail processing and made delivery more efficient. Delivery agents equipped with a vehicle can deliver both parcels and mail, which is more efficient and improves service. We have invested in scanning technologies that allow Canadians to track their parcels along the delivery chain. Our digital platforms offer 24/7 parcel tracking, postal rates and postal code lookups, redirection of mail and much more.

We also reached a shared understanding with our employees about the threats facing our business. As a result, we reached a historic agreement with the Canadian Union of Postal Workers (CUPW), which will allow Canada Post to bring in new employees at a significantly lower wage and benefits package and create greater operational flexibility to serve Canadians. While this was a step in the right direction, we must continue to find opportunities to create a more competitive cost base.

This new shared understanding paves the way for our employees to become more focused on serving customers. It also offers our customers greater stability as they entrust us with multi-year commitments to deliver their products and mailings.

Understanding the emerging needs of Canadians

Canadians are telling us all the time that their needs are changing. More Canadians are using mobile devices, receiving and paying bills electronically and transacting online for many services. With between 8 and 12 million visits to **canadapost.ca** each month, they are also connecting with the post office digitally. But they still expect secure and reliable delivery of their online purchases, credit cards, loyalty cards, identification cards, government documents and other essential mail. People still enjoy the delivery of their favourite magazine, relevant promotional offers and catalogues in their mailbox. Canadians in northern and rural communities have an even greater dependence on postal services.

Small businesses are setting up online stores, using direct mail and digital means to promote themselves and to conduct business. They also expect low-cost and reliable parcel services to meet their need to ship products ordered online. The products that make them successful, such as direct mail and parcels, must remain competitively priced.

Large businesses expect a very high level of service from Canada Post. Even as they pursue digital strategies to connect with customers, they tell us that both Transaction Mail and Direct Marketing mail are critical to their success. Large retailers tell us that our direct mail and parcel offerings must remain competitive, and that our delivery reach and retail network offer them crucial advantages as they sell more products online.

We are listening carefully as Canadians and Canadian businesses tell us about their changing needs. We must reshape our business to stay relevant. Continuing to provide services people no longer need or use would simply mean fewer Canadians would bear the burden of paying more for less-relevant postal services.

Reshaping the business

The journey to reshape our future is rooted in understanding our customers. Insights from conversations with Canadians who receive mail and packages and from customers who send them are defining our strategic choices. These insights have already led to the restructuring of our business into two distinct networks. The first, our Physical Delivery Network, is transforming our legacy mail business into Canada's favourite home delivery network for packages, direct mail and essential Transaction Mail that will remain part of our business. The second, our Digital Delivery Network, is creating the next-generation electronic mail delivery network that will offer Canadians a consolidated view of all bills and statements in one place. Just as we have delivered all mail to a mailbox at home, it is essential that we offer a neutral and trusted platform for Canadians to receive all of their e-bills and e-statements in one epost™ box. This business is also responsible for running an online digital post office that delivers as many services as a retail post office.

Matching service delivery and network to future needs

The enormity of our challenges warrants a bold look at our business model. We are generating significant savings from modernizing operations, and will continue to do so. But these savings will not be enough to offset the loss in revenues as mail volumes decline, or to address our pension costs. We need fundamental changes to our network and delivery model.

We are already designing the network of the future. It will greatly shift our focus to serving parcel and marketing mail needs, to respond to the explosion in e-commerce and digital delivery of bills and statements. The change will not occur overnight, and it will require us to be thoughtful. We see this as the decade of duality: the needs of the digital and physical markets will warrant equal attention.

Customer experience will be the key to our success

When you enjoy a form of monopoly, as we did for decades with letters, you sometimes take your customers for granted. We simply cannot afford to take that risk anymore. One essential pillar in our future strategy is a relentless focus on delivering a world-class customer experience. We have begun to review all of the policies and procedures that were established under a different era and often led to customer irritants. The new Canada Post must, by design, be customer-centric. Each operational decision must take into account the customer experience. This journey has begun in earnest.

One essential pillar in our future strategy is a relentless focus on delivering a world-class customer experience.

Our pursuit of economic viability

We have tackled major challenges in the past. Extensive financial losses in the 1970s and 1980s led to fundamental changes in our retail and delivery networks. Today's situation warrants a sense of urgency before it leads to similar financial outcomes. We must act with vision and decisiveness to reshape our business ahead of the threats we face.

Some of the changes needed to rebuild our economic viability will be difficult and take time. Still, our efforts thus far leave us confident that, with enough fundamental changes, we can transition our business without becoming a burden on taxpayers. This remains a fundamental guiding principle for us as we build a vibrant, relevant and successful Canada Post for the future.

Deepak Chopra
President and Chief Executive Officer

The Year in Review: 2012

The mail that built Canada Post is eroding like never before

Canada Post's core business has been the delivery of letters, bills, invoices, notices and statements. This mail built our network and workforce. This mail is our foundation – and our foundation is eroding.

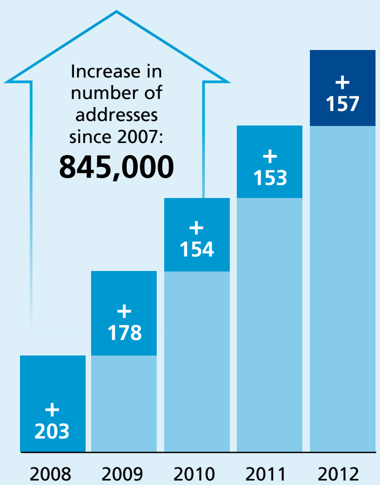
Volumes of domestic Lettermail began to decline slightly in 2007. In 2009, the decline picked up speed. In 2012, the decline accelerated like never before. Canadians and Canadian businesses mailed almost one billion fewer Lettermail pieces in 2012 than they did in 2006. And, almost 30 per cent of that nearly one-billion drop occurred in 2012 alone. What does this decline look like on a typical workday?

In 2012, we had nearly 1.1 million fewer pieces of domestic Lettermail in our system per business day than the year before; 1.7 million fewer pieces than two years ago, and 3.7 million fewer pieces than 2006, the year before the decline began.

Volumes are falling faster than ever. Nobody expects them to rebound. Mail will be with us for many years to come, but nobody knows how far or how fast volumes will drop. That is Canada Post's starkest challenge.

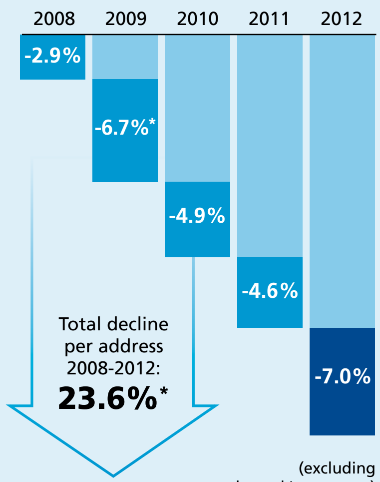
Transaction Mail decline per address

The number of addresses to which we deliver **grows** steadily each year...



(in thousands)

...while the number of pieces of mail we deliver to each address is **decreasing** dramatically each year.



(excluding outbound Letter-post)

* 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 22.3%.

Domestic Lettermail's decline: Picking up speed in 2012

In 2006, we delivered roughly **five billlion** pieces of domestic Lettermail.

That number has dropped to roughly **four billion** pieces, and about 30 per cent of that decline was in 2012 alone.

In 2012, we delivered roughly **255 million fewer pieces** of domestic Lettermail than we did in 2011.

Improved service marked 2012

Canada Post set ambitious targets for improving service to customers in 2012 – and meeting those targets was a major focus. As a result, Canada Post established on-time delivery performance records for some products and exceeded targets for most others. Customers are also benefiting from scanning and tracking improvements that allow them to see where a barcoded parcel is at more stages of its journey from origin to destination.

More efficient call centre operations improved the customer experience in 2012. We recorded better first-call resolution rates, wait times and overall resolution, and have more improvements on the horizon as online self-service options build momentum.

Our ongoing investments in automated equipment position us to offer an improved customer experience for years to come.

The signing of historic collective agreements

On December 21, 2012, Canada Post and its largest union, the Canadian Union of Postal Workers (CUPW), signed new collective agreements. In addition to guaranteeing customers three years of uninterrupted service, the agreements reduce labour costs significantly. For this reason, they mark a crucial turning point in our history of collective bargaining with CUPW. Our employees have arrived at a shared understanding of how serious our challenges are as mail volumes decline. Among other things, the agreements mean lower starting wages for new hires and eliminate the previous sick leave provisions for CUPW, which was the last group of employees to fall under a more affordable Short-Term Disability Program. The savings are significant but do not solve all our challenges. Canada Post must do much more to reduce its labour costs, which are more than 69 per cent of our operating costs.

Investments that drive performance

Canada Post is continuing to modernize operations, and this transformation is on track. It is strengthening our ability to grow our Parcels business by offering us greater capacity and capability and it will help make our Lettermail business as efficient as possible as volumes decline.

New high-speed Lettermail sorting machines and automated parcel and packet equipment are having a tremendous impact. Our Lettermail sorting machines give delivery personnel mail that is pre-sorted to their line of travel on their routes. This investment, combined with the provision of delivery vehicles and redesigning of routes to maximize efficiency, has resulted in labour cost reductions in affected depots.

In 2012, Operations teams also made major gains in productivity and in reducing the rate of lost-time injuries.

Digital products for a digital economy

How does a 250-year-old company respond to a digital revolution? In part, by recognizing the growth opportunity that digital offers – and doggedly pursuing it. We're adding digital value to our existing business and creating new services for tech-savvy customers. Last year, we registered more than 800,000 new epost™ accounts, and released our next generation of Canada's leading bill-consolidation service. We also added epost™ to our mobile app. It's one of 52 updates since we launched the popular app in 2010.

We're also offering more unique solutions to marketers that leverage the power of addressing and third-party data. The digital post office, **canadapost.ca**, is providing 24/7 access to postal services.

Our digital products are generating revenue, respecting Canadians' privacy, and helping Canada Post build new relevancy in the digital economy – a true recipe for growth.

A new approach to Direct Marketing

Direct Marketing mail is a proven, cost-effective way to get advertising messages into the hands of customers – and to target the most receptive prospects. Direct Marketing mail faces strong competition from other channels, particularly online, but remains a valuable ingredient in a multi-channel marketing mix.

An effective advertising channel

Today's consumers are bombarded with advertisements and don't want to receive material they do not find relevant. A message that reaches the right person is more likely to generate a response. Consumers can read or refer back to a Direct Marketing mail piece whenever it's convenient, and many Canadians consider it to be the most effective advertising channel compared to digital. In a survey conducted by Harris/Decima in December 2012, close to two-thirds of consumers said they had made a purchase as a result of something they received in the mail.

Working with our customers

To improve the effectiveness of customers' Direct Marketing mail campaigns, we continue to build on our unique portfolio of data and targeting solutions. In 2012, we introduced Precision Targeter™, a simple online tool that can help small and medium-sized businesses to budget, plan and create a Direct Marketing mail campaign. The tool generated new business all year. In 2013, we will continue to simplify the use of Direct Marketing mail and make it more accessible to small businesses through a network of Canada Post recognized industry partners.

Expanding our market opportunities

We continue to expand the use of Direct Marketing mail in new markets and have created a series of tools to help advertising agencies better understand the power of Direct Marketing mail. Canada Post's dedicated team of expert Direct Marketing mail advisors can help agencies discover what makes Direct Marketing mail work in a cross-media environment and how to create the results their clients want and expect.

Direct Marketing: Customer successes

Staples.ca

To win customer loyalty and maximize revenue, Staples.ca sends Direct Marketing mail flyers and emails to active business customers every two weeks. Sending a Direct Marketing mail flyer as well as an email to customers drove response rates and revenues much higher than sending emails alone.

"Response rates from customers who received a flyer and an email were six times higher than from those who received only an email. Sales were also considerably higher."

Dwayne McMulkin, Marketing Manager, Staples.ca.

Canadian Opera Company

The Canadian Opera Company used Direct Marketing mail supported by introductory and reminder emails, and a three-week telemarketing campaign to market an upcoming production of *Tosca* to existing customers. The campaign helped the company achieve its second-highest volume of single tickets sold in its 62-year history.

"Direct mail seems to have a longer lasting effect than email. By using email as well as direct mail, we're able to reinforce our message and connect with a wider audience – and achieve an impressive return on our investment."

Phil Stephens, Senior Manager, Sales and Customer Service, Canadian Opera Company

Canada's home delivery company™

Canada Post is the country's undisputed leader in business-to-consumer delivery of parcels. It has earned this leadership by focusing on the customer experience. Through its unparalleled reach to every part of Canada and options for delivery at home, to a community mail and parcel box or simply to a nearby postal outlet, Canada Post offers the most convenient customer experience in the country.

E-commerce rising

Canada's online consumer spending is only 4 per cent of total retail sales. That is significantly lower than in the U.S., but Canadians are rapidly catching up and Canada Post is helping them. The world's largest e-commerce shopping platforms include eBay. In Canada, eBay is powered by the Canada Post shipping engine, making it seamless for sellers and buyers to track their shipments. Canada Post's technology is easy for businesses of all sizes to integrate with their online stores and reduce their customer service calls. Through its investments in cutting-edge GPS tracking capability, Canada Post is leading the way as a partner of choice for e-commerce.

New investments

Canada Post is building a 700,000-square-foot processing plant in Vancouver to handle e-commerce shipments from the Pacific Rim. Its Web Services enable businesses to offer convenient features, such as delivery of packages directly to a post office. In 2012, the Canada Post E-commerce Innovation Awards™ were launched to celebrate Canada's most talented online retailers. The industry saw this as a natural extension of Canada Post's role in e-commerce.

Looking ahead

Leadership comes with responsibility. In this fast-changing digital economy, it is imperative that Canada Post stays ahead in providing the most convenient customer experience. In the world of virtual stores, the delivery experience will define the brands of e-tailers. People get excited when they open a package. Canada Post understands this "mail moment" like no one else – and that will be the key to its success.

Parcels: Customer successes

Laura Canada

With Canada Post's delivery data integrated into Laura Canada's online checkout, customers of the women's apparel retailer see a range of convenient options. Laura was the first retailer to use our Deliver to Post Office service, enabling customers to choose to pick up their orders at a nearby post office. Soon 10 per cent of orders were using this option.

"Today's busy modern women need convenience and the ability to choose not only what they want but where to receive it. Giving them options completes their online experience."

Sam Barnes, E-commerce Director, Laura Canada

MEC

Adventure outfitter Mountain Equipment Co-op won the Large Multi-channel Retailer of the Year at the Canada Post E-commerce Innovation Awards. At its Store of the Future in Vancouver, iPad™ tablets and large-screen TVs bring MEC's research-rich online site onto the floor. In that way and others, MEC is seamlessly blending bricks-and-mortar with online retailing.

"There are a lot of great e-commerce retailers, but there could be more. These awards raise awareness of e-commerce in the Canadian retail space – and make it seem more approachable for companies."

Dale Tournemille, Web Manager, Mountain Equipment Co-op

Our Physical Delivery Network

Physical mail has long defined Canada Post. Now, as the digital world increasingly affects our daily lives, it represents not only our greatest challenge – because of the sharp decline in Transaction Mail volumes – but also our greatest opportunity to grow, as e-commerce drives our parcels volume higher.

In 2012, we achieved solid service performance across the board. We also met important targets for growing our parcels volume, for executing our modernization program and for containing costs.

We must build on this progress and continue to improve upon operational excellence as our transformation gains momentum.

Everything we do – from improving service to investing in new technology – is done with our customers in mind.

Service performance

Canada Post had its best year for service in 2012 for several products. We achieved the best combined service on record for domestic parcels shipped through Expedited Parcel™ and Xpresspost™. Our cross-border delivery service also dramatically improved. For Lettermail, we were above target for on-time delivery performance.

We also achieved milestones in 2012 by delivering one million parcels on a single day – which we did twice.

Key investments

We invested heavily in automated parcel and packet equipment to prepare for a future with more parcels. These investments will continue at an ambitious pace in 2013 and help us keep costs down, while improving service. They are a platform for consistent improvement for years to come.

Additional scanning and tracking capabilities, launched in 2012 as part of a three-year program, allow customers to track the progress of their barcoded package through more of its journey through the postal system.

Nearly 140 high-speed Lettermail sorting machines are now in use in 14 cities. A total of 21 automated flat sorting machines are also in use in eight cities. Operating these high-speed assets at capacity helps ensure faster delivery times, improve delivery accuracy and increase security of our customers' mail.

Restructure of routes and motorization

We have launched the new delivery model in 13 cities. This new model reduces the number of trips several employees would make to serve a neighbourhood in a given day, by enabling a single motorized employee to perform several roles. One in every three letters was distributed through the new model in 2012. We added more than 2,100 fuel-efficient, environmentally friendly Ford Transit Connect™ vehicles to our fleet, while simultaneously reducing the number of older, less efficient vehicles and also reducing our reliance on taxis and contractor vehicles.

We restructured more than 6,500 routes in 2012, which led to more efficient service to about four million addresses across Canada. Restructures help us adapt to declining volumes by adjusting the number of addresses served by each delivery agent.

Modernization

In 2012, our multi-year modernization program surpassed both its annual savings target and overall program targets. Strict cost containment allowed us to reduce the hours worked in mail operations by 3.4 per cent compared to 2011.

Productivity

We made network changes in 2012 to increase productivity and maximize the use of more efficient equipment and transportation services.

We centralized our Undeliverable Mail Office and shifted weekend mail processing to larger cities from smaller regions.

Call centre improvements

We improved the call centre experience in 2012. Wait times, first-call resolution, and overall resolution times improved as a result of a new Customer Relationship Management system and better training for service agents.

More improvements are expected as customers move toward more self-service through the Canada Post website, rather than calling service agents.

Safety

Our workplace was safer in 2012. We decreased our lost-time injury frequency by 12 per cent from the previous year and recorded our best year for injury frequency since 1983.*

This achievement is a credit to diligence on the job by employees and our team leaders, use of ergonomically friendly equipment and processes as we modernize, a strong depot restructure change-management program and targeted interventions in facilities that had more frequent challenges.

We also continued to reduce any risks to safety within our infrastructure by installing additional machine guarding and emphasizing safe work practices.

*Rural and Suburban Mail Carriers were not included in calculations until 2010.

Customer experience

Service performance and cost competitiveness are essential for any business. The key difference is customer experience. We continue to review and modify our policies, processes and means of execution at every customer touchpoint to ensure that we not only maintain, but also build upon, our market-leadership position.

Security of the mail

Our customers deserve to know their mail is secure and private at all times. During 2012, our Security and Investigations team deployed various processes and technologies to identify internal and external security threats.

“To compete, we must excel at everything we do: on-time delivery, the customer experience, technology and safety. We intend to build on the progress we made in 2012.”

Jacques Côté, Group President, Physical Delivery Network

Our Digital Delivery Network

As more Canadians turn to smartphones and tablets to better organize their lives, they're seeing the difference our digital solutions can make. Convenience, flexibility, control: our products are designed to give customers what they value most.

Take our consumer offerings, for instance. For 250 years we've delivered packages, and now people can track their progress and confirm their delivery on their mobile devices, using our popular app. When it comes to bills, we offer customers a way to manage them online with epost™, our digital mailbox. Shipping labels? Buy and print them from the comfort of home. We've even added value to stamps by allowing customers to customize their own.

Our digital products serve businesses of all sizes, too. Canada Post oversees the largest home delivery network in the country, so we know addresses and Canadians like nobody else. Our experts can convert that data into strategic insight and practical advice that companies can use to target their customers with precision – and gain a healthier return on their investment.

At Canada Post, we're not just meeting Canadians' digital expectations, we're also raising them. That's just what you'd expect from a key and credible player in the digital space.

epost™: Delivering value

Each month, more Canadians are deciding to take advantage of epost™ – by the end of 2012, 8.2 million Canadians had registered for our digital mailbox since its inception.

epost™ does more than deliver electronic copies of customers' bills. It also provides payment notification, personal folders to organize bills, and seven-year storage. Advanced security keeps personal data safe; and, because epost™ is connected to Canada's major banks, paying bills remains easy.

Last year, we deepened the value of epost™. Along with updating its design, navigation and features, we added more billers, including major utilities and financial institutions. We also connected our customers to more government services, such as property tax and water bills.

We believe epost™ will play a big part in the future of mail – and, with more than 100 billers signed on, it's already on its way.

"Canada Post is committed to creating relevant products that meet the increasing digital needs of Canadians – and help build our nation's digital economy."

Kerry Munro, Group President, Digital Delivery Network

canadapost.ca: The 24/7 post office

Our online store was one of Canada Post's 2012 good news stories. Renewed efforts to market our postal products, such as stamps and prepaid envelopes, along with products showcasing our country and its history and achievements, contributed to a year-over-year sales increase of 36 per cent. Among the biggest hits was our newly launched Heritage brand line of apparel, decorated with historic postmarks and airmail themes.

canadapost.ca is also the country's online post office 24/7. Customers can pay for and print shipping labels for parcels, register a change of address, track a package, look up a postal code or access their epost™ account to manage bills.

Mobile app scores

By the end of last year, the Canada Post mobile app exceeded 800,000 downloads, establishing it as one of the top free business apps in Canada for 2012. And Canadians didn't just download it, they used it – a lot. They:

- tracked 15 million packages
- located a post office 1.2 million times
- looked up a postal code 850,000 times
- queried a postal rate seven million times.

In December, we raised the app's value even more by adding epost™ to it. Now Canadians on the go can use their smartphones to manage their bills and other important documents, 24/7.

Data: Helping businesses succeed with targeted messages

Companies large and small know they need to target prospects and reach existing customers to boost their bottom line. Data can help. Still, access to quality data isn't always enough. The ability to effectively use it – to process, interpret and apply it – is the real trick. Many businesses understand the value of data, but don't have the time or resources to effectively manage this critical asset.

Canada Post, as a leader in logistics, has the most complete and current view of addressing in Canada. Using this asset as our foundation, we add rich third-party data, sophisticated tools and talented data management experts to deliver solutions that help marketers achieve a higher return on their campaign investments. Our experts identify the best prospects for our direct mail customers and develop optimal targeting strategies based on factors such as location, demographics, and lifestyle. For customers with skilled resources, we offer various unique data licensing solutions that can be integrated directly into their campaign and business processes.

Delivering unique solutions, found exclusively at Canada Post, sets us apart. For example:

- **New Addresses:** a solution that helps businesses reach Canadians who have just moved into a new home – a key market considering research shows that 81 per cent of movers are willing to try new products and services.
- **Smart Data™ Cleaner:** a data-cleansing service that increases the accuracy of clients' customer and prospect lists for improved Addressed Admail™ mailings.
- **Precision Targeter:** an online self-serve solution that allows marketers to define their unique trade area and desired homes for Unaddressed Admail™ mailings.

Canada Post meets businesses' data needs at all stages of the Direct Marketing mail process. With Canada Post data solutions, now every Canadian business can leverage the power that address knowledge brings to marketing campaigns.

Canada Post Group of Companies

The Canada Post Group of Companies consists of Canada Post and its three non-wholly owned principal subsidiaries: Purolator Inc., SCI Group Inc., and Innovapost Inc. The vision for the Group of Companies is to be a service provider of choice that is relevant and responsive to the needs of Canadians now and in the future.

The subsidiaries deliver capabilities and market reach that enable the Group of Companies to deliver broader product and service offerings, and complete service solutions. For example, together Canada Post and Purolator Inc. offer a broad and complementary range of domestic and international parcel services for the business-to-business and business-to-consumer markets. The synergies between Canada Post and its subsidiaries create strategic value that forms an integral part of the Group of Companies' future growth strategy and plans to increase cost effectiveness and efficiencies.

Combined, the Group of Companies has annual revenues of around $7.5 billion, employs approximately 68,000 people, and operates almost 7,000 retail locations and more than 14,000 fleet vehicles.

Group of Companies' employees deliver close to 10 billion pieces of mail, parcels and messages each year to more than 15.3 million urban, rural and remote addresses across Canada.

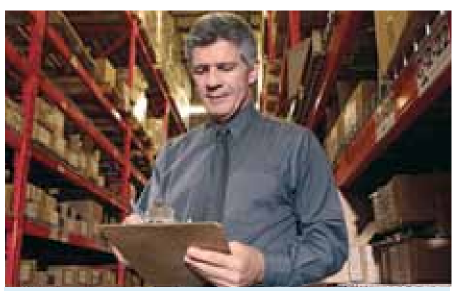
A Crown corporation, Canada Post is the largest of the Group of Companies with revenues of $5.9 billion in 2012.

CANADA POST POSTES CANADA

Purolator

As Canada's largest courier company, Purolator Inc. delivers reliability and service with an emphasis on customer experience and profitable growth. Purolator has 182 operations facilities, 132 retail shipping centres and more than 580 authorized shipping agents. This network moves 108 million pounds of air freight annually. In 2012, Purolator generated revenue of $1.6 billion, which, after excluding intersegment revenue, represents about 20 per cent of the Group of Companies' consolidated revenue.

SCI



Through its operating entities SCI Logistics, Progistix Solutions and First Team Transport, the SCI Group offers expertise in business-to-consumer, business-to-business and field-service logistics. In 2012, the SCI Group generated revenue of $162 million, which, after excluding intersegment revenue, represents two per cent of the Group of Companies' consolidated revenue.

Innovapost™

In March 2012, the Group of Companies purchased CGI's 49-per-cent interest in Innovapost, increasing equity in the subsidiary to 98 per cent. The newly restructured Innovapost will continue to provide shared services in information technology to the Group of Companies and is an important part of the strategy to build increased business capabilities, reduce costs, drive efficiencies, improve service delivery and better align strategic direction within the Group of Companies.

Chairman's Message

It is a difficult and delicate balancing act to transform a business for the long term, while delivering on the high expectations of millions of customers each business day. In 2012, the management at Canada Post achieved this balance by continuing its transformation, while vastly improving service.

The Board is pleased with the progress made to improve service in 2012 and remains confident in the Corporation's transformational agenda. It is particularly important to note that the Corporation is not only managing mail volume declines, but is also identifying and focusing on new areas of growth to stay relevant in the digital economy. To achieve this, Canada Post is reducing operational, labour and other costs. At the same time Canada Post is focused on growing its Parcels, Digital and Direct Marketing mail businesses. This transformation is necessary in order to remain relevant to Canadians, while striving to return to financial self-sufficiency.

Delivering on service

Canada Post can excel at service. The Lettermail on-time delivery performance was above target. We achieved the best combined service on record for domestic parcels shipped through Expedited Parcel and Xpresspost. Our customers were pleased to see this turnaround after a difficult 2011, in which rotating strikes, a lockout and other issues undermined service. The year 2012 was the Year of Service.

> The Board is pleased with the progress made to improve service in 2012 and remains confident in the Corporation's transformational agenda.

Modernization and our new delivery model supported this turnaround. Several initiatives helped to improve service and safety performance, while reducing costs. Among other things, we added more than 2,100 fuel-efficient Ford Transit Connect vehicles to our fleet, while retiring older, less efficient vehicles. This fleet renewal also better positions Canada Post for improved delivery of parcels.

I am happy to report that as a result of significant improvements by Canada Post to on-time delivery, security of the mail and online access to customer service, the Ombudsman received 29 per cent fewer appeals in 2012.

Striking the right balance

Despite the progress on service in 2012, the Corporation's financial sustainability continues to be a primary concern of the Board of Directors and management. Our operating results continue to be negatively impacted as a result of the accelerating and unprecedented decline in the volumes of Transaction Mail, our single most important source of revenue. This volume erosion and our growing pension obligation underscore the urgent need for fundamental change at Canada Post.

The Board of Directors is committed to Canada Post's successful transformation, which must achieve both improved service and financial sustainability. In transforming Canada Post, the Board and senior management will honour our public policy obligations, including the provision of postal services to rural regions of the country. The Board and senior management are aligned on the Corporation's goals and strategies.

At the Board level, Denyse Chicoyne retired from the Board in 2012. She had chaired the Pension Committee and was an exemplary director during her tenure. I would like to welcome Alain Sans Cartier and Andrew Paterson to the Board. Both were nominated for a four-year term.

On behalf of the Board, I would also like to thank President and CEO Deepak Chopra and the executive team for their strong leadership, as well as the employees of Canada Post for their dedication in 2012. Most importantly, I would like to thank Canadians for continuing to choose Canada Post.

Marc Courtois

Marc A. Courtois
Chairman of the Board of Directors

Board of Directors

Marc A. Courtois ▲❇✖●★

Westmount, Quebec
Chairman of the Board
Canada Post Corporation

Deepak Chopra

Ottawa, Ontario
President and CEO
Canada Post Corporation

Alain Sans Cartier ▲★

L'Ancienne-Lorette, Quebec

Thomas Cryer ■★
FCA
Etobicoke, Ontario

A. Michel Lavigne ▲◗
FCA
Laval, Quebec

Siân M. Matthews ❇●

Calgary, Alberta

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

Andrew B. Paterson ▲●

Winnipeg, Manitoba

Iris Petten ❇●

Conception Bay South, Newfoundland and Labrador

William H. Sheffield ✿★

Vancouver, British Columbia

Donald Woodley ♦●

Mono, Ontario

■ Chairperson of the Audit Committee
♦ Chairperson of the Corporate Governance and Nominating 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 Human Resources and Compensation Committee
★ Member of the Pension Committee

As of March 15, 2013

Officers of the Corporation

President and CEO

Deepak Chopra

Group presidents

Jacques Côté
Physical Delivery Network

Kerry Munro
Digital Delivery Network

Senior vice-presidents

Wayne Cheeseman
Chief Financial Officer

Stéphane Dubreuil
Strategy and Corporate Marketing

René Desmarais
Parcels

Cal Hart
Processing, Engineering and Infrastructure

Douglas Jones
Delivery and Customer Experience

Mary Traversy
Mail

André Turgeon
Chief Information Technology Officer

Vacant
Chief Human Resources Officer

Vice-presidents

Bonnie Boretsky
General Counsel and Corporate Secretary

Murray Dea
Real Estate

Stephen Edmondson
Customer Relations

John Farnand
Engineering and Postal Transformation

Douglas Greaves
Pension Fund and Chief Investment Officer

William Gunton
Marketing

Ann Therese MacEachern
Human Resources

Barbara MacKenzie
Finance and Comptroller

Susan Margles
Government Relations and Policy

Serge Pitre
Sales

Jo-Anne Polak
Communications and Public Affairs

Brian Wilson
Mail Processing and Network

Michael O'Bryan Corporate Auditor **Steven Galezowski** Corporate Treasurer

As of March 15, 2013

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, the Board 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 2012 revenue of $7.5 billion (for the Group of Companies), 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 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 2012, the Board met eight times. In addition, individual committees of the Board met a total of 18 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 they are required for presentations or reports. At each meeting, the Board holds an in-camera session with independent directors only. 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 help it fulfill its oversight responsibilities:

- The Audit Committee reviews financial information, which will be provided to Parliament and other stakeholders, the systems of corporate controls that 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 focuses on corporate governance, assesses corporate values and the elements that facilitate Board effectiveness, such as Board self-assessment, Committee structure and Terms of Reference. It also helps the Board determine 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, health and safety, recruitment, compensation and development, retention, significant human resource policies, and labour relations issues.
- The Pension Committee oversees the more than $16-billion Canada Post Corporation Registered Pension Plan (the Plan), Plan matters, policies, liabilities and strategies, Canada Post's responsibilities as Plan sponsor, and its fiduciary responsibilities as Plan administrator. The Pension Committee regularly meets in camera with the Pension Risk Management Officer.

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 use by 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.

(continued on page 16)

(continued from page 15)

Fraud and error

Pursuant to recommendations issued by the Canadian Institute of Chartered 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.

Ombudsman's Message

As Canada Post's Ombudsman, I provide the final level of appeal for customers who feel the Corporation has not lived up to its service commitments. The Office of the Ombudsman is independent of Canada Post staff and management, and reports directly to the chairman of the Board of Directors. Investigations are fair and unbiased. The merits of each complaint are assessed and an equitable resolution is found. I also recommend potential service improvements and report on appeals under the *Canadian Postal Service Charter*.

In 2012, my office received 6,482 appeals, of which we investigated 2,720. Many appeals do not trigger an investigation because some customers appeal to the Ombudsman before allowing the Corporation to complete its review of their complaints. Other appeals are withdrawn or not investigated because customers are unable to provide sufficient information.

I personally oversee each investigation and approve every resolution. Outcomes can include steps to improve compliance to procedures, financial compensation or an explanation for denying an appeal. An overview of complaints and investigations in 2012 is included in our Annual Report, which is available at **www.ombudsman.postescanadapost.ca**.

As a result of significant improvements by Canada Post to on-time delivery, security of the mail and online access to customer service, my office received 29 per cent fewer appeals in 2012. Almost two-thirds of appeal resolutions required Canada Post to take corrective action. The remaining complaints were found to be without merit.

The most significant issues investigated in 2012 involved the loss or theft of goods or documents while in the postal system or immediately after delivery. I issued five recommendations to Canada Post to reduce the number of cases and mitigate the effect on customers.

We received 1,780 appeals related to the *Canadian Postal Service Charter* in 2012, a 67-per-cent decline from 2011. We investigated 909 appeals around the expectation that "Canada Post will provide an extensive network for accessing postal services," a 78-per-cent reduction from 2011. The reduction was due to improvements Canada Post made to its customer service call centre and website. In 2012, we investigated 37 per cent fewer cases regarding security and privacy of the mail than in 2011.

Francine Conn
Ombudsman

Corporate Social Responsibility

In 2012, Canada Post continued to reflect values of Corporate Social Responsibility through various initiatives. Children's charities moved to the forefront of our social efforts and dedication to sustainable and environmentally friendly operations continued throughout the year at our facilities and with our fleet of vehicles.

COMMUNITY

- The year 2012 was one of transition for our national community efforts. The Canada Post Community Foundation's shift to focus on organizations that provide services aimed at youth was very successful in its first year.
- More than $1.5 million was raised for the Foundation in 2012.
- Over the past five years, the Foundation has raised more than $8.5 million for programs across the country, through retail drives, special stamp sales and other efforts.
- The Canada Post Foundation for Mental Health, in its final year of granting, distributed more than $2 million in grants to 44 organizations across Canada.
- The annual Santa Letter-writing Program was operated by Canada Post volunteers again in 2012. In its 31st year, in excess of 1.35 million children received replies to their letters, bringing our all-time total to more than 21 million letters.

PEOPLE

- We again recognized the efforts of Aboriginal Canadians to improve their lives through education with the Canada Post Aboriginal Education Incentive Awards. Twenty-four individuals from coast to coast received the award.
- In 2012, Canada Post continued to enhance its safety culture and saw a reduction in the number and frequency of lost-time injuries.
- For the second consecutive year, more than 41,000 hours of driver training were provided in 2012. The amount of driver training provided in 2012 and 2011 is a significant improvement over previous years.

ENVIRONMENT

- More than 2,100 new fuel-efficient Ford Transit Connect vehicles were added to our fleet in 2012. Most were introduced to enable our modernization and the new delivery model.
- Although modernization has increased our vehicle fleet by 37 per cent from 2009, our fuel consumption and greenhouse gas emissions each declined by more than four per cent.
- Six buildings were registered for Leadership in Energy and Environmental Design (LEED™) certification in 2012, bringing our registered total to 28, which includes the upcoming Vancouver Mail Processing Plant.
- Three buildings received LEED certification in 2012, bringing our total to six LEED-certified facilities.
- LEED certification requires buildings to meet a variety of stringent criteria, including use of sustainable materials for construction, energy and water efficiency, and indoor environmental quality.

A more detailed report on our social and environmental performance will be available later in 2013 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 2012

Canada Post is committed to meeting the expectations of the *Canadian Postal Service Charter*. Our compliance for 2012 is summarized below.

Universal service

Canada Post delivered more than 9.6 billion pieces of mail, parcels and messages in 2012 to more than 15.3 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 60 per cent of all Canada Post retail outlets) and by more than 7,300 rural routes. Over 8 million Canadians are registered with epost™ – Canada Post's digital mailbox.

Affordable rates

Canada Post provides uniform postage rates for letters of similar size and weight, regardless of delivery distance or destination in Canada. For 2012, the company applied uniform rates of postage to the following categories of letters (see chart below).

The 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 2012 Annual Cost Study are outlined on page 78.

On May 26, 2012, Canada Post published in the *Canada Gazette* a regulatory proposal to increase selected regulated postage rates, starting January 14, 2013. 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 6, 2012.

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 through 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.

In 2012, Lettermail service performance levels returned to traditional levels compared to performance in the prior year. The on-time service performance for Lettermail delivery was 95.9 per cent in 2012 (compared to 91.2 per cent in 2011).

Convenient access to postal services

In 2012, postal service was provided in Canada through:

- almost 6,400 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 739,000 rural mailboxes, which are also collection points);
- 24/7 access to **canadapost.ca** for online services, such as tracking a package or registering a change of address.

The retail network met its Charter standards as follows:

- 98.8 per cent of the Canadian population lived within 15 km of a postal outlet;
- 90.6 per cent lived within 5 km;
- 78.9 per cent lived within 2.5 km.

For 2012, there were 175 incidents affecting Canada Post personnel or infrastructure that had an impact on post offices covered by the rural moratorium. Ninety-five cases were resolved through staffing actions. In the remaining cases, after consultation with the affected communities and community leaders:

- 43 cases were resolved through provision of retail services at a nearby town, while maintaining delivery services in the existing community;
- 37 cases comprised temporary closures and re-openings.

Category		Postage rate
Standard (envelopes, cards, self-mailers)	0 to 30 g	$0.61
	30 to 50 g	$1.05
Medium (envelopes, cards, self-mailers)	0 to 20 g	$1.05
	20 to 50 g	$1.22
Other Lettermail (non-standard and oversize)	0 to 100 g	$1.29
	100 to 200 g	$2.10
	200 to 300 g	$2.95
	300 to 400 g	$3.40
	400 to 500 g	$3.65

Reason for delivery method change	Number of addresses affected
Retail outlet change (e.g., change in retail location for general delivery services)	1,200
Delivery equipment upgrade (e.g., conversion from a group mailbox to a community mailbox receptacle)	17,000
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)	18,000
Other reasons	85

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

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 2012, less than 0.3 per cent of 15.3 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 2012, 42 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 before implementing any proposed change. Customers were notified of proposals affecting their 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.

Ten of the 42 cases considered were pending completion of community consultation, final decision or implementation, as of December 31, 2012. Of the 32 cases that were resolved:

- 10 offices moved to another location;
- 19 offices closed;
- 3 offices remained at current locations.

Canada Post held its 7th Annual Public Meeting on August 21, 2012 in Ottawa, Ontario at Canada Post Place. 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. Over 700 Canada Post employees and interested Canadians participated through a video webcast, while 280 attended in person, including Canada Post employees, executives, Board members, bargaining agents and association representatives.

Responding to complaints

In 2012, Canada Post completed the implementation of a new Customer Relationship Management system that provides improved issue tracking and incident root cause identification and increased standardization of call handling and problem management. Customer Service received 4.1 million customer calls in 2012 and 270,500 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. More information can be found at the Ombudsman's website, available at the following address: **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 is presented in the chart at right.

Delivery method	Number of addresses*	% of total addresses	Average annual cost per address
Door-to-door	5,083,963	33%	$283
Centralized point (e.g., apt. lobby lockbox)	3,797,444	25%	$127
Group mailbox, community mailbox, kiosk	3,929,896	25%	$108
Delivery facility (postal box, general delivery)	1,787,025	12%	$59
Rural mailbox	739,411	5%	$179
All methods	15,337,739	100%	$168

* As at December 31, 2012

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.

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 (MPs), 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 2012, about 4.2 million letters were mailed as Government Mail (excluding mail from constituents to parliamentarians) and MPs mailed more than 117 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. It is estimated that approximately two million shipments benefited from this program in 2012.

Despite a Government appropriation of $22 million to help offset the financial impact of these programs on the company, Canada Post estimates that an additional $6 million in foregone revenue[1] resulted from these programs in 2012.

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 2012, there were approximately 747,000 shipments of books under the Library Book Rate, generating $857,000 in revenue for Canada Post. The foregone revenue for Canada Post was estimated to be almost $9 million for 2012. 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

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, 2012 for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (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 with the consolidated financial statements and accompanying notes for the year ended December 31, 2012, 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, 2013, unless otherwise noted.

Management is responsible for the information presented in the Annual Report. 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 Group of Companies' 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 (assumptions). While management considers these assumptions to be reasonable based on available information, 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 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 (risks).

To the extent the Group of Companies provides 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. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, 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 are made only as of March 21, 2013, 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.

1 Executive Summary

An overview of the Canada Post Group of Companies and a summary of 2012 financial results

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc., and Innovapost Inc. The Canada Post Group of Companies is one of Canada's largest employers, employing about 68,000 employees. Every year, our employees deliver approximately 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 6,400 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*, Canada Post has a mandate to provide a standard of postal service that meets the needs of the people of Canada. The Corporation provides 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 the following:

- 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.
- The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.
- 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.

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 offers 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 comprising international postal operators (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.

Mail-volume erosion is no longer a risk for posts – it is a fact. The risk is that current rates of decline could accelerate due to electronic substitution, competition and customers' cost-reduction efforts. Posts have responded in a number of ways, including restructuring operations, modernizing processing and delivery networks, reducing the number of owned postal outlets, and offering digital mail services to complement their physical mail products. Posts are also enhancing their parcel services to take advantage of the growing e-commerce market.

The Canada Post Group of Companies had anticipated a second consecutive annual loss in 2012, based on previously disclosed quarterly results. However, on December 21, 2012, the Canada Post segment signed new collective agreements with the Canadian Union of Postal Workers (CUPW) for both the urban as well as the rural and suburban mail-carrier bargaining units, which included changes to sick leave and health plans and resulted in non-recurring non-cash accounting gains being recorded. The Group of Companies and the Canada Post segment realised a profit before tax of $127 million and $98 million, respectively in 2012. Had it not been for $152 million of accounting gains related to those collective agreement changes and the actuarial gains from experience adjustments in the Canada Post segment, the Group of Companies and the Canada Post segment would have incurred a loss before tax of $25 million and $54 million, respectively in 2012.

In addition, the following financial factors had the most significant effect on our financial performance in 2012:

- Significant obligations of the Canada Post Corporation Registered Pension Plan (RPP) and other employment benefits. These obligations are disproportionate to our cash position and profit, and combined with the funding volatility, they continue to pose an ongoing risk to the Corporation's cash flows and ability to fund needed investments in modernization and growth. Market volatility had a negative impact on the Group of Companies' pension plans and resulted in actuarial losses of $1,489 million being recorded as other comprehensive losses in 2012. Under International Financial Reporting Standards (IFRS), the Corporation recognizes net actuarial losses on pension and other post-employment plans directly to equity. These losses are the main cause for the equity of Canada being in a deficit position at the end of 2012. Also, if not for funding relief permitted by legislation, Canada Post would have had to pay an additional $1.3 billion in special contributions to the RPP by December 31, 2012.
- Continued mail-volume erosion in our core mail business caused by electronic substitution, competitive pressures and uncertain economic conditions. Businesses and consumers have an abundance of choice when selecting products and their preferred modes of communication, and competition is aggressive. In 2012, the volume downward trend continued as the Canada Post segment experienced a 6.4% decline in domestic Lettermail™ volumes. To compound volume declines, the number of Canadian points of delivery has grown by almost 170,000 per year for the last five years resulting in increased costs due to the obligation to provide delivery service to more addresses.

- Continued volume declines in the Direct Marketing line of business caused by commercial customers (especially in the telecommunications and retail segments), reducing their marketing expenditures and redirecting some of them to other media channels. This led to another challenging year for Direct Marketing with revenue declining by $8 million and volumes dropping by 107 million pieces in 2012, compared to 2011.
- Parcel growth fuelled by the fast-growing e-commerce segment, which saw 2012 revenue from the Parcels line of business increase by $79 million or 6.1% in 2012 compared to 2011. Parcel volumes also increased by 10 million pieces in 2012 compared to 2011, but these volume increases were not enough to offset volume declines in Lettermail and Direct Marketing.

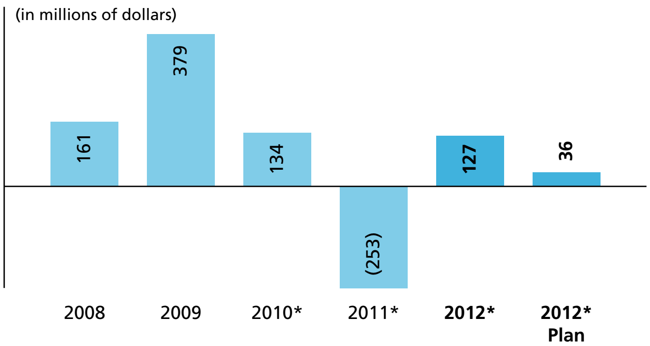
To address this situation and help Canada Post remain profitable, financially viable and self-sustaining, the Corporation is focusing on the following strategic priorities:

- **Transforming Canada Post by making meaningful changes to its cost structure and improving its competitiveness** – To transform our business, we continue to focus on four major areas:
  – ***Postal Transformation.*** Our $2-billion infrastructure-renewal project launched in 2008 continues to replace outdated facilities and equipment, automate manual sorting processes, create a motorized delivery force, and increase productivity through workforce reductions. In addition to Postal Transformation, the Corporation is looking at all network and service options to improve its cost effectiveness. While we have gained significant operational efficiencies, the ongoing drop in mail volumes and a large pension obligation are forcing the Corporation to explore further opportunities to modify its business model.
  – ***Labour.*** We continue to look for ways to improve our labour-cost model, where labour costs currently account for 69% of our cost structure. The ongoing decline in mail volumes and increase in competition have reinforced the need for structural changes, including affordable terms and conditions of employment in the near and long term to help ensure the Corporation's long-term viability.
  – ***Information technology.*** We plan to continue to improve our information systems and information technology (IS/IT) services to the Canada Post Group of Companies, as well as reduce our costs. In March 2012, the Group of Companies purchased all of CGI's voting shares in Innovapost to better align its goals and interests for the future direction of Innovapost.
  – ***Leveraging of the Group of Companies.*** We plan to increase synergies within the Group of Companies and leverage all of our assets and capabilities to generate new revenue opportunities and cost savings.
- **Growing Canada Post's business** – As Canadians change how they are using the postal service, Canada Post must adapt and provide them with the kinds of services they require. As our industry evolves, we must continue to 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 market of business-to-consumer e-commerce by positioning our Parcels 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 slow the erosion of mail. In our digital delivery network, although it represents a small part of our business today, we are looking to capture some of the migration of communications to electronic channels by offering services in 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, such as bills, statements, magazines and flyers.

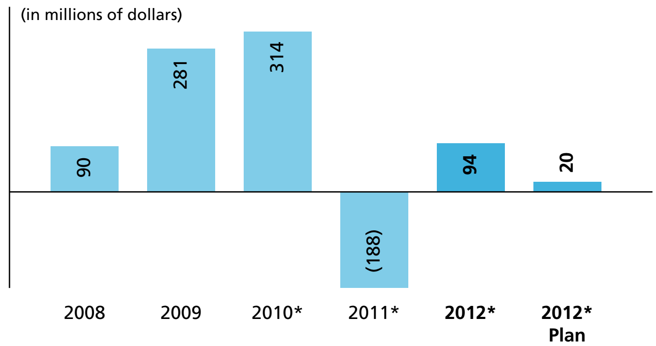
The Canada Post Group of Companies – 2012

The 2012 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

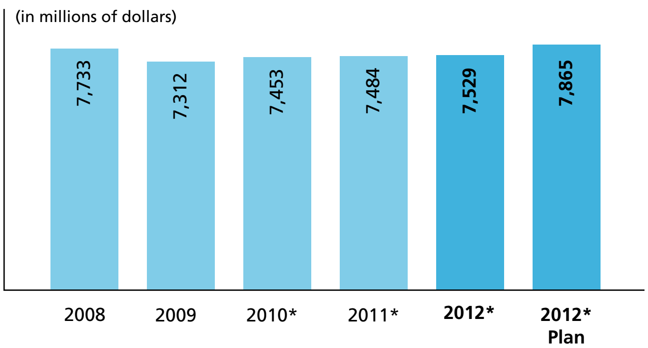
Consolidated profit (loss) before tax



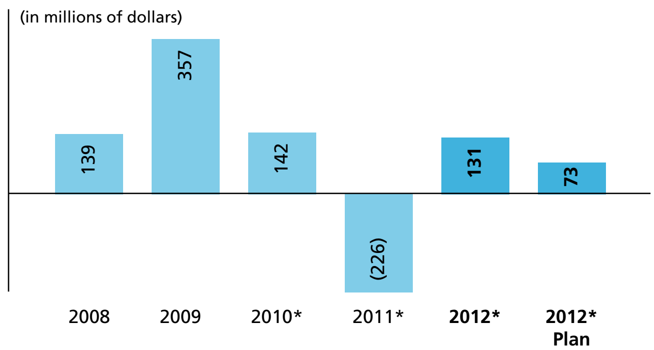
Consolidated net profit (loss)



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 first reported under IFRS for the year ended December 31, 2011 and the comparative year ended December 31, 2010. The 2008 and 2009 financial results are based on previous Canadian generally accepted accounting principles (GAAP) and, therefore, may not be comparable to years 2010 to 2012.

The following table presents the Corporation's consolidated performance for the 2012 fiscal year compared to the 2012 Corporate Plan.

(in millions of dollars)

Year ended December 31	2012 Results	2012 Plan	Change	Explanation of change
Consolidated				For further information, see Section 2 – Core Businesses and Strategy on page 30 and Section 8 – Discussion of Operations on page 57
Revenue from operations	7,529	7,865	(336)	Fell short of expectations by $336 million (Canada Post segment – $264 million and Purolator segment – $105 million) mainly due to • Direct Marketing-volume erosion instead of anticipated growth in the Canada Post segment • accelerated volume erosion in Transaction Mail in the Canada Post segment • aggressive competition in the Purolator segment
Cost of operations	7,398	7,793	395	Exceeded expectations by $395 million (Canada Post segment – $394 million) mainly due to • non-cash benefit impacts in the Canada Post segment mainly due to changes in benefits plan design • continued cost-containment activities across the Canada Post Group of Companies
Investing and financing income (expense)	(4)	(36)	32	Exceeded expectations by $32 million (Canada Post segment – $34 million) mainly due to • increased gains on the disposal of assets in the Canada Post segment
Profit before tax	127	36	91	

The following table presents the Corporation's consolidated performance for the 2012 fiscal year compared to 2011.

(in millions of dollars)

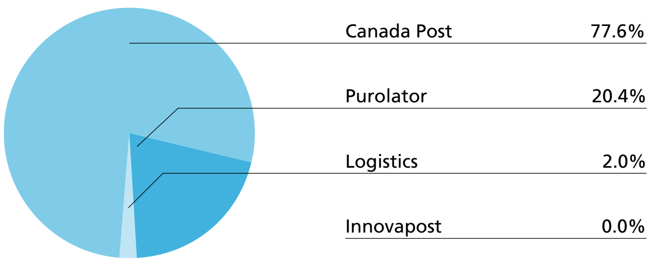
Year ended December 31	2012	2011	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations on page 57
Revenue from operations	7,529	7,484	45	0.2 %*	Revenue increased mainly from price increases and the fact that there was no labour disruption in 2012. When considering lost revenue in 2011 caused by the June 2011 labour disruption in the Canada Post segment, 2012 revenue would have actually declined by approximately $160 million. Continued mail-volume erosion resulting from electronic substitution, competitive pressures and an uncertain economy have had a negative impact on revenue.
Cost of operations	7,398	7,710	(312)	(4.0) %	Mainly due to lower labour and benefit costs as a result of (1) non-recurring non-cash accounting gains recorded in 2012 in the Canada Post segment to account for changes to sick leave and health plans, (2) the pay equity provision recorded in 2011 as a result of the Supreme Court of Canada's ruling in favour of the Public Service Alliance of Canada (PSAC), and (3) cost containment initiatives, partially offset by (4) lower labour costs in 2011 due to the labour disruption.
Profit (loss) before tax	127	(253)	380	–	
Tax expense (income)	33	(65)	98	–	Mainly due to the increase in the Group of Companies' profit in 2012.
Net profit (loss)	94	(188)	282	–	
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 49
Cash and cash equivalents	298	271	27	10.2 %	Increase mainly due to cash generated from operations and proceeds from the net sales of securities, partially offset by net capital asset and business acquisitions.
Cash provided by (used in) operating activities	310	196	114	58.8 %	Mainly driven by a reduction in pension, other post-employment and other long-term benefit payments.
Cash used in investing activities	(263)	(290)	27	9.5 %	Mainly due to an increase in net proceeds from the sale of short-term investments in the Canada Post segment.
Cash provided by (used in) financing activities	(20)	(14)	(6)	(43.6) %	Mainly due to an increase in capital lease payments in the Purolator segment.

* Adjusted for trading days, where applicable

The Canada Post Group of Companies segments – 2012

The Corporation manages its operations and determines its operating segments on the basis of the legal entities. The Corporation's operating segments are Canada Post, Purolator, Logistics and Innovapost.

Revenue by segment – 2012



Revenue by segment	2010	2011	2012
Canada Post	79.3%	78.0%	77.6%
Purolator	18.8%	20.3%	20.4%
Logistics	1.9%	1.7%	2.0%
Innovapost	0.0%	0.0%	0.0%

The Corporation's non-consolidated results reflect the operations of the Canada Post segment. In 2012, the Canada Post segment generated $5.9 billion in revenue and earned a profit before tax of $98 million. This year's profit can be attributed to revenue growth in Parcels, cost control efforts, and non-recurring non-cash accounting gains recorded in the Canada Post segment related to changes in sick leave and health plans. Without these accounting gains and the actuarial gains from experience adjustments, Canada Post would have experienced a loss before tax of $54 million. Lettermail and Direct Marketing experienced declining performance due to a number of factors, including electronic substitution, competitive pressures, an uncertain economic climate and mail-volume erosion.

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

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 Direct Marketing line of business comprises 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.

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 (primarily business-to-consumer) and enables the Group of Companies to have a full parcel offering in the market.

The Other line of business includes our digital offerings through epost™, location data assets and products, and our philatelic and consumer products.

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 2012, the Purolator segment generated $1.6 billion in revenue, and earned profit before tax of $38 million. The Purolator segment competes within Canadian domestic and international courier markets as well as the domestic and cross-border freight (LTL or less-than-truckload) market and the international freight forwarding market with a growing presence in the United States. Purolator's courier offering competes in the same market as Parcels, but focuses primarily 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 international freight forwarding, air cargo and LTL services.

The Logistics segment includes the financial results of SCI Group. In 2012, the Logistics segment contributed $162 million in revenue, and earned profit before tax of $8 million.

The Innovapost segment provides virtually all of its services to the Group of Companies. Results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation, and its revenue is eliminated against the other segments' cost of operations upon consolidation.

Outlook 2013

The Canada Post Group of Companies faces another very difficult year and expects to have a substantial loss in 2013 as a result of the challenges in the Canada Post segment.

Physical mail volumes are expected to continue to erode due to electronic substitution, bill consolidation and intense competition. We know that our core domestic Lettermail revenue and volumes will continue to decline in 2013, but the degree of the decline is uncertain and represents one of the largest risks to the Group of Companies. In addition, the Parcels business will continue to face serious competition. With very narrow operating margins and increasing network costs due to a growing number of delivery points, it is imperative that we be vigilant in containing costs and finding new operational efficiencies. In 2013, we will see the continuation of our operational transformation efforts including Postal Transformation, which is aimed at renewing our infrastructure to reduce costs and improve our competitiveness, and delivering information technology across the Group of Companies through Innovapost at a much lower cost. To generate cash, we will also be looking to sell surplus assets. In January 2013, Canada Post disposed of its downtown Vancouver mail processing plant, resulting in net proceeds of $152 million.

Pension and employee future benefit costs will continue to be a major challenge. Most defined benefit pension plans across the country face ongoing significant funding challenges in light of demographic shifts and a prolonged period of low interest rates and volatile investment returns. Plan sponsors such as Canada Post are required to eliminate these funding shortfalls, over time, and they are exploring innovative options to address the crisis, including potential regulatory relief. In the short term, Canada Post plans to continue using the legislation that allows Crown corporations to better manage their funding obligations, and will again seek approval of pension relief in 2013 to reduce its special solvency payments. However, given that under current legislation relief is capped at 15% of plan assets, we expect to reach the relief limit in early 2014.

Amendments to IAS 19 "Employee benefits," to be applied effective January 1, 2013, are also expected to have a significant negative effect on net profit in 2013. Refer to Amendments to IAS 19 "Employee Benefits" (IAS 19) in Section 9.3 Accounting policy developments for more details.

Although the benefits from Postal Transformation are on track to being realized, they are not sufficient to compensate for significant volume erosion and the elevated pension and benefit costs. With the value of Canada Post's exclusive privilege increasingly reduced and facing competition on all fronts from conventional as well as digital rivals, Canada Post has to start reassessing how it can meet the future needs of Canadians and how it can change its business model, over time, including making fundamental structural network and delivery changes, to meet those needs.

2 Core Businesses 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. Our vision is to be a service provider of choice – one that is relevant to the needs of Canadians now and in the future.

Together, 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 some 68,000 people, has almost 7,000 retail locations, and operates a fleet of over 14,000 vehicles.

Our employees deliver close to 10 billion pieces of mail, parcels and messages each year to more than 15 million addresses in urban, rural and remote locations across Canada. Canada Post has a mandate from the Government of Canada to remain financially self-sufficient and to provide a standard of postal service that is affordable and meets the needs of the people of Canada.

Canada Post is the largest segment of the Group of Companies with revenues of $5.9 billion in 2012. Canada Post is Canada's postal operator and its core services include delivery of letters, bills, statements, invoices, parcels, Admail products, and periodicals.

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider with revenues of $1.6 billion in 2012.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions with revenues of $162 million in 2012.

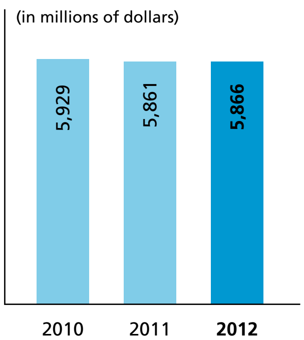
Innovapost, 98% owned by the Canada Post Group of Companies, is the Group of Companies' provider of information systems and information technology services.

Canada Post segment

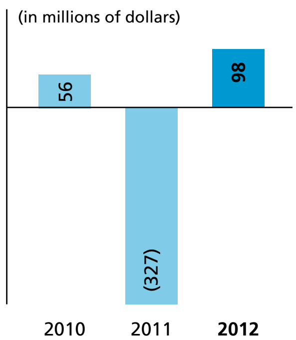
Canada Post operates Canada's largest retail network with about 6,400 retail post offices, has a fleet of over 9,600 vehicles and annually delivers over 9.6 billion pieces of mail. With almost 55,000 employees, Canada Post provides service to over 15 million addresses.

The Canada Post segment generated revenue of $5.9 billion and, after excluding intersegment revenue, represents 78% of the Group of Companies' 2012 consolidated revenue of $7.5 billion.

Revenue

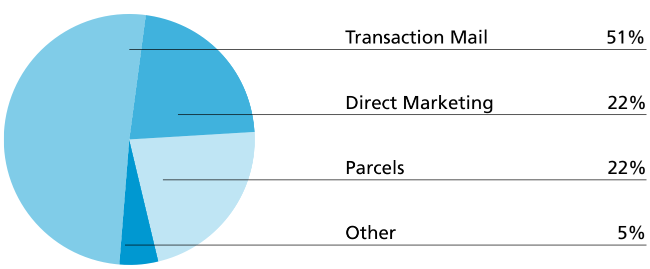


Profit (loss) before tax



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

Revenue by line of business – 2012



Revenue by line of business	2010	2011	2012
Transaction Mail	53%	53%	51%
Direct Marketing	22%	22%	22%
Parcels	21%	21%	22%
Other	4%	4%	5%

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 line of business that generates the most revenue and includes three product categories, domestic Lettermail, outbound Letter-post and inbound Letter-post.

Transaction Mail accounts for $3 billion or 51% of the 2012 non-consolidated Canada Post segment operating revenue of $5.9 billion. The majority of Transaction Mail revenue is derived from traditional physical-mail delivery services, with domestic Lettermail accounting for close to 90%.

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

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary products: Addressed Admail, Unaddressed Admail 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 $1.3 billion or 22% of the 2012 non-consolidated Canada Post segment operating revenue of $5.9 billion.

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

Parcels

The Parcels line of business offers Canadians a wide range of delivery services covering every domestic address in Canada and international destinations through 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 to non-urgent delivery, where transit time is determined by the transportation mode of ground, air or both.

Parcels account for $1.3 billion or 22% of the 2012 non-consolidated Canada Post segment operating revenue of $5.9 billion.

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

Other

The Other line of business consists of a broad array of products and services, including epost™, our online bill-presentation service that allows users to receive, pay and manage their bills in one place; Mail Redirection; data products; and commemorative stamps, gifts and coins.

The Other category accounts for $287 million or 5% of the 2012 non-consolidated Canada Post segment operating revenue of $5.9 billion.

Customers include business, governments and consumers.

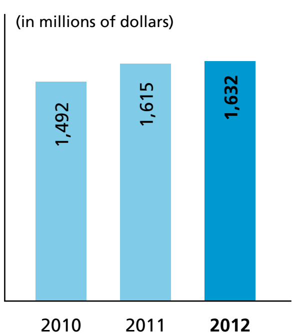
Purolator segment

Purolator is Canada's largest courier company and has been providing distribution solutions within, to and from Canada for over 50 years. Purolator provides its 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 within Canada that includes 182 operation facilities, 132 retail shipping centres, over 580 authorized shipping agents and more than 270 drop boxes located in Canada as well as 30 branch locations in the United States that support its freight forwarding business.

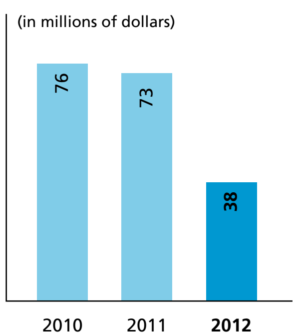
With a fleet of more than 3,900 vehicles – including one of the largest hybrid electric fleets in North America – Purolator makes approximately 320 million deliveries and pickups annually. Purolator's extensive network is supported by 23 dedicated chartered aircraft that move 432,000 pounds of air freight each night and 108 million pounds of air freight annually. In 2012, Purolator generated revenue of $1.6 billion and, after excluding intersegment revenue, represents 20% of the 2012 Group of Companies' consolidated revenue of $7.5 billion.

Leveraging industry-leading service and reliability, Purolator's ability to focus primarily on satisfying the needs of the business-to-business segment of the market through a broad array of services within, to and from Canada complements its ability to contribute synergies, such as air-line haul, to the Group of Companies.

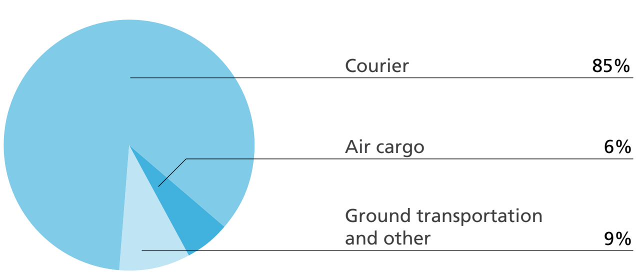
Revenue



Profit before tax



Revenue by market – 2012



Revenue by market	2010	2011	2012
Courier	87%	86%	85%
Air cargo	6%	6%	6%
Ground transportation and other	7%	8%	9%

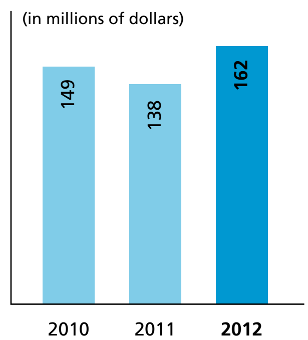
Logistics segment – SCI Group

Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI-White Glove Services), SCI Group helps companies reduce costs and improve services 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.

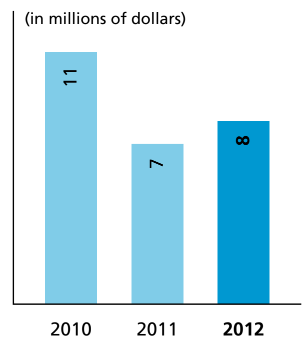
SCI Group offers its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada.

SCI generated revenue of $162 million and, after excluding intersegment revenue, represents 2% of the 2012 Group of Companies' consolidated revenue of $7.5 billion.

Revenue



Profit before tax



Innovapost segment

Innovapost is the shared services entity for the Group of Companies. Its services include the development, maintenance and operation of the computing and information systems required by the Group of Companies.

The Canada Post Group of Companies increased its equity in Innovapost to 98% following the March 2012 purchase of CGI's 49% interest in Innovapost. With this purchase, Canada Post feels that it can achieve better alignment of strategic direction within the Group of Companies, have access to services more in line with current IS/IT offerings, achieve further synergies and cost reductions in the area of IS/IT, and evaluate additional shared services through Innovapost.

2.2 Our business environment

Global trends

Economic uncertainty characterized the global business environment throughout 2012, driven by ongoing economic issues in the United States and Europe. International postal operators (posts) not only had to deal with stagnant economies and large pension and post-retirement health costs but also with continuing structural declines in mail volumes, primarily due to electronic substitution. Mail-volume erosion is no longer a risk for posts – it is a fact. The risk is that current rates of decline could accelerate.

The real challenge for posts is managing the decline in volumes, while still maintaining the extensive networks required to provide their mandated Universal Service Obligation. The International Post Corporation (IPC) published a report encompassing data from 32 posts that account for 90% of global mail volumes. In the report, IPC noted that total industry mail volumes fell by around 15% from 2006 through 2011, while delivery points continued to grow – 1.1% from 2010 to 2011. The exclusive privilege, which at one time financed the posts' cost of providing the USO, has lost its value in a digital world. In fact, the USO of most posts has been, at best, slightly modified rather than restructured to account for the digital revolution and changing ways in which people communicate.

Posts have responded to their changing environment in a number of ways. Most have undergone some form of operational restructuring. In addition to modernizing processing and delivery networks, the IPC reports that, globally, posts have reduced the number of owned postal outlets by 3.5% and their workforces by 10% from 2006 through 2011. A number of posts now offer digital mail services to complement their physical mail products. Posts, especially in Europe, have expanded regionally and also into adjacent (e.g., freight and logistics) and non-adjacent (e.g., financial services) businesses. Posts are also enhancing their parcel services to take advantage of the growing e-commerce market – a positive aspect of the digital revolution for the postal world. More recently, some posts have made the case to their government for changes to their USO, to reflect changing customer needs, the evolution of communications, as well as their financial situation.

Canada

In Canada, as in most other countries, the economy remains in slow growth mode. Many defined benefit pension plans are in a deficit position as their pension obligations are greater than the value of their assets. Factors such as plan members living longer, historically low interest rates and volatile financial markets have had a major impact on pension plans' financial situation. Deficits apply significant cash pressures on plan sponsors as they must, by law, fund their deficits. As a result, many employers no longer offer defined benefit plans. The proportion of defined benefit pension plans in the private sector has dropped by more than 30% in the last decade. The economic and demographic landscape is very different today than when these pension programs were introduced. Defined benefit pension plans need to adapt to this new reality in order to remain sustainable and affordable.

As with other postal organizations, Canada Post's core Transaction Mail volumes continue to decline, while costs to deliver mail rise as delivery points increase (see table below). The decline in Transaction Mail volumes has been forecasted for some time, yet it was expected that at least some of the lost revenue would be replaced by growth in advertising mail and parcels. However, advertising mail has also been negatively affected by electronic substitution and the slow economic recovery. The fast-growing e-commerce market has led to growth in our Parcels business but this segment is highly price competitive. Our service mandate requires that, like other posts, we maintain a full network in the face of declining mail volumes, putting pressure on our cost structure that is largely fixed. In late 2012, new labour agreements were ratified by CUPW's urban as well as rural and suburban members, which will provide some cost savings and operational certainty over the next few years.

Transaction Mail (excluding outbound)	**2009***	**2010**	**2011**	**2012**
Delivered volume percentage change	(5.5) %	(3.9) %	(3.7) %	(6.1) %
Delivery addresses percentage change	1.2 %	1.0 %	1.0 %	1.0 %
Mail volume percentage decline per address	(6.7) %	(4.9) %	(4.6) %	(7.0) %

* 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)% and the mail volume percentage decline per point of delivery would have been (5.1)%.

Transaction Mail

In our core Transaction Mail business, Lettermail is being rapidly replaced with electronic bills and statements as Canadians are increasingly shifting to email as a popular substitute for letters and cards and using electronic bill-presentation services to pay their bills online. Large mailers are also mailing less as they look for ways to lower their communication costs by encouraging their customers to receive statements electronically and pay their bills online. The current economic conditions have further intensified efforts by businesses and consumers to reduce their costs. The shift to a more digital world is a major challenge for Canada Post. To compound this challenge, we have limited flexibility to make rapid adjustments given our infrastructure and high fixed costs. To meet this challenge, Canada Post will address its structural cost issues, while continuing to defend the mail and focusing on growing revenues in the other lines of business.

Direct Marketing

Canada Post's Direct Marketing line of business has also experienced many challenges in 2012, including strong competition, a slow economy and electronic substitution. There has been a lot of experimentation in the marketing industry as businesses look for ways to improve the success of their advertising campaigns. They have also allocated more of their marketing spending to less costly digital alternatives. Environmental pressures are also leading more businesses to adopt green practices. In light of volume declines, Canada Post must redefine the value proposition of Direct Marketing to remain relevant in an increasingly changing environment.

Parcels

The digital economy that is creating challenges for our Transaction Mail and Direct Marketing lines of business is creating new opportunities for our Parcels business. The increased popularity of online shopping (commonly referred to as e-commerce) is leading to growth in the industry and creating new opportunities for Canada Post and Purolator. This is especially true in the business-to-consumer (B2C) market where Canada Post can leverage its expertise in delivery to Canadian addresses and its vast retail network that provides customers with convenient access and pickup services. The growth in the industry also intensifies the local and global competition. FedEx and UPS, for example, have increased their competitive actions in Canada. Consumer patterns have also shifted from premium to less-urgent products that cost less. The increased competitive landscape and changing customer behaviours have put increased pressure on Canada Post to manage costs, improve product offerings, and provide a superior customer experience.

Digital network of product and services

Communications around the globe are transforming from the explosion of digital (internet and mobile) media. In an increasingly digital world, consumers are transacting differently with businesses, and businesses are recognizing the need to communicate with their customers on digital platforms. As a result, they 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 its 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, to be a service provider of choice, one that is relevant to Canadians now and in the future, remains unchanged. To achieve this vision, we will continue to focus our efforts on the following:

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

Saving costs and improving our competitiveness

Canada Post has a responsibility to conduct operations on a financially self-sustaining basis and is always looking for ways to save costs and improve competitiveness. More and more of our business is generated in a competitive environment and to better compete, we will need to bring our costs down. To that end, our transformation agenda includes four major initiatives: Postal Transformation, labour, information technology, and leveraging of the Group of Companies.

Postal Transformation

Canada Post is continuing the rollout of its multi-year $2 billion infrastructure program. Since 2008, Postal Transformation (PT) has been updating mail processing plants, systems, equipment and processes. The implementation of the new delivery model continues, which includes motorization of our letter carriers and the use of electronic data capture devices. These investments are starting to improve efficiencies and service-level performance. The program is also leading to significant cost savings. Cumulative benefits of $97 million were achieved as of the end of 2012, and we expect to achieve $250 million in annual savings by 2017. The Corporation is also looking at other network and service options to improve our cost effectiveness. While significant operational efficiencies were gained, the ongoing drop in mail volumes and a large pension obligation are forcing the Corporation to explore further opportunities to modify its business model.

Labour

We continue to search for solutions to improve our labour-cost model. Labour costs account for 69% of our cost structure. The future health of our business will rely on our ability to remain cost-competitive, especially in an increasingly digital world and competitive business environment where the non-protected parcel market is growing. While they are a step in the right direction, the new collective agreements with CUPW urban as well as rural and suburban bargaining units will not solve all our labour challenges. We need to continue to reduce our overall labour costs and negotiate agreements that are affordable so that we can remain cost-competitive with global integrators, FedEx and UPS.

Information technology

One of the key areas of our transformation is the improvement of information systems and information technology services (IS/IT) to the Canada Post Group of Companies as well as the reduction of costs. In March 2012, the Group of Companies purchased all of CGI's voting shares in Innovapost for $26 million to increase the Group of Companies equity interest from 51% to 98%. This acquisition will allow greater synergies among the Group of Companies by building increased business capabilities and embracing a standardized IS/IT service delivery model as a means of reducing costs, driving efficiencies, improving service delivery and extracting greater business value from Innovapost. Innovapost is operating on a cost-recovery basis and ensuring that the Group of Companies gains access to fair market pricing for services. These changes will deliver information technology at a lower cost.

Leveraging of the Group of Companies

We are combining our capabilities to present a full suite of products and services and coordinating our sales efforts to secure important contracts and generate new revenue. As well, we are making operational improvements to reduce costs and exploring opportunities for synergies among the Group of Companies. Given the current pressure on our core mail business and the highly competitive environment, it is crucial that we leverage the strengths of all our businesses in the Group of Companies to increase efficiency, reduce duplication and generate cost savings.

Growing our business

To be financially sustainable in the long term and remain relevant in a digital world, it is imperative that we increase revenues profitably as our industry evolves. We need to be prepared to replace core Lettermail revenues by creating new opportunities in Parcels, Direct Marketing and our digital network of products and services. Our growth plans are focused on opportunities in the following areas:

Transaction Mail

While we have seen significant erosion in recent years as Lettermail has been replaced rapidly with electronic bills and statements, we believe opportunities remain in some areas to slow this erosion. To maximize the use of mail, we will concentrate on revenue opportunities where there is potential to grow mail volumes such as evidence mail (like health cards, drivers' licences, proofs of payment) and e-government service initiatives. We also plan to leverage our national retail network as much as possible to increase opportunities at retail outlets and to offer our retail presence to government departments for the delivery of government services, where appropriate.

Direct Marketing

For Direct Marketing, 2012 was a challenging year. Volumes and revenue were much lower than expected as commercial customers (especially in the telecommunications and retail segments) reduced their marketing expenditures and redirected some of them to other media channels. Despite these challenges, we remain optimistic that we can compete favourably with online advertising. We plan to promote the strengths of our Direct Marketing products, which include 100% visibility to customers and geographic precision through our data targeting products. We will continue to explore new services and capabilities to address customer demand for greater return on their Direct Marketing investment. We intend to leverage evolving online and e-advertising trends, and invest in new applications and product innovations to improve buying experience and products for our customers.

Parcels

The digital economy is creating brand new opportunities for our Parcels business. The growth in e-commerce means more business for package delivery companies, including Canada Post and Purolator. To take advantage of this growth, we are positioning our Parcels business to leverage Postal Transformation investments and our large retail presence. The Parcels business is highly competitive. We do not have the exclusive privilege to deliver parcels, as we do for letters. Therefore, our strategy will focus on being the lowest-cost delivery provider in Canada and Canada's leader in e-commerce fulfillment. We will focus on delivering a superior customer experience, recognizing the strong attachments that Canadians have to their parcels. We continue to invest in improving visibility in our network with better scan technologies and improved processes to deliver the scanned data to shippers and receivers. We are undertaking a number of initiatives to improve service to consumers and businesses. We want to expand en-route pickups and launch a comprehensive returns solution that will benefit e-commerce merchants and shoppers by improving inventory management, return processes, and automatic billing. We are leveraging our new delivery model of motorized letter carriers. We are growing our Deliver to Post Office service so that customers can pick up their parcels at their local postal retail outlet, without first checking at home. As well, Canada Post is working with SCI and Purolator to offer value-added solutions to customers and capture market growth expected in northbound parcel traffic from the United States.

Digital network of product and services

Current revenue derived from our digital network of products and services represents a small part of our business today. Yet with the heavy adoption of digital media, we aim to capture some of the migration of communications toward electronic channels by offering e-services that complement what we offer for physical mail. Customers who are switching to online bills need to be offered Canada Post solutions, such as epost™, that are more secure and more convenient than collecting bills at different websites. We plan to strengthen the epost™ platform by improving customer usability, offering more value beyond transaction-based services and improving content. Our digital strategy includes building location data and products to improve our customers' direct marketing performance and enhance our online channel performance, thereby heightening the customer experience across our digital network of products and services.

Purolator

As a customer-focused, Canadian market leader for over 50 years, Purolator continues to expand its capabilities in satisfying a broader range of adjacent customer needs within the market segments where it competes, with a focus on the B2B market segment. Through its extensive distribution network, Purolator delivers reliability and service with an emphasis on customer experience and profitable growth. Purolator's strategy includes the following priorities:

- Elevating its leadership position and brand strength through superior reliability, service and customer experience across all of its service offerings.
- Driving more volume from the U.S. and other countries into its Canadian courier and LTL networks.
- Enhancing its offerings to the Canadian small and mid-market customer segments by leveraging its presence and prominence with larger customers.
- Continuing to drive process innovation, investments in technology and asset optimization to create more comprehensive and compelling customer value propositions.

SCI Group

In 2013, SCI will continue to act on its strategy to become Canada's leader of integrated forward and reverse supply chain solutions for high-value and high-growth segments in Canada.

The key to SCI's strategy will be to expand on proven capabilities in focused services, such as e-commerce fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. SCI acquired White Glove Transportation Systems in May 2012, and plans to leverage its expanded capabilities and market share to dominate the high value transportation space in Canada. Leveraging opportunities within the Canada Post Group of Companies to provide scale and reach will also enable SCI to increase overall market share within Canada.

Innovapost

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 provides shared services to the Group of Companies, with a focus on IS/IT, and is an important part of a strategy to strengthen synergies among the Group of Companies by building increased business capabilities, providing a means for reducing costs, driving efficiencies, improving service delivery and extracting greater business value.

3 Key Performance Drivers

A discussion of our progress against 2012 strategic priorities

As discussed in Section 2.3 – Our strategy and strategic priorities, Canada Post's strategic priorities are aligned along two key thrusts: operational transformation to overcome structural cost issues and improve our competitiveness; and a pursuit of growth opportunities that build on or complement our core assets and capabilities.

In this regard, Canada Post established the following objectives in support of its strategic priorities:

Operational transformation

- Achieve operational excellence through transformation and customer focus.
- Shift the information technology delivery model to gain a competitive advantage.
- Achieve competitive labour costs, active leadership and a winning culture.
- Maximize the full potential of the Group of Companies.

Pursuit of growth opportunities

- Achieve leadership in e-commerce through excellence in home delivery.
- Achieve leadership in digital delivery through the epost™ network.
- Leverage the untapped potential of mail.
- Aggressively grow the data and location intelligence business.

The Canada Post segment uses performance scorecards to monitor its progress relative to the strategic priorities, and to provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management. Here, we summarize our progress in meeting our 2012 objectives:

Operational transformation

2012 objective

Achieve operational excellence through transformation and customer focus.

2012 results

- The multi-year Postal Transformation project is progressing as planned and key milestones for 2012 were achieved. We installed and deployed 42 new multi-line optical character readers (mail sequencing equipment) and upgraded four flat sorting machines. We also replaced critical infrastructure including 11 new and 23 retrofitted depots and implemented the new delivery model in 91 depots. To date, we have realized $97 million of cumulative Postal Transformation benefits, and the savings generated from the project are projected to achieve the target of approximately $250 million per year at full deployment in 2017.
- We continued to optimize the retail network by closing corporate postal outlets, where possible, while extending access to customers by establishing agreements with new retailers to sell Canada Post products. We also piloted the first retail kiosks late in 2012 to address customers' demand for self-service and better meet their needs.
- We continued to provide customers with enhanced visibility of parcels within the delivery network by introducing "in-transit" scans that provide customers with current information regarding the status of their parcels. Parcel scanning performance targets were also achieved in 2012.
- Over 90% of customer calls to contact centres have been outsourced to an external supplier. This has allowed us to achieve significant operating cost savings, while improving the customer experience. In addition, customer service levels improved, helping Canada Post achieve higher customer service ratings in 2012.
- Despite ongoing operational changes related to the Postal Transformation initiative, delivery service targets were achieved for the Lettermail and Parcels product lines. While Admail performance fell short of its target for the year, Admail performance overall increased on a year-over-year basis.

2012 objective

Shift the information technology delivery model in order to gain a competitive advantage.

2012 results

- In March 2012, the Canada Post Group of Companies purchased the remaining shares of Innovapost from CGI, increasing its equity interest from 51% to 98% to create a new delivery organization of shared services. Transitioning Innovapost from a for-profit joint-venture company that delivers IT services to an organization that delivers shared services to the Group of Companies will allow us to maximize the synergies within the Group by building increased business capabilities, driving efficiencies, reducing costs, improving service delivery and extracting greater business value from the entity.

2012 objective

Achieve competitive labour costs, active leadership and a winning culture.

2012 results

- On December 21, 2012, the Corporation reached agreements with both the CUPW-Urban Postal Operations and CUPW-Rural and Suburban Mail Carriers that will provide cost savings, improved productivity and greater labour flexibility. The new agreements also includes the following:
  - lower starting wages for new hires
  - no wage increase for the year 2015-2016
  - changes to pension eligibility for new employees
  - a higher employee premium for post-retirement health care benefits
  - the same short-term disability program for CUPW-represented employees that has been implemented for all other Canada Post employees.

- During 2012, Canada Post's injury frequency was reduced by 12%. Canada Post continues to focus on maintaining a healthy and safe workplace by raising safety awareness with its employees and introducing initiatives on an ongoing basis to identify and promptly address high risk situations and activities.

2012 objective

Maximize the full potential of the Group of Companies.

2012 results

- Our goal is to leverage the Canada Post Group of Companies' suite of products and services in order to provide end-to-end business solutions to a broader spectrum of customers. In 2012, we achieved a number of joint customer wins by selling our combined capabilities and business solutions, including Direct Marketing, courier and logistics, transportation management, fulfillment, inventory management, and same-day delivery services.

Pursuit of growth opportunities

2012 objective

Achieve leadership in e-commerce through excellence in home delivery.

2012 results

- To enhance the convenience of the online shopping experience for online shoppers and online retailers, we launched Web Services that enabled the integration of Canada Post shipping information into an online retailer's website. This made it possible for online retailers to display and include shipping costs as part of the total cost of the transaction at the time of purchase, display parcel tracking information on their website and provide information and shipping labels to shoppers to simplify the returns process.
- To increase the flexibility in the way online shoppers can have their packages delivered and leverage our vast retail network, we introduced the Deliver to Post Office service, which allows customers to have parcels delivered to a convenient retail location of their choice.
- To enable merchants to better manage their return policy, we introduced an enhanced Returns Management Program that provides greater flexibility to consumers by offering a more convenient returns process.
- Our top e-commerce customers increased their parcel volumes by 24% in 2012.

2012 objective

Achieve leadership in digital delivery through the epost™ network.

2012 results

- In 2012, we continued to strengthen epost™ by updating its design, navigation and features. With 33 new agreements signed in 2012, we added more billers, including major utilities and financial institutions. We also connected our customers to more government services, such as property tax and water bills. Over 800,000 new users registered for epost and approximately 66 million transactions were delivered. We also launched a new user interface as well as a digital mailbox in a test market, Kitchener-Waterloo.
- Canadians are embracing our online post office. Canada Post's mobile app became one of the top free business apps in Canada for 2012, with more than 800,000 downloads. In 2012, Canada Post's mobile app helped Canadians track almost 15 million packages, 1.2 million post office lookups, 850,000 lookups of postal codes and almost seven million rate queries. epost™ is also available on the Canada Post mobile app allowing customers to manage and pay bills anytime, anywhere, conveniently and securely.

2012 objective

Leverage the untapped potential of mail.

2012 results

- We generated significant revenue growth in the philatelic area by expanding our philatelic program and associated product lines and increased the reach of our products by introducing a new youth collecting program, launching targeted marketing campaigns focused on key Canadian events and hosting local philatelic awareness events in our retail outlets.
- We invested in programs to reposition Direct Marketing within the new digital advertising landscape by launching a marketing campaign aimed at highlighting the impactful role of direct mail within the multichannel marketing mix, hosting Direct Marketing webinars and seminars and publishing case studies that showcase best-in-class direct mail campaigns.

2012 objective

Aggressively grow the data and location intelligence business.

2012 results

- In 2012, we continued to enhance our addressing information by adding new third-party data to provide marketers with advanced targeting solutions and high-quality addressing information. We also introduced seven new marketing lists, enhanced our address management services and launched Precision Targeter™, an online self-serve solution.

4 Capabilities

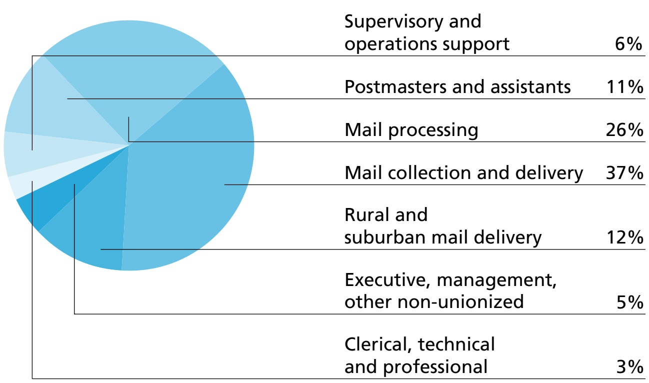
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest businesses with about 68,000[1] employees. Canada Post employs almost 55,000 people, and its subsidiaries employ over 13,000. The workforce is varied and has a national presence in urban, rural, and remote communities. As such, our people know Canadians like no others as they reach every household in the country almost every day.

Canada Post segment

Workforce by type of work – 2012



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 2012, our key areas of focus were talent management as well as training and development.

The talent management framework developed in 2011 remains crucial to ensuring that Canada Post is able to attract, develop, retain and align the right people with the right job to carry out our mandate. The framework's main elements include policies and practices around organizational design, recruitment, training, performance management, succession planning and compensation.

In 2012, Canada Post continued its focus on senior management succession planning and setting the stage for a high-performance culture.

To promote a high-performance culture, Canada Post made a number of changes in 2012 to its employee development framework. This included the introduction of leadership behaviours, along with revising the performance rating system to ensure alignment between corporate strategy and outcomes. In 2013, this work will continue with the introduction of a revised set of corporate values and an updated code of ethics and business conduct.

Canada Post believes in the power of learning and development as an important driver to success. In 2012, the learning and development strategy was influenced by four significant organizational forces: high attrition rates, Postal Transformation, the need to improve the productivity of our operations and cost control.

Canada Post responded to these forces by deploying training programs to address the learning needs of our employees. For example, over 180,000 hours of the national training plan were targeted at employees affected by Postal Transformation. This training supported the installation of new mail processing equipment in our plants and the introduction of the new delivery model across our depots. Furthermore, we tested the use of new technology (such as tablets and laptops) to offer more accessible and affordable training delivery options.

Looking ahead to 2013 and beyond, Canada Post will continue to identify its employees' most critical training and developmental needs, ensuring that they align with business strategies and are delivered with cost-effective learning solutions.

When recruiting and hiring employees at Canada Post, we aim to attract the most capable talent to ensure that we can continue to operate in an evolving business environment and labour market. We recognize the value of a diverse workforce and have built our recruitment and employment equity policies to support that goal. Canada Post has hiring and promotion targets for four designated groups: women, members of visible minorities, Aboriginal peoples and persons with disabilities. The 2012-2014 Canada Post Employee Equity Plan includes action plans designed to remove barriers to the employment, development, promotion and retention of those four groups. We continue to adjust our programs and policies to reflect employee demographics and changing business needs. We develop and leverage tools, such as our assessment tools, e-recruitment system, social media, and modern leadership programs to ensure that we are selecting and promoting the most qualified candidates.

An estimated 30,000[2] full-time employees (or an average of 3,000 per year) are forecasted to leave the Canada Post segment between 2013 and 2022 as a result of retirements and normal attrition. The strategies, initiatives and programs previously discussed will help ensure Canada Post is well positioned to successfully respond to the attrition forecast, sustain operations, maintain employer reputation, and adjust programs and policies to reflect changing demographics and attitudes toward work.

In 2012, Canada Post continued its emphasis on improving employee engagement. An employee relations strategy was developed and implemented that focused on front-line leaders and included four pillars: building capacity, reinforcing leadership behaviours, removing

1. Employment figures include full-time and part-time paid employees, and excludes temporary, casual and term employees.

2. There are 29,494 full-time departures expected by 2022 (20,444 retirements and 9,050 other departures)

barriers and connecting leaders to the business. This work will continue in 2013, with a focus on senior leadership behaviours.

Purolator

Purolator continues to ensure that employees have a safe place to work and are given the proper tools to be successful. Sustained commitment to employee health and safety is an ongoing part of the foundation of the company's success. In 2012, Purolator established a National Materials Handling Equipment (MHE) Safety Committee. The Committee is responsible for establishing and maintaining a strategic plan to improve the safety and ergonomics related to MHE.

The results of the MyVoice employee survey in 2011 indicated a general perception across Purolator that change is not managed as effectively as it could be. These findings and other factors created the need to understand current perceptions of approaches to change, the cultural norms that help shape them, and potential aspects for improvement. The findings from these focus groups were a guide to build and strengthen the core capability of change management within the organization. The PACE (Plan, Assess, Communicate and Engage) toolkit and training program were created to offer managers practical tools and knowledge to help them manage change. The official rollout of the training sessions will take place in 2013.

4.2 Health and safety

Canada Post encourages a culture of health and safety and is committed to strengthening its health and safety programs by building safety leadership; identifying, preventing and controlling hazards; training staff; and making continuous improvement. This focus helped to reduce the number of injuries in 2012, dropping our injury frequency by 12% on a year-over-year basis, and we achieved our overall 2012 target.

Slips, trips and falls continue to be main causes of workplace injuries. In 2012, the annual awareness campaign was once again an integral part of ensuring that employees had the tools, information, and guidance needed to minimize slips, trips, and falls and be safe. As such injuries occur off Canada Post property, Canada Post also raises public awareness among home and business owners by producing public service announcements to highlight how they can help keep Canada Post delivery personnel safe during the winter season.

Ergonomic injuries related to manual material handling and musculoskeletal-related injuries represent the second highest cause of workplace injuries. In 2012, Canada Post introduced a new program concerning musculoskeletal-related injuries. This program coaches management staff and supervisors on injury prevention by encouraging and promoting healthy ergonomic and material-handling techniques.

Several other initiatives focused on building safety leadership were introduced in 2012 and have contributed to improving workplace health and safety. First, a safety officer depot intervention initiative was introduced in selected depots, which integrated safety in all aspects of depot management through positive coaching and relationship building. Second, quarterly leadership safety action plans were implemented for all areas of operations, with each location targeting their own high-risk areas for improvement. Third, leadership capability was improved with the implementation of safety rules for plants and delivery functions in the Atlantic region and for delivery functions in the West region, with further deployment planned for 2013.

In 2012, we built on 2011 activities designed to improve compliance with statutory health and safety requirements by developing a tracking database of local joint health and safety committees and health and safety representatives. In addition, we introduced seven new functional safety practices, including safety variance, protective footwear, machine guarding, first aid, work at heights, confined and restricted access space and motorized mail handling equipment.

A new e-learning course on violence prevention and protection was also launched in 2012 and will continue to be deployed in 2013. Our safety management system will continue to be enhanced to improve our overall management of safety priorities and programs.

Health and safety of rural and suburban mail carriers

Rural addresses represent about 5% of the 15 million Canadian addresses. Rural customers typically receive their mail in a rural mailbox (RMB) at their driveway entrance. Continued urbanization throughout Canada has raised potential safety hazards for rural and suburban mail carriers (RSMCs) – our employees who deliver mail to these boxes.

We evaluate the safety risk using the Traffic Safety Assessment Tool (TSAT), which was designed by third-party experts. Up to 89% of 843,000 RMBs across the country have been reviewed to date and Canada Post has preserved delivery to about 90% of them with one year of safety assessments left.

Canada Post continues to follow a robust community outreach process, to communicate with members of Parliament, municipal officials and customers regarding the safety assessments.

To avoid potential repetitive strain injuries and address ergonomic concerns raised by employees, Canada Post is implementing a reaching device where RSMCs deliver mail through the passenger-side window of a vehicle. Right-hand drive vehicles are also being implemented where it is feasible to do so.

4.3 Labour relations

Number of employees covered by collective agreements – Canada Post

Bargaining agent	Number of represented employees*	Expiry date of the collective agreement
CUPW-UPO[1]	37,105	January 31, 2016
CUPW-RSMC[2]	7,019	December 31, 2015
CPAA[3]	5,961	December 31, 2014
APOC[4]	3,582	March 31, 2014
PSAC/UPCE[5]	1,476	August 31, 2012
Total	**55,143**	

* Includes full-time and part-time employees including those on unpaid leave, as at December 31, 2012; excludes temporary, casual and term employees.
1. CUPW-UPO: Canadian Union of Postal Workers – Urban Postal Operations, 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, 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 in a pay equity complaint dating back to 1983. Over several months in 2012, the Corporation and PSAC attempted to negotiate a global solution regarding the implementation of the ruling. However, in July 2012, PSAC applied to the Canadian Human Rights Tribunal to request a ruling on issues that remained in dispute. In October 2012, PSAC withdrew its request before the Tribunal to seek enforcement under the *Federal Courts Act* and *Canadian Human Rights Act*. On December 3, 2012, PSAC filed a motion in Federal Court to obtain an order securing payment. An initial hearing was held on January 8, 2013, and the proceedings are scheduled to continue on April 3, 2013. In the meantime, a team of 60 employees continue to review tens of thousands of individual employee files in preparation for payment.

Labour negotiations activities

The Corporation faced a busy period of collective bargaining in 2012 with efforts focused on the bargaining units represented by CUPW-UPO, CUPW-RSMC and PSAC. The Corporation reached agreements with both CUPW bargaining units (Urban Postal Operations as well as Rural and Suburban Mail Carriers). The collective agreements will be in place until December 31, 2015, for rural and suburban mail carriers and until January 31, 2016, for urban employees. The resolution of these bargaining activities will allow Canada Post and its employees to focus their efforts on addressing the enormous challenge of rapidly declining mail volumes and the historic shift to digital communications.

Collective bargaining with PSAC is ongoing. We hope to reach a mutual understanding of the structural challenges facing the Corporation and achieve a negotiated settlement. PSAC 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 areas such as finance and engineering.

CUPW-UPO

As discussed in the 2011 Annual MD&A, Canada Post experienced a labour disruption in June 2011 that culminated in return-to-work legislation. The legislation provides that an arbitrator be appointed for final offer selection and that the arbitrator render a decision within 90 days of the appointment. Subsequently, CUPW judicially challenged twice the Minister of Labour's arbitrator appointments. In both cases, the Federal Court agreed with CUPW.

While awaiting the appointment of a third arbitrator, Canada Post moved toward a negotiated collective agreement, by tabling a new offer to CUPW in July 2012 that reflected the new economic realities of the Corporation. In late August 2012, the parties resumed collective bargaining and reached tentative agreements on October 5, 2012. On December 21, 2012, the tentative agreements ratified by the employees represented by CUPW were signed.

In this round of negotiations, we made significant progress in several areas. The new agreements include the following:

- lower starting wages for new hires
- no wage increase for the year 2015-2016
- changes to pension eligibility for new employees
- a higher employee premium for post-retirement health care benefits
- the same short-term disability program for CUPW-represented employees that has been implemented for all other Canada Post employees.

CUPW-RSMC

The eight-year collective agreement between Canada Post and the CUPW-RSMC expired on December 31, 2011. Bargaining for the new collective agreement began in November 2011, and the parties reached a tentative agreement on October 5, 2012. As with the CUPW urban unit, the tentative agreement ratified by employees was signed on December 21, 2012. The four-year collective agreement includes wage and benefit improvements.

PSAC/UPCE

The collective agreement with PSAC/UPCE expired on August 31, 2012. Negotiations with almost 1,500 employees began in September 2012 and have been slow to gain momentum. The Corporation has provided proposals that will secure the future of its employees and ensure it remains relevant and competitive in the future. Collective bargaining negotiations continue in 2013.

APOC

The five-year collective agreement with APOC will expire on March 31, 2014. The Association represents supervisors and supervisory support groups, such as trainers, route measurement officers and sales employees. Negotiations for a new collective agreement will begin in 2013.

CPAA

The Corporation is in its second-last year of a five-year collective agreement with the CPAA, which will expire on December 31, 2014. The CPAA represents rural post office postmasters and assistants.

Number of employees covered by collective agreements – Purolator

Bargaining agent	Number of represented employees*	Expiry date of the collective agreement
Teamsters[1]	9,137	December 31, 2016
Other[2]	409	January 31, 2015 December 31, 2012 December 31, 2013
Total	**9,546**	

* Includes all full-time and part-time employees including those on unpaid leave, as at December 31, 2012; excludes temporary, casual and term employees.
1. Teamsters represent employees in operations.
2. Other represents clerical and administrative employees.

In 2012, Purolator and a number of Teamster local unions, which represent a significant portion of clerical and administrative employees in Canada, commenced bargaining to renew agreements that expired on December 31, 2012. In addition, an agreement in British Columbia with the Union of Postal Communication Employees also expired on December 31, 2012. Bargaining will continue in 2013 to conclude these agreements. Purolator remains confident that a negotiated settlement can be reached.

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016.

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

Bargaining agent	Number of represented employees*	Expiry date of the collective agreement
CEP[1] – Toronto	235	December 31, 2014
SCEP[2] 82Q1 – Laval	31	November 30, 2016
Total	**266**	

* Includes all full-time and part-time employees including those on unpaid leave, as at December 31, 2012; 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.

As of the end of 2012, the CEP membership voted to proceed with a merger with the Canadian Auto Workers (CAW) union. The steering or founding committee of the new union is working on the constitution and related governance structures in preparation for the founding convention of the new union in September 2013.

4.4 Our network and infrastructure

Canada Post

The vast and complex Canada Post operating network is an intricately coordinated effort between collection activities, mail processing plants, transportation links and delivery agents. Mail enters the postal network through street letter boxes, local post offices or directly at mail processing plants. At the originating processing facility, the mail is separated and sorted by various equipment into common destinations. From there, it is transported to the destination processing plant or a consolidation facility for further sorting, or to depots or post offices for delivery by letter carrier, mail service courier or rural and suburban mail carriers. In 2012, over 9.6 billion pieces of mail and parcels were processed, representing roughly 40 million items sorted and delivered daily.

Canada Post's processing and delivery network includes the following in approximate numbers:

- 21 mail processing plants
- 6,400 post offices, corporately-owned or managed by authorized dealers
- 500 letter carrier depots
- 15,000 letter carrier routes
- 1,200 mail service carrier routes
- 29,000 street letter boxes
- 155,000 group and community mailboxes
- 1.8 million post office boxes (including general delivery)
- 7,300 rural and suburban mail carrier routes.

All are interconnected by an elaborate transportation network consisting of 138,000 links required to transport and deliver the mail across 164 million kilometres each year.

The key elements of the end-to-end network are mail processing and delivery, which have been undergoing significant modernization since 2009.

Our modernization program

Postal Transformation is a critical component of our strategy to stay relevant and grow our business in a rapidly changing marketplace. Our overall goal is to achieve operational excellence through transformation and customer focus, ensuring our relevance in an increasingly digital world and achieving growth in the fast-growing e-commerce segment.

Our investment strategy has two main components, both equally important, with one enabling the other:

1. Deal with obsolescence and increase processing efficiency and capability by investing in advanced equipment and technology.
2. Improve our competitiveness in the Parcels business by investing extensively in automation and adopting a new delivery model.

We have carefully planned our investments to ensure that we are ready to compete in the future with fewer letters and more parcels.

The entire modernization program requires a total investment of about $2.0 billion in equipment, real estate, technology and people of which we invested $488 million in 2012, bringing our investment to date to $1.5 billion. At the end of 2012, our total cumulative benefits were $97 million, and we are on track to realize $250 million in savings per year at full implementation in 2017.

Investing in our facilities, equipment and processes

The sustainability of our business requires investments in plants, equipment and systems to ensure business continuity and position us for the future.

We invested significantly in our facilities in 2012. Construction of the 700,000-square-foot Pacific processing centre in Vancouver is proceeding on schedule, as well as expansions to plants in Montréal, Edmonton and Calgary. We completed construction of 11 new delivery facilities and retrofitted 23 existing depots. To date 58 delivery depots have been built or redesigned to meet operational requirements.

In 2012, we also continued our focus on the installation of updated mail processing equipment in our plants. We installed 42 multi-line optical character readers (MLOCRs) and upgraded four flat sorting machines. By the end of 2012, a total of 138 MLOCRs and 21 automated flat sorting machines were operational. This new equipment has allowed us to increase the overall accuracy, reliability and efficiency of our mechanized mail processing and improve overall service to our customers. With the increased capacity and speed of the new equipment, Canada Post was able to significantly improve plant productivity in 2012.

Canada Post is also modernizing and increasing its capabilities for processing parcels of all sizes. New integrated mail sorting systems (IMSS) were installed in Toronto, Winnipeg and Edmonton processing plants, and installations are under way in Calgary, Vancouver and Montréal. These systems offer fully automated sorting capabilities and can handle the expected increase in parcel volumes from the growing e-commerce market. Packets, parcels and containers flow through the plants where they are scanned; their size and weight are confirmed; they are distributed to the correct sorting area and scanned again before being dispatched on trucks. As items are transported through the plants using automated conveyance, they reduce the requirement for material handling equipment and offer significant improvements in ergonomics for our employees.

In 2012, we continued to invest in technology to increase product visibility, reduce our reliance on personal knowledge and manual processes, and further integrate our network end to end. As the brains of our processing equipment, the Centralized Computer System (CCS) enabled the capability to automatically sequence mail for an increased number of depots. The CCS also helped standardize sorting strategies across the network and transfer data downstream to better support operational forecasting and planning. The new Quality and Security of the Mail (QSM) system, which correlates data from a variety of corporate systems, has been valuable in identifying operational issues and trends.

In 2013, our focus will be to continue our investment in parcel processing and transform delivery operations.

Investing in the delivery process

Canada Post delivers to over 15 million addresses through door-to-door delivery, post office boxes, rural mailboxes and group and community mailboxes. To meet the challenge of a growing number of delivery points and improve productivity, Canada Post continues to implement a new delivery model across the country.

In 2012, Canada Post continued to focus on the introduction of the new delivery model to more delivery depots. The new delivery model was implemented in 91 depots in 2012 and has now been launched in 142 depots in 13 cities, ensuring that we are positioned for the evolution of the market to more parcels and fewer letters.

Machine sequencing of the mail has substantially reduced the amount of manual sequencing by delivery agents and reduced the amount of detailed knowledge about addresses our delivery employees need to work efficiently. This has allowed our front-line delivery employees to focus more on the delivery of mail, parcels, packets and other products as we transform delivery depots from a letter-based operation to parcel and packet preparation centres. Our cost savings from delivery modernization amounted to $52 million in 2012.

The new delivery model includes the motorization of full-service agents who deliver all products in a geographic area. In 2012, we added over 2,100 fuel-efficient light delivery vehicles to our fleet. These Ford Transit Connect™ vehicles have improved fuel economy by close to 50% in comparison to our existing step vans, enabling us to reduce our fuel consumption and our greenhouse gas emissions compared to 2009. That year, we began to modernize our fleet, which now totals over 9,600 vehicles that traveled more than 78 million kilometres in 2012.

Other key investments in 2012

- Providing delivery agents in major centres with cellular-enabled scanners to relay information about on-demand pickups and other essential notifications. This enabled the coverage area to be enlarged and demand pickups to be increased by 250%.
- Two million new ergonomic mail containers have been introduced into the system. To move these new containers, we designed and deployed two types of ergonomic rolling carts, which have reduced the need for motorized forklifts in plants and make the workplace safer.

Changes to the delivery process will continue in major cities in the Greater Toronto Area (GTA), Montréal, Edmonton, Calgary and Vancouver in 2013 and 2014.

Capital investments

Capital asset expenditures in the Canada Post segment totalled $548 million in 2012 and focused on the continued implementation of Postal Transformation, replacement of the existing asset base and facility upgrades.

The year-over-year increase of $44 million is driven by the continued implementation of Postal Transformation, partially offset by capital reduction in areas such as asset replenishment, line of business investment and other business sustaining projects.

In 2013, Canada Post plans to invest $415 million in capital assets. Postal Transformation will continue to make up the majority of its investment with $286 million of planned spending. The remaining $129 million will focus on initiatives that support transformation, growth, and business continuity. We will continue to closely monitor our financial position and change the pace of capital spending, if required, to mitigate the impact of any financial pressures.

Purolator

In 2012, Purolator increased its investment in technology and infrastructure as it focused on delivering a new and improved Purolator.com website equipped with enhanced features that reflect the strength of the Purolator brand and depth of services. The new website was designed to provide a modern, state-of-the-art storefront to enable the growth of online transactions. In 2012, Purolator invested $35 million of capital in relocating and modernizing the customer contact centre in Moncton, Purolator International legacy migration and improving resiliency, responsiveness and recovery capabilities of critical applications. Purolator's 2012 vehicle purchases were financed through a capital lease facility, bringing the total capital invested in 2012 to $62 million.

Purolator will continue to monitor its investment activities, focusing on those areas with the most potential for value creation, customer service and employee development and engagement.

4.5 Sales channels

Retail network

Canada Post has the largest retail network in Canada, with almost 6,400 retail post offices serving consumers and businesses. This extensive network consists of close to 3,900 corporately managed post offices and 2,500 outlets managed by private dealers. Dealer-managed outlets are particularly convenient for Canadians – they support the ongoing expansion of e-commerce, are well located and provide greater access through longer hours of operation and available parking.

The retail strategy progressed in 2012, 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.

To support our sales objectives, we incorporated improved functionality into the point-of-sale system. This included a new point-of-sale performance dashboard, which displays to all counter staff their post office's sales performance against suggested targets and other indicators. We introduced enhanced coupon and promotion functionality, as well as a complementary selling program, which provides prompts to clerks on the point-of-sale system to assist in cross-selling.

There was also a strong focus this year on improving selling tools and programs, including an improved feature product program to help post offices maximize sales. We also introduced *Focus on Retail Sales*, a publication that provides front-line clerks with selling techniques and best practices to create a sales-focused environment at outlets.

To serve our rural clients, the retail network includes over 3,800 locations in diverse and remote areas across Canada. When an unforeseen event affects the operation of a post office in a small community, Canada Post ensures that local mail delivery is maintained by using community outreach. This process includes open consultation with federal and local officials to ensure that all parties are informed and can provide input. Decisions are made on a case-by-case basis as we seek practical solutions that satisfy the community, while providing sustainable service.

In 2013, we will further enhance the retail point-of-sale system with additional functionality to support our overall strategy to maximize the return on our existing offerings. We will also focus on developing strategies to better manage our vast network as cost effectively as possible.

Online

Customers should be able to access Canada Post through their channel of choice, be it in person, by phone, on paper or online. Customers can choose to use the online channel, accessible through the corporate website, and order-entry systems (Electronic Shipping Tools [EST and EST 2.0]), to conduct business transactions, find information, manage orders and interact with the Corporation. Canada Post aims to improve the online channel performance by heightening the customer experience across digital touch points by improving and simplifying the user experience of online channels, increasing commercialization of the web, leveraging online channels to support the physical network, and offering more products and services through mobile apps and the epost™ platform.

Commercial

Our commercial customers are serviced by our highly skilled sales force, which is structured to maximize our opportunities around Internet retailing, mail and our new and evolving digital suite of products. By selling our combined capabilities and business solutions, including Direct Marketing, courier and logistics, transportation management, fulfillment, and inventory management, we are able to increase value to our customers.

4.6 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 Group of Companies' disclosure controls and procedures related to the preparation of the Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2012.

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 International Financial Reporting Standards (IFRS).

Canada Post Corporation's CEO and CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2012, in accordance with the 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 Group of Companies' internal control over financial reporting is effective as at December 31, 2012. This process follows the best-practices requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA), although, as a Crown corporation, Canada Post voluntarily complies with the rules and the regulations of the CSA.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting during the year ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, the Corporation's 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 has a well-established and rigorous enterprise risk management (ERM) framework that considers risks and opportunities at all levels of decision making. The ERM framework helps Canada Post understand and manage the most significant risks to the business and to the brand as the domestic and global postal industries continue to experience fundamental structural changes. 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 the 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. The following is a summary of the principal sources of strategic and operational risk and uncertainty facing the Corporation, along with associated mitigation strategies.

5.2 Strategic risks

Ability to execute a revenue growth and diversification strategy

To offset declining volumes in the core Lettermail business, Canada Post has explored opportunities in adjacent sectors, most notably in the e-commerce and digital services markets. In e-commerce, Canada Post can leverage its extensive physical network, while the epost™ 2.0 service offers a free digital mailbox for Canadians. Both sectors present challenges. Global competitors, who can offer seamless cross-border capabilities, have entered the Canadian e-commerce market. On the digital side, the Canada Post brand, which is more closely associated with physical delivery, competes against biller-direct websites and other established digital players. Further, Canada Post's resources and processes may not provide the flexibility and speed needed to succeed in new markets.

Risk mitigation

In 2011, Canada Post created two distinct business units – the physical delivery network and the digital delivery network – each led by a group president. This reorganization allows for a more effective focus on the service offerings and potential of each network.

In physical delivery, Canada Post is expanding parcel capacity and growing its value proposition for the e-commerce segment, such as introducing an enhanced Parcel Return service and the Deliver to Post Office option for the convenience of online shoppers. Our presence in the digital marketplace is being strengthened with the implementation of the epost™ 2.0 service and its attendant new revenue opportunities, and with the ongoing acquisition of resources with the appropriate marketing skill sets.

Significant core volume declines

Canada Post is experiencing significant pressures on its volumes across its lines of business. This is especially prevalent in Transaction Mail where Lettermail volume and revenue erosion is a fact of life for posts around the world and continues to be exacerbated by persistent global economic uncertainty. The potential impact of erosion on our revenues is substantial – erosion of 0.5% to 1% above plan for the Transaction Mail and Direct Marketing businesses would mean a $22-million to $45-million revenue loss per year. The convenience of electronic delivery alternatives, combined with a greater level of comfort in their security and reliability, mean that Lettermail and Direct Marketing mail erosion is happening faster than planned. Further acceleration in the rate of decline of Lettermail and Direct Marketing volumes could compromise our cash flow and our ability to invest in necessary strategic changes.

Risk mitigation

Canada Post is responding to the accelerated rate of volume decline through a combination of cost management measures, diversification, service enhancements and revenue growth initiatives. Cost management is focused around the restructuring of our network. The epost™ 2.0 service is giving Canada Post a strong presence in the field of electronic services. Network and service options are being explored to improve the cost effectiveness and value proposition of traditional Lettermail. While we have gained significant operational efficiencies, the ongoing drop in mail volumes and the large pension obligations are forcing the Corporation to explore further opportunities to modify its business model. New online tools and targeted pricing actions as well as a revitalization plan are aimed at growing the Direct Marketing business. The focus for parcels is on the rapidly growing e-commerce sector, including enhanced capabilities of web services and returns.

Achieving network and service transformation

Several years ago, Canada Post embarked on its Postal Transformation project, designed to deliver a modern and efficient physical mail network. It is now evident, given the greater than expected rate of decline of traditional mail volumes, that further changes will be under consideration for the foreseeable future. Restructuring requires alignment with multiple stakeholders. There is risk around our capacity to finance and implement change as well as a potential loss of focus on service quality and customer relations, which could have a negative impact on market share.

Risk mitigation

Proposed changes will be fully reviewed to determine their impact on consumers and customers and on Canada Post's service mandate. Changes will continue to be implemented with detailed execution plans, extensive project management and active engagement with the rest of the Corporation, the Board of Directors and, where necessary, consultation with the single shareholder, the Government of Canada. New agreements with CUPW-UPO and CUPW-RSMC will provide additional operating flexibility.

Labour agreements

Roughly 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex and rigid collective agreements remain a constraint on Canada Post's ability to compete in the market place. In 2012, agreements were reached on new contracts with CUPW-UPO and CUPW-RSMC, providing cost savings, improved productivity and greater labour flexibility. Negotiations have begun on a new agreement with almost 1,500 employees represented by PSAC/UPCE and are continuing in 2013.

Risk mitigation

Canada Post's approach to collective bargaining is to protect its financial viability and long-term sustainability, while limiting, as much as possible, the impact to current employees. Implementation of the new agreements reached with CUPW-UPO and CUPW-RSMC has led and will lead to further cost savings and improved productivity.

In its negotiations with PSAC/UPCE, the Corporation continues to believe that through a shared understanding of the structural challenges facing the Corporation, it can reach a settlement that will strike a balance between employee expectations and cost containment.

Pension deficits

The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer pension plans in Canada with assets of over $16 billion in market value. The scale of the RPP, given its size relative to the Corporation's 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 RPP has two primary risk factors:

- continued low long-term interest rates, which serve to increase the pension obligation;
- below-expected returns on assets, which would create a shortfall in assets available to meet the RPP's obligation.

Continued low long-term interest rates have resulted in a going-concern deficit of roughly $37 million, a solvency deficit close to $5.9 billion and a growing post-employment benefit liability as of December 31, 2012. Canada Post, as the RPP sponsor, is responsible for funding shortfalls in the pension plan.

Further information is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan on page 50.

Risk mitigation

The Corporation continues to evaluate the pension solvency position and has implemented a pension risk management framework to identify and quantify risks. In addition, all investment decisions are made in accordance with the Canada Post Registered Pension Plan Statement of

Investment Policies and Procedures (SIPP). The SIPP is reviewed annually by the Pension Committee of the Board of Directors. 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. The final stage of the transition plan is to be implemented in 2013.

In addition, the federal government has provided some relief from solvency funding to federally regulated companies, but this is capped at 15% of asset value and must be reaffirmed annually by the Minister of Transport, Infrastructure and Communities, who is responsible for Canada Post, and the Minister of Finance.

However, these measures may not be sufficient. Once the solvency deficit increases above the cap provided for funding relief, there will be significant cash pressures exerted on the Corporation. We must begin to look into modifying some of the pension plan's design features to ensure its sustainability and seek regulatory changes.

5.3 Operational risks

Achieving operational excellence and financial benefits from Postal Transformation

The Postal Transformation project was implemented to help Canada Post compete, respond to the evolution of the postal market and provide a platform for new and improved products and services. There is a risk in achieving the expected benefits if the Corporation is unable to maintain productivity and service levels, while implementing significant changes to facilities and processes. Over the long term, cost savings will partly depend on the ability to maintain operational excellence.

Risk mitigation

Expected savings from Postal Transformation remain according to plan. Measures have been implemented to ensure a sound approach throughout all stages of Postal Transformation. These include detailed execution plans, rigorous project management, a benefit measurement tool and periodic reviews to validate benefits assumptions and finalize operating targets. A gap identification process was launched to address productivity and service shortfalls in a systematic manner, resulting in improved productivity trends and service levels in 2012.

Health and safety

The health and safety of employees is a long-standing concern for Canada Post. However, as the Corporation evolves its operations to address the changing nature of its business, there is a risk that recent safety performance improvement will not be sustained as focus shifts away from health and safety. Issues concerning the delivery of mandated training to employees and supervisors also contribute to health and safety risks.

Risk mitigation

The Corporation is ensuring that health and safety training is provided to new and recently hired supervisors. On-site occupational health and safety (OHS) officers continue to focus on the coaching approach of safe practices for employees and supervisors. The rural mailbox safety review continues. While the majority of reviewed mailboxes are satisfactory, those posing a risk to delivery personnel are required to be moved or modified. For further information, see Section 4.2 – Health and safety on page 40.

Security and privacy

Canada Post is responsible for ensuring the security of Canadians' physical and digital mail. It is also responsible for protecting the privacy of customer and employee data that the Corporation may hold. Breaches of security or privacy could result in hardship for customers and employees and cause serious damage to the Corporation's reputation and brand. Fraudulent use of the Corporation's products and services could cause financial harm.

Risk mitigation

Canada Post has invested heavily in physical and electronic security, the protection of employee and customer data and the avoidance of fraudulent use of its products and services. In addition to established security policies and guidelines, security clearance is required for all new employees and contractors. The Corporation regularly conducts threat risk assessments to ensure that the security and privacy interests of the Corporation, its customers and its employees are protected. Privacy impact assessments are conducted to ensure that new technologies, information systems and initiatives adequately protect privacy. Physical and electronic security measures, including high-security locks, cameras and electronic access controls, are in place to protect electronic and physical mail, postal facilities and information.

Business continuity

Canada Post and its customers rely on physical and electronic delivery networks that are vulnerable to natural and man-made disruptions. The Corporation's extensive physical network is also increasingly dependent on key operating systems, equipment, transportation network and IT infrastructure. In 2012, Canada Post transferred its IT security and architecture responsibilities to Innovapost.

Risk mitigation

Postal Transformation is addressing critical infrastructure and equipment and will continue to significantly reduce risk to the physical network. The Corporation has a business continuity management program in place to ensure the delivery of its critical physical and digital services. Business continuity plans are regularly tested and updated, taking into account changes to the business environment. Canada Post is strengthening its business continuity and disaster recovery linkages with Innovapost under the IT transformation that was initiated. The Corporation and its partners continuously monitor threats to the business environment.

IT transformation

In March 2012, the Canada Post Group of Companies acquired CGI's voting shares in Innovapost, increasing the Group of Companies' equity interest from 51% to 98%. Innovapost will continue to provide the Group of Companies with information technology and information system services. The change in ownership structure raises risks in attracting and retaining key top talent, particularly during the transitional period. The acquisition also means that all financial risks, including the potential need for a cash injection, now rest with the Canada Post Group of Companies.

Risk mitigation

Canada Post is maintaining open communication with Innovapost employees regarding the change in ownership, and key employee retention strategies are in place. Potential financial risks will be shared proportionately across the Group of Companies.

Attrition

Canada Post faces an unprecedented rate of employee departures over the next ten years, when half of current full-time employees are expected to leave the Corporation, most through retirement. There are three risks associated with attrition and overall talent management:

- a failure to attract, engage, train and retain top talent;
- ineffective management of key and vulnerable roles that could have an impact on business continuity;
- a lost opportunity to improve productivity and efficiency through voluntary attrition.

Risk mitigation

The Corporation is managing attrition risks and opportunities. Canada Post is recruiting, developing and retaining the leadership talent needed to meet long-term objectives; developing training programs and knowledge-management tools to reduce risks associated with the outflow of knowledge, skill and experience; linking key and vulnerable positions to ongoing succession planning; and closely monitoring short and long-term operational requirements to ensure ongoing alignment with resource planning. Specific initiatives include a new executive leadership development program to prepare and develop those with potential to assume senior executive responsibilities; a middle-management development program; periodic new-hire meetings to identify issues; and a workforce planning framework to manage and monitor risk.

Service quality

On-time delivery performance in 2012 improved significantly over 2011. However, the Corporation continues to undergo substantive change, and service quality will continue to require close attention. Failure to maintain service quality poses risks for cost management and customer retention. Over the long term, cost savings from our transformation efforts will depend on our ability to maintain operational excellence.

Risk mitigation

The 2011 implementation of a quality service management system has enhanced operations' ability to identify issues and root causes, and to resolve service problems. As the transformation of our network has evolved, the Operations and Postal Transformation teams are being reintegrated to improve management of the end-to-end network, facilitate the assessment and correction of issues, and meet key performance indicators. Further, responsibility for mail processing and delivery was separated to ensure better focus and accountability for each function.

Environmental sustainability

The possibility that customers and consumers could perceive Canada Post as not environmentally responsible could have negative consequences on its brand reputation and customer loyalty. This could accelerate erosion of mail volumes as customers migrate to electronic or other competing formats.

Risk mitigation

Canada Post continues to proactively and transparently disclose its environmental performance through the annual report on corporate social responsibility. Canada Post has committed to register all new building projects for LEED™ (Leadership in Energy and Environmental Design) certification; 28 have been registered to date, including two new mail processing facilities in Winnipeg and Vancouver. By 2015, we will have replaced over 3,000 of our existing fleet of delivery vehicles with smaller, more fuel-efficient vehicles. We are committed to continuously improving the way we conduct our business by following leading environmental and ethical business practices.

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, this could result in a material future adjustment to the Corporation's financial position and results of operations.

Volumetric process – Lee Valley Tools

A class-action suit was launched in October 2006 in the Superior Court of Ontario, alleging that Canada Post's volumetric process violated the *Weights and Measures Act*. Discoveries were completed in 2011 and a pre-trial conference was held in 2012. A trial is set for May 2013.

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 for the Food Mail Program of the Government of Canada. The airline is seeking $75 million in damages and $1 million in punitive damages. Dates for examination for discoveries are tentatively scheduled for May 2013.

CPAA pay equity complaint

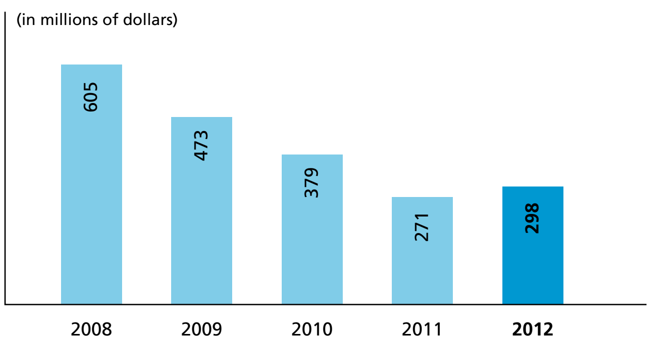
A complaint was filed with the Canadian Human Rights Commission alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*.

On October 10, 2012, the Corporation received notice from the Commission that the CPAA has requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief on December 10, 2012, in response to the Commission's request for submissions on the reactivation.

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 of $298 million as at December 31, 2012 – an increase of $27 million compared to December 31, 2011. The increase was mainly due to $310 million in cash provided by operations and $270 million in net proceeds from the sales of securities that were partially offset by net capital asset and business acquisitions of $533 million, and $20 million in capital lease payments and other financing activities.

6.2 Operating activities

(in millions of dollars)	2012	2011	Change
Cash provided by operating activities	310	196	114

Cash generated from operating activities was $310 million in 2012 – an increase of $114 million when compared to 2011. This cash flow variance was primarily driven by a $116 million reduction in pension, other post-employment and other long-term benefit payments. The decrease in pension and other post-employment and other long-term benefit payments is mainly due to lower solvency deficit payments in 2012 for the Canada Post segment. In April 2011, amendments to the regulations of the *Pension Benefits Standards Act, 1985* came into effect, allowing companies with federally regulated pension plans to reduce their payments if ministerial agreement is provided.

6.3 Investing activities

(in millions of dollars)	2012	2011	Change
Cash used in investing activities	(263)	(290)	27

Cash used in investing activities dropped by $27 million in 2012, when compared to 2011, primarily due to an increase of $30 million in net proceeds from the sales of short-term investments.

Capital expenditures

(in millions of dollars)	2012	2011	Change
Canada Post	537	500	37
Purolator	35	39	(4)
Logistics	5	4	1
Innovapost and intersegment	(2)	(3)	1
Canada Post Group of Companies	**575**	**540**	**35**

The Canada Post Group of Companies increased its capital expenditures by $35 million in 2012 when compared to 2011. The increase was mainly due to increased spending on Postal Transformation.

- Canada Post segment capital expenditures totalled $537 million in 2012, a year-over-year increase of $37 million, primarily due to the continued implementation of Postal Transformation.
- Purolator segment capital expenditures totalled $35 million in 2012 – $4 million lower than 2011. Capital expenditures were mainly driven by new capital projects to support growth in online services and customer service improvements.

6.4 Financing activities

(in millions of dollars)	2012	2011	Change
Cash used in financing activities	(20)	(14)	(6)

Cash used in financing activities increased by $6 million in 2012 when compared to 2011, primarily due to an increase in capital lease payments in the Purolator segment.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of over $16 billion, making it one of the largest single-employer pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) in order to establish its funded status on both the going-concern and solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act*, *1985* (Act) requires Canada Post, as plan sponsor, to make special payments into the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, the Act requires Canada Post to make special payments into the RPP to eliminate this shortfall over five years.

As of July 1, 2010, a number of amendments to the regulations of the Act 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. Canada Post obtained an agreement from the Minister of Finance and the Minister of Transport, Infrastructure and Communities (Ministers) to reduce the special solvency contributions from January 1, 2011 to June 30, 2013.

The actuarial valuation for the RPP as at December 31, 2011, filed in June 2012, disclosed a going-concern deficit of $404 million (using the smoothed value of RPP assets) and a solvency deficit (using the three-year average solvency ratio basis), before any relief, of $4.7 billion.[3] The December 31, 2012, actuarial valuation for the RPP will be filed by the end of June 2013. The current estimate of the financial position of the RPP as at December 31, 2012, is a going-concern deficit of approximately $37 million (using the smoothed value of RPP assets) and a solvency deficit of approximately $5.9 billion[4] (using the three-year average solvency ratio basis).The going-concern funded status improved during the year mainly due to a reduction in the inflation assumption combined with a strong rate of return. However, even with a strong rate of return, the solvency deficit (using the three-year average solvency ratio basis) deteriorated during the year as a result of declining discount rates, which increased the present value of the plan's future pension obligations.

Special contributions to the Canada Post Registered Pension Plan are dependent on changes in discount rates, actual returns on RPP assets and other factors such as plan amendments. Employer special contributions of $63 million were made in 2012, compared to $219 million in 2011. In 2012, the Corporation used the funding relief permitted by legislation. Without this relief, an additional $897 million in special solvency contributions would have been required from the Corporation. The aggregate amount of the funding relief as at December 31, 2012 is $1.3 billion.

Based on the expected actuarial valuation, 2013 special contributions are estimated at $28 million. It is the Corporation's intent to seek agreement from the Ministers to use the relief permitted by legislation beyond June 2013 to obtain a reduction of 2013 special solvency contributions. Without the relief, the Corporation's contributions would increase by approximately $1.2 billion. The aggregate amount of the relief at the end of 2013 is expected to total $2.4 billion. As the aggregate amount of the relief is limited to 15% of RPP assets, the Corporation expects to reach the limit in early 2014, putting significant pressure on the Corporation's cash resources. We are evaluating all options including regulatory relief and changes to plan design to help address these challenges.

Current service contributions of the defined benefit pension plan in 2012 amounted to $308 million, compared to $291 million in 2011. Current service contributions for 2013 are estimated at $269 million. The *Jobs and Growth Act*, 2012, Bill C-45, was enacted on December 14, 2012, enabling changes to the public service pension plans. Consequently, effective January 1, 2013, the cap for employees' share of current service costs can be increased from 40% to 50%. Canada Post intends to share current service costs with employees on a 50:50 basis.

In 2012, Canada Post, the plan sponsor, recorded actuarial losses of $780 million, net of tax, in other comprehensive income (loss). This further eroded the Corporation's negative equity.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which it defines as loans and borrowings, other liabilities (non-current) 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.

The *Canada Post Corporation Act* and the *Financial Administration Act* (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.

Liquidity

As at December 31, 2012, and during 2012, 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

3. Solvency deficit when using fair value of Plan assets is approximately $6.6 billion.
4. Solvency deficit when using fair value of Plan assets is approximately $6.5 billion.

segment had $790 million of unrestricted liquid investments on hand as at December 31, 2012, 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 that it has sufficient liquidity to support its operations over the next 12 months, including adequate financial resources for fluctuations in working capital, adverse changes in business results or unforeseen expenditures. This belief is, in part, based on the expectation that the Corporation's agreement with the Government of Canada under the *Pension Benefits Standard Act*, *1985*, which allows the Corporation to reduce its special solvency payments, will be renewed. Should the outcome of management's current expectations differ, or future results of operations differ significantly from current estimates, the Corporation may have to seek an increase to its short-term borrowing authority within its overall $2.5-billion limit.

The Corporation's subsidiaries had a total of $78 million of unrestricted cash on hand and undrawn credit facilities of $115 million as at December 31, 2012, ensuring sufficient liquidity to support their operations over the next 12 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 in the form of short-term borrowings. Any additional borrowings must be within the limits of the approved borrowing plan, and their terms and conditions require approval from the Minister of Finance. The Corporation believes that these arrangements provide it with sufficient and timely access to capital markets.

With $1,058 million of borrowings as at December 31, 2012, the Canada Post segment had $1,442 million of its $2.5 billion external borrowing limit that had not been used. The borrowings of the Corporation's subsidiaries as at December 31, 2012 amounted to $85 million, resulting in consolidated borrowings of $1,143 million as at December 31, 2012. This represents an increase of only $16 million over the 2011 year-end level of $1,127 million, reflecting that the Corporation funded itself primarily through use of cash-on-hand, funds generated from operations during 2012 and the pension plan funding relief permitted by legislation.

Dividends

The declaration, amount and payment of a dividend by Canada Post to the Government of Canada are subject to the *Canada Post Corporation Act* and the *Financial Administration Act*. The dividend is reviewed annually by Canada Post, and each year it is required to submit a dividend proposal as part of its Corporate Plan. In the 2012-2016 Corporate Plan, which was approved by the Governor in Council on March 12, 2012, the Corporation indicated its intention not to pay a dividend in 2012 given its 2011 net loss and ongoing large cash investments in Postal Transformation. It is also the Corporation's intention not to pay any dividends in 2013. Canada Post has not paid a dividend to the Government of Canada since 2008 given the Corporation's investment demands.

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	2012				
	Measured at fair value		Measured at cost*		
	Available for sale	Fair value through profit and loss	Loans and receivables	Other liabilities	Total
Financial assets					
Cash and cash equivalents	–	298	–	–	298
Marketable securities	–	570	–	–	570
Trade and other receivables	–	–	615	–	615
Segregated securities	560	–	–	–	560
Total financial assets	**560**	**868**	**615**		**2,043**
Financial liabilities					
Non-interest bearing**	–	–	–	654	654
Bonds	–	–	–	1,051	1,051
Other loans and borrowings	–	–	–	92	92
Total financial liabilities				**1,797**	**1,797**

* The effective interest method is used to determine the amortized cost of these financial assets and liabilities.
** 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 Postal Transformation.

Market risk

Interest rate risk

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

Substantially all investments are fixed-rate debt securities; therefore, they are 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 of the segregated security portfolio was 13 years as at December 31, 2012 (2011 – 13 years).

Based on a sensitivity analysis of interest rate risk, it is expected that 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 by $70 million, which would represent a significant impact on the fair value of the Corporation's investments at December 31, 2012 and on other comprehensive loss. Such a change in value would be partially offset by the change in value of certain long-term post-employment obligations. In other words, a decrease in market interest rates would increase the fair value of segregated securities, while simultaneously increasing certain post-employment obligations. Therefore, changes in value would partially offset each other in the other comprehensive income or loss.

Loans and borrowings of $1,143 million (2011 – $1,127 million) include fixed-rate debt with prepayment options and capital lease obligations.

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 (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro, British pound and yen, whereas payment is usually denominated in US$.

During the year, the Group of Companies continued its economic hedge program to mitigate exposure to foreign exchange balances and implemented an economic hedge program to mitigate exposure to 2012 forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the four currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures where cash flows are highly probable. These forward contracts are not designated as hedges for accounting purposes. The total foreign exchange and foreign exchange derivative gains included in revenues from operations amounted to $5 million (2011 – $3 million). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2012, all other variables held constant, would have been an increase or decrease in net profit or loss for the year by $5 million (2011 – $3 million).

Commodity risk

The Group of Companies is inherently exposed to fuel price increases but does not currently hold any financial instruments that 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 (2011 – nil), and impairment losses on trade and other receivables were $2 million (2011 – $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 monitoring forecasted 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 24 to the consolidated financial statements on page 125 and Section 6.6 Liquidity and capital resources on page 50.

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 19 and 24 (c) to the consolidated financial statements on pages 122 and 127, respectively.

(in millions of dollars)	Total	Less than 1 year	1-5 years	More than 5 years
Bonds*	1,055	–	55	1,000
Interest on bonds	895	48	183	664
Finance lease obligations	101	23	68	10
Operating leases**	885	152	380	353
Postal Transformation contractual obligations***	208	183	25	–
Total	3,144	406	711	2,027

* 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% to 10.35%.

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

6.9 Related party transactions

Government of Canada

The Corporation has a variety of transactions with related parties in the normal course of business and in support of the Government of Canada's public policies. Revenue earned from related parties for the year was $293 million (2011 – $350 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 from the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage, which amounted to $22 million (2011 – $22 million).

Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expenses for key management personnel for the years ended December 31, 2012 and 2011, were $10 million and $11 million, respectively, and included compensation related to short-term employee benefits and post-employment benefits.

See Note 23 to the consolidated financial statements on page 124 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. 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 18 to the consolidated financial statements on page 121 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, 2012, and December 31, 2011

(in millions of dollars)

ASSETS	2012	2011	Change	%	Explanation of change
Cash and cash equivalents	298	271	27	10.2 %	Refer to Section 6 – Liquidity and Capital Resources (page 49)
Marketable securities	570	842	(272)	(32.3)%	Attributable to securities sold for capital acquisitions in Canada Post
Trade and other receivables	615	662	(47)	(7.1)%	Mainly due to decreased international settlements receivable at Canada Post and decreased receivables at Purolator
Income tax receivable	8	56	(48)	(85.5)%	The net decrease is mainly due to the receipt of the prior year's refund for Canada Post offset by Purolator's current year's expected refund
Other assets	126	115	11	8.9 %	Mainly due to increased assets held for sale partially offset by decreased prepaid expenses for Canada Post
Total current assets	1,617	1,946	(329)	(16.9)%	
Property, plant and equipment	2,655	2,379	276	11.6 %	Mainly due to Canada Post capital acquisitions for Postal Transformation
Intangible assets	143	165	(22)	(13.1)%	Mainly due to the amortization of software assets exceeding acquisitions
Segregated securities	560	553	7	1.2 %	Mainly due to interest income and unrealized gains partially reduced by benefit payments for Canada Post
Pension benefit assets	83	93	(10)	(10.9)%	Mainly resulting from net actuarial losses for Canada Post partly offset by employer contributions made
Deferred tax assets	1,819	1,472	347	23.5 %	Mainly 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	130	125	5	4.3 %	Increase due to acquisitions in the Logistics segment
Other assets	11	11	0	1.9 %	No material change
Total non-current assets	5,401	4,798	603	12.5 %	
Total assets	7,018	6,744	274	4.1 %	

(in millions of dollars)

LIABILITIES	2012	2011	Change	%	Explanation of change
Trade and other payables	453	482	(29)	(6.0)%	Mainly due to decreased trade payables due to lower expenses at Canada Post and Purolator
Salaries and benefits payable and related provisions	699	732	(33)	(4.4)%	Mainly resulting from decreased payroll withholdings at Canada Post
Provisions	85	75	10	14.0 %	Mainly due to corporate restructuring at Purolator
Income tax payable	1	2	(1)	(57.4)%	No material change
Deferred revenue	137	129	8	6.1 %	Mainly due to increased customer prepayments for services at Canada Post
Loans and borrowings	20	16	4	26.4 %	No material change
Other long-term benefit liabilities	72	86	(14)	(15.8)%	Mainly resulting from sick leave curtailment and net actuarial losses from other long-term benefit plans
Total current liabilities	1,467	1,522	(55)	(3.5)%	
Loans and borrowings	1,123	1,111	12	1.1 %	Mainly attributable to Purolator's increased debt due to vehicles purchased through financing leases
Pension, other post-employment and other long-term benefit liabilities	7,052	5,719	1,333	23.3 %	Primarily resulting from net actuarial losses from pension, other post-employment and other long-term benefit plans partly offset by sick leave curtailment and plan amendment for the post-employment health plan
Deferred tax liabilities	2	–	2	553.1 %	Mainly due to an increase in Innovapost's taxable temporary differences
Provisions	5	4	1	13.6 %	No material change
Other liabilities	17	19	(2)	(7.6)%	No material change
Total non-current liabilities	8,199	6,853	1,346	19.6 %	
Total liabilities	9,666	8,375	1,291	15.4 %	

(in millions of dollars)

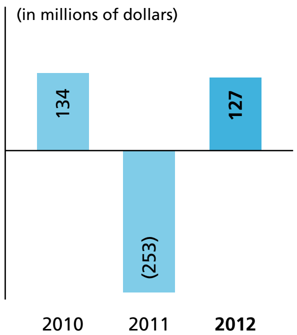
EQUITY	2012	2011	Change	%	Explanation of change
Contributed capital	1,155	1,155	0	0.0 %	
Accumulated other comprehensive income	52	45	7	13.9 %	Mainly due to unrealized gains on available-for-sale financial assets at Canada Post
Accumulated deficit	(3,875)	(2,855)	(1,020)	(35.7)%	Mainly attributable to net actuarial losses from post-employment and other long-term benefit plans
Equity of Canada	(2,668)	(1,655)	(1,013)	(61.2)%	
Non-controlling interests	20	24	(4)	(18.6)%	
Total equity	(2,648)	(1,631)	(1,017)	(62.4)%	
Total liabilities and equity	7,018	6,744	274	4.1 %	

8 Discussion of Operations

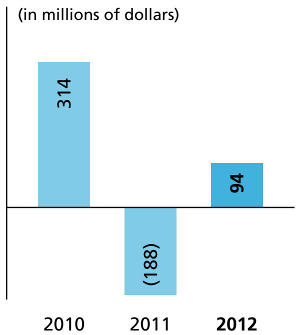
A detailed discussion of our financial performance in 2012

8.1 Consolidated trends

Consolidated profit (loss) before tax



Net profit (loss)



8.2 Consolidated results from operations

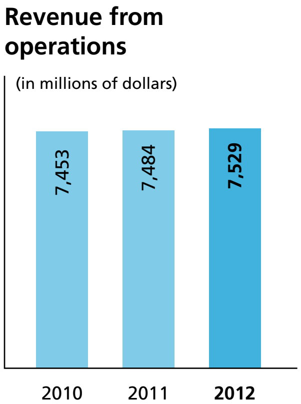
Consolidated results

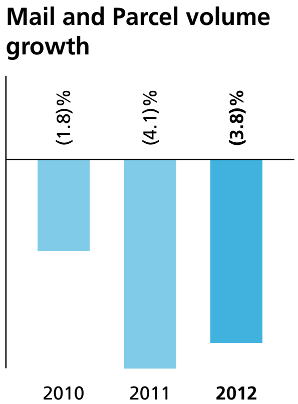
(in millions of dollars)	2012	2011	Change	%
Revenue from operations	7,529	7,484	45	0.2 %*
Cost of operations	7,398	7,710	(312)	(4.0) %
Profit (loss) from operations	131	(226)	357	–
Investing and financing income (expense)	(4)	(27)	23	85.4 %
Profit (loss) before tax	127	(253)	380	–
Tax expense (income)	33	(65)	98	–
Net profit (loss)	94	(188)	282	–
Other comprehensive loss	(1,110)	(1,148)	38	3.3 %
Comprehensive loss	(1,016)	(1,336)	320	23.9 %

* Adjusted for trading days, where applicable

The Canada Post Group of Companies had a profit before tax of $127 million in 2012 mainly from non-recurring non-cash accounting gains related to changes to sick leave and health plans and actuarial gains from experience adjustments, in the Canada Post segment. Had it not been for these gains, the Group of Companies would have incurred a loss before tax of $25 million and the Canada Post segment would have incurred a loss before tax of $54 million in 2012. These gains primarily resulted from the new collective agreements, which came into effect on December 21, 2012. Furthermore, the 2011 net profit (loss) was negatively affected by the June 2011 labour disruption and by provisions recorded in 2011 to account for the PSAC pay equity ruling, both in the Canada Post segment.

Consolidated revenue from operations





Revenue from operations increased by $45 million or 0.2% in 2012, when compared to 2011. However, when taking into account the lost revenue in 2011 caused by the June 2011 labour disruption in the Canada Post segment, 2012 revenue would have actually declined by around $160 million. Continued volume erosion in Canada Post's Transaction Mail and Direct Marketing lines of business resulting from electronic substitution, competitive pressures and the uncertain economy have had a negative impact on revenue in the Canada Post segment.

Consolidated cost of operations

The cost of operations decreased by $312 million or 4.0% in 2012, compared to 2011 primarily due to lower labour and benefit costs. The decrease was mainly due to non-recurring non-cash accounting gains, recorded in 2012 in the Canada Post segment to account for changes to sick leave and health plans, as well as the pay equity provision, booked in 2011, as a result of the Supreme Court of Canada's ruling in favour of PSAC. This was partially offset by regular annual wage increases in 2012 and cost reductions in 2011 associated with wages not paid to CUPW members during the labour disruption in the Canada Post segment.

Consolidated investing and financing income (expense)

Net investing and financing expense improved by $23 million in 2012 compared to the prior year. Improvements were primarily due to higher gains on disposal of assets in the Canada Post segment.

Consolidated tax expense (income)

Consolidated tax expense increased by $98 million for the year ended December 31, 2012, when compared to the prior year. This increase is primarily due to the increase in the Group of Companies' profit before tax.

Consolidated other comprehensive income (loss)

Actuarial losses were recorded as a result of the re-measurement of pension and other post-employment plans. Higher pension plan investment returns offset by the impact of a decline in the discount rate had a net negative impact on the Group of Companies' pension plans.

8.3 Operating results by segment

Segmented results – Profit (loss) before tax

(in millions of dollars)	2008*	2009*	2010	2011	2012
Canada Post	66	319	56	(327)	98
Purolator	91	53	76	73	38
Logistics	13	9	11	7	8
Innovapost	15	15	19	20	5
Intersegment and unallocated	(24)	(17)	(28)	(26)	(22)
Canada Post Group of Companies	161	379	134	(253)	127

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

8.4 Canada Post segment

The Canada Post segment contributed $98 million of profit before tax, an increase of $425 million when compared to 2011. Profit before tax was mainly from non-recurring non-cash accounting gains, related to changes to sick leave and health plans and actuarial gains from experience adjustments. Had it not been for these gains, Canada Post would have incurred a loss before tax of $54 million.

Canada Post summary

(in millions of dollars)	2012	2011	Change	%
Revenue from operations	5,866	5,861	5	(0.3) %*
Cost of operations	5,789	6,190	(401)	(6.5) %
Profit (loss) from operations	77	(329)	406	–
Investing and financing income (expense)	21	2	19	1,267.6 %
Profit (loss) before tax	98	(327)	425	–

* Adjusted for trading days, where applicable.

Revenue from operations

Canada Post generated revenue from operations of $5,866 million in 2012 – a slight increase of $5 million when compared to 2011. Revenue for 2012 would have decreased by around $200 million had it not been for the labour disruption in June 2011. Continued erosion due to electronic substitution, competitive pressures, and economic uncertainty had a significant effect on revenue in 2012.

Revenue and volumes by line of business

	Revenue (in millions of dollars / trading day adjusted percentage)				Volume (in millions of pieces / trading day adjusted percentage)			
	2012	2011	Change	%	2012	2011	Change	%
Transaction Mail								
Domestic Lettermail	2,707	2,813	(106)	(4.2) %	4,015	4,270	(255)	(6.4) %
Outbound Letter-post	179	167	12	6.7 %	112	111	1	0.4 %
Inbound Letter-post	126	124	2	1.5 %	247	249	(2)	(1.0) %
Total Transaction Mail	3,012	3,104	(92)	(3.3) %	4,374	4,630	(256)	(5.9) %
Direct Marketing								
Addressed Admail	596	598	(2)	(0.7) %	1,236	1,273	(37)	(3.3) %
Unaddressed Admail	405	400	5	0.9 %	3,408	3,453	(45)	(1.7) %
Publications Mail	241	251	(10)	(4.2) %	409	431	(22)	(5.6) %
Business Reply Mail^{TM} and Other Mail	28	29	(1)	(6.8) %	27	30	(3)	(10.6) %
Other	1	1	0	(17.4) %	–	–	–	–
Total Direct Marketing	1,271	1,279	(8)	(1.0) %	5,080	5,187	(107)	(2.5) %
Parcels								
Domestic Parcels	901	844	57	6.3 %	100	94	6	6.0 %
Outbound Parcels	203	193	10	4.6 %	11	11	0	2.6 %
Inbound Parcels	173	153	20	12.7 %	42	38	4	9.4 %
Other	19	27	(8)	(29.4) %	–	–	–	–
Total Parcels	1,296	1,217	79	6.1 %	153	143	10	6.7 %
Other revenue	287	261	26	9.5 %	16	5	11	230.9 %
Total	5,866	5,861	5	(0.3) %	9,623	9,965	(342)	(3.8) %

Transaction Mail

Total Transaction Mail revenue amounted to $3,012 million in 2012. Transaction Mail revenue was made up of the following three product categories: domestic Lettermail ($2,707 million), outbound Letter-post ($179 million), and inbound Letter-post ($126 million).

Total 2012 Transaction Mail revenue decreased by $92 million and volume declined by 256 million pieces compared to 2011. The revenue and volume decline represent a year-over-year decrease of 3.3% and 5.9%, respectively. Year-over-year changes are broken down by product category as follows:

- Domestic Lettermail revenue declined by $106 million or 4.2%, and volumes declined by 255 million pieces or 6.4% compared to 2011. Decreases in volume and revenue were primarily driven by erosion due to electronic substitution. This decline in paper-based communication has been accelerated by the implementation of pay-for-paper initiatives by some of our largest customers, especially in the banking and telecommunication segments, and an uncertain economic environment.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrators) increased by $12 million or 6.7% compared to the previous year. The revenue increase was due to volume growth in commercial Letter-post, predominantly to the U.S.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) totalled $126 million and grew slightly by $2 million or 1.5% compared to 2011. Overall Inbound volumes declined by 2 million pieces or 1.0% due to declining volumes from the U.S., being only partially offset by volume growth from the rest of world.

Direct Marketing

Total Direct Marketing revenue amounted to $1,271 million in 2012. Direct Marketing revenue was made up of the following four product categories: Addressed Admail ($596 million), Unaddressed Admail ($405 million), Publications Mail ($241 million), and Business Reply Mail and Other Mail ($29 million).

Total 2012 Direct Marketing revenue decreased by $8 million or 1.0% compared to 2011. The revenue declines were caused by commercial customers in the telecommunications and retail segments, reducing their marketing expenditures and redirecting some of them to other media channels. The decline would have been more significant had 2011 revenue and volumes not been negatively affected by the June 2011 labour disruption. Year-over-year changes by product category are summarized as follows:

- Addressed Admail revenue declined by $2 million or 0.7% compared to 2011. This was due to a 3.3% drop in volume, offset by a 2.7% increase in the average revenue per piece.
- Unaddressed Admail revenue increased slightly by $5 million or 0.9% compared to the previous year. The increase was due to a 2.7% increase in the average revenue per piece, offset by a 1.7% decline in volume.
- Publications Mail revenue declined by $10 million or 4.2% compared to 2011. The revenue decline was caused by volume erosion due to a decline in mail publication subscriptions, partially offset by a 1.4% increase in average revenue per piece.
- Business Reply Mail and Other Mail experienced declines in revenue of 6.8% and volume of 10.6%.

Parcels

Total Parcels revenue was $1,296 million in 2012. Parcels revenue was made up of the following four product categories: Domestic Parcels ($901 million), Outbound Parcels ($203 million), Inbound Parcels ($173 million), and Other ($19 million).

Total 2012 Parcels revenue increased by $79 million or 6.1% compared to 2011. The increase reflects the strong growth in e-commerce orders as well as the negative impact of the June 2011 labour disruption on 2011 results, offset by the loss of volume and revenue from Canada Post exiting the Food Mail Program at the end of the first quarter in 2011. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue increased by $57 million or 6.3%, and volumes increased by 6 million pieces or 6.0%. Most of the growth was from more use of the Expedited Parcel service, mainly by e-commerce customers.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) increased by $10 million or 4.6% compared to 2011, due primarily to an increase in packets and parcels sent to the U.S.
- Inbound Parcels revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering their parcels in Canada) increased by $20 million or 12.7% and volumes grew by 4 million pieces or 9.4% compared to 2011. Growth was predominately from an increase in goods purchased online from the United States due in part to the strength of the Canadian dollar.
- Other Parcels revenue declined by $8 million or 29.4% compared to 2011.

Other revenue

Other revenue totalled $287 million in 2012 – an increase of $26 million or 9.5% when compared to the prior year. The revenue increase was mainly due to the success of new stamps, gifts and collectibles, and the strong performance in Mail Redirection and Mover services and data products, partially offset by the impact of the 2011 census on the SmartFlow™ products.

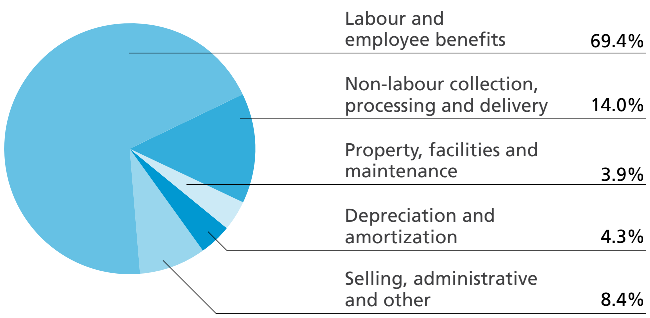
Cost of operations

In 2012, the Canada Post segment's cost of operations totalled $5,789 million – a decrease of $401 million or 6.5% when compared to the prior year.

(in millions of dollars)	2012	2011	Change	%
Labour	3,174	3,384	(210)	(6.2) %
Employee benefits	841	993	(152)	(15.3) %
Total labour and employee benefits	4,015	4,377	(362)	(8.3) %
Non-labour collection, processing and delivery	812	822	(10)	(1.1) %
Property, facilities and maintenance	228	232	(4)	(1.7) %
Selling, administrative and other	483	526	(43)	(8.2) %
Total other operating costs	1,523	1,580	(57)	(3.6) %
Depreciation and amortization	251	233	18	7.8 %
Total	5,789	6,190	(401)	(6.5) %

The chart shows the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 69.4% of the total cost of operations, demonstrating the labour-intensive nature of our business.

Cost of operations – 2012



Cost of operations	2010	2011	2012
Labour and employee benefits	69.5%	70.7%	69.4%
Non-labour collection, processing and delivery	14.5%	13.2%	14.0%
Property, facilities and maintenance	3.8%	3.8%	3.9%
Depreciation and amortization	3.7%	3.8%	4.3%
Selling, administrative and other	8.5%	8.5%	8.4%

Labour

The cost of labour decreased by $210 million or 6.2% when compared to 2011. The decrease was primarily due to the pay equity provision booked in 2011 as a result of the Supreme Court of Canada's ruling in favour of PSAC, partially offset by regular annual wage increases and by cost reductions in 2011 associated with the wages not paid to CUPW members during the labour disruption.

Employee benefits

(in millions of dollars)	2012	2011	Change	%
Pension expense	260	249	11	4.3 %
Post-employment health benefits	81	170	(89)	(52.3) %
Other post-employment and other long-term benefits	72	183	(111)	(60.9) %
Interest on segregated assets	(21)	(28)	7	23.7 %
Total post-employment and other long-term benefits	392	574	(182)	(31.8) %
Active employee benefits	443	408	35	8.7 %
Other	6	11	(5)	(42.6) %
Net benefit costs	841	993	(152)	(15.3) %

Net benefit costs for employees decreased by $152 million or 15.3% when compared to 2011, as detailed below:

- Non-cash pension expense increased by $11 million or 4.3% in 2012 due to a decrease in the discount rate from 5.7% to 5.3% and lower expected return on plan assets, partially offset by the non-recurring accounting charge in June 2011 for the change in the *Pension Benefits Standards Act, 1985*.
- The non-cash post-employment health benefits expense decreased by $89 million or 52.3%, mainly due to the non-recurring accounting gain for past service credits resulting from changes to plan arrangements and changes to actuarial assumptions.
- Other post-employment and other long-term benefit expenses decreased by $111 million or 60.9% due to the non-recurring accounting gains resulting from plan curtailment and actuarial gains from experience adjustments. Changes to various actuarial assumptions also created actuarial gains.
- The benefits expense for active employees increased by $35 million or 8.7% in 2012, when compared to the prior year, primarily due to a disability insurance contribution holiday in 2011. The June 2011 work disruption also accounts for some of the variance.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by $10 million or 1.1% in 2012, when compared to the prior year, primarily due to lower transportation costs from Canada Post exiting the Government of Canada's Food Mail Program (as at March 31, 2011), partially offset by the cost reductions in 2011 associated with the labour disruption.

Property, facilities and maintenance

The cost of facilities decreased by $4 million or 1.7% in 2012 compared to 2011 primarily due to efficiency incentives that were partially offset by an increase in rent expense.

Selling, administrative and other

Selling, administrative and other expenses dropped by $43 million or 8.2% for 2012 when compared to 2011. This drop was largely driven by a reduction in investment project expenditures and a decrease in information technology expenses resulting from the restructuring of Innovapost, which began operating on a cost-recovery basis in May 2012. This improvement in information technology expenses was partially offset by a decrease in the dividend income received from Innovapost.

Depreciation and amortization

The depreciation and amortization expense increased by $18 million to $251 million, a 7.8% increase compared to 2011. This increase was mainly due to higher capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

8.5 Purolator segment

The Purolator segment contributed $38 million to 2012 consolidated profit before tax, a decrease of $35 million when compared to 2011 due to a challenging year as increased costs exceeded revenue growth.

Purolator summary

(in millions of dollars)	2012	2011	Change	%
Revenue from operations	1,632	1,615	17	0.6 %*
Cost of operations	1,591	1,539	52	3.4 %
Profit from operations	41	76	(35)	(47.1) %
Investing and financing income (expense)	(3)	(3)	(0)	(1.3) %
Profit before tax	38	73	(35)	(49.0) %

* Adjusted for trading days, where applicable.

Revenue from operations

Revenue from operations increased marginally by $17 million or 0.6% in 2012 compared to 2011 as price increases were offset by a 1.9% reduction in volumes due to the sluggish economy and severe competition in the courier market.

Cost of operations

The costs of operations increased by $52 million or 3.4% when compared to 2011, mostly due to additional labour and benefit costs related to annual wage increases and organizational restructuring.

8.6 Logistics segment

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

Logistics summary

(in millions of dollars)	2012	2011	Change	%
Revenue from operations	162	138	24	17.7 %*
Cost of operations	154	131	23	17.2 %
Profit from operations	8	7	1	37.4 %
Investing and financing income (expense)	0	0	(0)	(48.1) %
Profit before tax	8	7	1	34.3 %

* Adjusted for trading days, where applicable.

SCI Group

SCI's financial performance improved in 2012, with profit before tax of $8 million, an increase of $1 million when compared to 2011.

Revenue from operations increased by $24 million compared to 2011. The revenue increase was due to the acquisition of White Glove Transportation Systems in May 2012 and the continued growth of revenue through expansion of services provided to current clients and acquisition of new clients.

The cost of operations increased by $23 million in 2012 when compared to 2011. This increase in cost was due to the acquisition of White Glove Transportation Systems and additional customer growth in 2012.

8.7 Innovapost segment

Innovapost provides virtually all of its services to the Group of Companies. Results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation, and its revenue of $221 million ($153 million for 2011) is eliminated against the other segments' cost of operations upon consolidation.

Innovapost summary

(in millions of dollars)	2012	2011	Change	%
Revenue from operations	221	153	68	43.4 %*
Cost of operations	216	133	83	61.6 %
Profit from operations	5	20	(15)	(76.8) %
Investing and financing income (expense)	0	(0)	0	–
Profit before tax	5	20	(15)	(75.0) %

* Adjusted for trading days, where applicable.

Profit before tax decreased by $15 million in 2012 compared to 2011. This was the result of restructuring Innovapost's service delivery model from a profit to a cost-recovery model in May 2012.

9 Critical Accounting Estimates and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2012 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 93, respectively, for additional detail on significant accounting policies and critical accounting estimates and judgments.

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.

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. Intangible assets included in capital assets, which are not yet available for use, are tested annually for impairment, 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 capital assets.

Goodwill

Goodwill is not amortized but is tested for impairment annually, 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 a 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 13 to the consolidated financial statements on page 116.

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. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood of outflows, the timing of outflows, and 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 16 and 18, respectively, to the consolidated financial statements on pages 119 and 121.

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

The Canada Post Group of Companies sponsors plans that provide pension, other post-employment and other long-term benefits for most of its employees. The Corporation believes the accounting estimates related to its employee benefit 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. 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 defined 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 calculates 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 historical long-term returns provided by various asset categories weighted according to the pension plan targeted asset allocations. 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 statement of investment policies and procedures.
- **Long-term rate of compensation increase** – The rate of compensation increase assumption is used 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 2.75% is used in the Canada Post segment, down from 3%.
- **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.
- **Consumer price index** – The consumer price index assumption is used in the measurement of the defined benefit obligation for pension benefit plans and some of the other non-pension benefit plans. This assumption is based on long-term expected rates of inflation derived from market yields on long-term nominal government bonds and real return bonds. These yields provide an expected long-term level of inflation, which has been established at 2.25% as at December 31, 2012 for the Canada Post segment, down from 2.5%.
- **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. For most plans, actuarial gains and losses are recognized in other comprehensive income or loss and are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. For the other long-term benefit plans, these adjustments are recognized in net profit or loss.

In Note 11 (f) to the consolidated financial statements, a table has been included disclosing the actuarial gains and losses recognized in other comprehensive loss.

Sensitivity to assumptions

The benefit obligations and associated expense are very sensitive to actuarial assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status. Similarly, poor investing 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, namely changes in the discount rate, expected long-term return on plan assets and medical trend rate assumptions are 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	(44)	48
Increase (decrease) in defined pension obligation	(1,435)	1,522
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:

(in millions of dollars)	Change in assumption Increase	Decrease
Change in discount rate of 50 basis points		
Increase (decrease) in annual health care expense	–	–
Increase (decrease) in defined health care obligation	(177)	200
Change in health care cost trend rates of 100 basis points		
Increase (decrease) in annual health care expense	27	(20)
Increase (decrease) in defined health care obligation	412	(327)

For complete details on our annual cost and obligation, see Note 11 to the consolidated financial statements starting on page 106.

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 bases 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 these deferred tax balances are based on the amounts of assets and liabilities recorded in the consolidated financial statements and, therefore, are subject to accounting estimates that are inherent in those balances. The Group of Companies has significant deductible temporary differences and related deferred tax assets. See Note 12 to the consolidated financial statements on page 114.

The tax bases of assets and liabilities as well as tax losses carried forward are computed based on 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 Adoption of new accounting standards

The Corporation elected to early adopt the amendments to IAS 1 titled "Presentation of Items of Other Comprehensive Income" in advance of the effective date, which is annual periods beginning on or after July 1, 2012. The amendments to IAS 1 require additional disclosures in the other comprehensive income section of the financial statements so that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to net profit or loss and (b) items that may be reclassified subsequently to net profit or loss when specific conditions are met. Furthermore, where items of other comprehensive income are presented before related tax effects, which is the case for the Corporation, the aggregated tax amount will also have to be allocated between these two categories. While the Corporation has already presented the items of other comprehensive income under the two categories, the allocation of income tax between the two categories is a change from previous reporting. The amendments have been applied retrospectively, and the presentation of items of other comprehensive income has been modified to reflect the change.

The Corporation has not chosen to apply any other new IFRS or amendments to IFRS in the current reporting period.

9.3 Accounting policy developments

The following table presents the not-yet-effective standards and amendments issued by the International Accounting Standards Board (IASB) that have not been early adopted at the end of the reporting period and that have been assessed as having a possible effect on the Group of Companies in the future.

Standard or amendment	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	January 1, 2015
IFRS 10 Consolidated Financial Statements	January 1, 2013
IFRS 11 Joint Arrangements	January 1, 2013
IFRS 12 Disclosure of Interests in Other Entities	January 1, 2013
IAS 27 Separate Financial Statements	January 1, 2013
IAS 28 Investments in Associates and Joint Ventures	January 1, 2013
IFRS 13 Fair Value Measurement	January 1, 2013
Amendments to IAS 19 Employee Benefits	January 1, 2013
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities	January 1, 2014
Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities	January 1, 2013
Annual Improvements to IFRS – 2009-2011 Cycle	January 1, 2013
Amendments to IFRS 10, IFRS 11, IFRS 12 – Transition Guidance	January 1, 2013

The following commentary discusses how the Group of Companies' accounting policies are expected to change upon adoption of these standards, along with the expected impact of the policy changes. The Group of Companies will continue to monitor any additional changes required or available (through early adoption where permitted) during 2013, as new amended standards are issued by the IASB.

(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. The extent of the impact of adoption of IFRS 9 has not yet been determined.

(b) IFRS 10 "Consolidated Financial Statements" (IFRS 10), IFRS 11 "Joint Arrangements" (IFRS 11), IFRS 12 "Disclosure of Interests in Other Entities" (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. The Corporation does not expect any significant impacts on its consolidated financial statements resulting from the adoption of IFRS 10.

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 a joint operator to recognize the assets, liabilities, revenue and expenses relating to its interest in a joint operation, and the use of the equity method, in accordance with IAS 28, to account for an interest in a joint venture. While the Group of Companies does not have any significant joint arrangements as defined under IFRS 11 at the end of the current year, the Corporation had one such arrangement, Innovapost, for part of the year. Upon mandatory adoption of IFRS 11 beginning in 2013, the comparative period of 2012 is also required to be accounted for in accordance with IFRS 11. Under the new standard, Innovapost will be classified as a joint operation prior to becoming a subsidiary of the Corporation on March 14, 2012. The change from proportionate consolidation (the accounting policy applied to Innovapost as a joint venture under IAS 31) to the accounting required under IFRS 11 is not expected to result in any significant changes to the consolidated financial statements for the comparative period. There is no other expected impact on adoption of IFRS 11, as the Corporation does not currently have any joint arrangements.

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. The adoption of IFRS 12 may result in additional disclosures to be made in the Corporation's consolidated financial statements.

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. No impacts are expected upon adoption of IAS 27, as the Corporation does not issue any separate financial statements.

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. The Group of Companies does not expect to be affected by the adoption of IAS 28, since it does not have any associates or joint ventures as defined under IAS 28.

(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. Upon adoption of IFRS 13, the fair value measurement basis of certain pension plan assets is expected to move from bid prices to close-of-market prices, the former being the current required fair value measurement basis for an asset under IAS 39. Upon adoption, this change is expected to affect the pension benefit assets and/or pension, other post-employment and other long-term benefit liabilities and other comprehensive income or loss. The impacts of this adjustment will be known when the Group of Companies recognizes the fair value of the plan assets on the basis of close-of-market prices in 2013. The fair value basis of other assets and liabilities is not expected to be affected by the adoption of IFRS 13. The standard's requirements will also enhance fair value disclosures and expand disclosures to certain non-monetary assets and liabilities.

(d) Amendments to IAS 19 "Employee Benefits" (IAS 19) • Considering the Group of Companies' current accounting policies, the amendment of IAS 19 that is expected to have the most significant impact on the consolidated results is the use of the discount rate, as opposed to an expected long-term rate of return on assets assumption, to calculate the income on the plan assets component of the funded benefit plans expense. Furthermore, the accounting treatment for administrative expenses, which are currently deducted from the expected return on assets, will change. The cost of managing plan assets will be recorded against the actual return on assets, thus recorded in other comprehensive income or loss, and other administrative costs will be recorded as a period expense.

Another amendment that is expected to have a significant impact is the immediate recognition of unvested past service costs and credits, which are currently recognized over the average period until such benefit becomes vested.

These amendments are expected to reduce pension, other post-employment and other long-term benefit liabilities by approximately $11 million and $45 million on January 1, 2012 and December 31, 2012, respectively, and net profit by approximately $178 million for the year ended December 31, 2012. The accumulated deficit at January 1, 2012, and December 31, 2012, is expected to decrease by $9 million and $35 million, respectively, after an expected decrease of the deferred tax assets balance in the amount of $3 million on January 1, 2012, and of $11 million at December 31, 2012.

The amendments to IAS 19 also require enhanced disclosure about risks arising from defined benefit plans.

Amendments to IAS 19 are to be applied retrospectively (with certain exceptions) for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Group of Companies will apply the amended standard for the fiscal year commencing January 1, 2013.

For further details on Amendments to IAS 19, see Note 5 to the consolidated financial statements on page 96.

(e) Amendments to 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 [f] below). The Group of Companies is expecting to early adopt these amendments for the annual period beginning on January 1, 2013. Certain foreign postal administration settlement balances that are offset on the consolidated statement of financial position will no longer meet the revised legally enforceable right to offset criteria. As a result, it is expected that trade and other receivables and trade and other payables will increase by $81 million and $87 million as at January 1, 2012, and December 31, 2012, respectively.

(f) Amendments to IFRS 7 – Disclosures – 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. Due to the early adoption of amendments to IAS 32 (see [e] above) effective January 1, 2013, no material impact is expected on the Corporation's consolidated financial statements upon the adoption of the amendments to IFRS 7.

(g) Annual Improvements to IFRS – 2009-2011 Cycle • In May 2012, the IASB issued its latest set of annual improvements in response to non-urgent issues addressed during the 2009-2011 cycle. The standards and topics covered by the amendments are as follows: IFRS 1 "First-time Adoption of International Reporting Standards" (IFRS 1) addressing the repeated application of IFRS 1 and borrowing costs, IAS 1 providing clarification on the requirements for comparative information, IAS 16 "Property, Plant and Equipment" providing additional guidance on the classification of servicing equipment, IAS 32 addressing the tax effect of distributions to holders of equity instruments and IAS 34 "Interim Financial Reporting" addressing interim financial reporting and segment information for total assets and liabilities. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted. The adoption of the annual improvements is expected to have no material impact on the Corporation's consolidated financial statements.

(h) Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance • In June 2012, the IASB issued amendments to clarify the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12. The amendments limit the requirement to provide adjusted comparative information to only the preceding comparative period, and for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before the first annual period for which IFRS 12 is applied. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, which is aligned with the effective date of IFRS 10, IFRS 11 and IFRS 12.

10 Outlook for 2013

Our prospects for 2013

10.1 Economic outlook

Underperformance of the global economy continues as key trends remain unfavourable to recovery. Lower business confidence resulting from the recessionary conditions in much of Europe has begun to affect the larger economies of France and Germany, as well as the U.S., which is also dealing with persistent high unemployment that has had an impact on income levels and spending power. Slower growth in the large emerging economies (Brazil, India and China) has reduced demand for goods and commodities, resulting in production slowdowns in Europe and North America. Reduced global demand is having an impact on even the fundamentally stronger economies.

In the U.S., the potential impact in 2013 of government-mandated sequestration spending cuts combined with the end of tax incentive programs could derail a fragile economic recovery. The greatest impact of a downturn in the U.S. economy would be felt by export-dependant economies such as China, Japan and Canada.

Canada's economy grew at a lukewarm pace of 1.8% in 2012 and is not expected to experience much recovery until later in 2013. As the uncertain world economic situation continues to affect demand for commodities, the federal government expects small business to play a role in any recovery as Canadians are starting small businesses in record numbers. Domestic and government fiscal restraints continue to reduce domestic demand for goods and services and have an impact on Canada Post's ability to generate sustained revenue growth. The uncertain nature of the economic recovery is a primary contributing factor to the pace of mail-volume erosion, particularly for the Direct Marketing line of business. While parcel volumes have grown in 2012 on the strength of the expanding e-commerce market, maintaining growth in the current economic climate will necessitate cost controls to remain competitive.

In 2012, the number of households increased 1.0% across Canada. Housing starts are expected to add on average 180,000 addresses to the network per year, increasing cost pressure on delivery operations.

Economic outlook

	2013	2014	2015	2016	2017
Economic (% change)					
Real gross domestic product (GDP)	1.8%	2.5%	2.1%	2.1%	2.1%
Inflation (consumer price index [CPI])	1.6%	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%	1.1%	1.2%	1.2%	1.2%

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

10.2 Canada Post Group of Companies outlook

Canada Post Group of Companies segments – 2013

The Canada Post Group of Companies faces another very difficult year and expects to have a substantial loss in 2013 as a result of the challenges in the Canada Post segment.

Physical mail volumes are expected to continue to erode due to electronic substitution, bill consolidation and intense competition. We know that our core domestic Lettermail revenue and volumes will continue to decline in 2013, but the degree of the decline is uncertain and represents one of the largest risks to the Group of Companies. In addition, the Parcels business will continue to face serious competition. With very narrow operating margins and increasing network costs due to a growing number of delivery points, it is imperative that we be vigilant in containing costs and finding new operational efficiencies. In 2013, we will see the continuation of our operational transformation efforts including Postal Transformation, which is aimed at renewing our infrastructure to reduce costs and improve our competitiveness, and delivering information technology across the Group of Companies through Innovapost at a much lower cost. To generate cash, we will also be looking to sell surplus assets. In January 2013, Canada Post disposed of its downtown Vancouver mail processing plant, resulting in net proceeds of $152 million.

Pension and employee future benefit costs will continue to be a major challenge. Most defined benefit pension plans across the country face ongoing significant funding challenges in light of demographic shifts and a prolonged period of low interest rates and volatile investment returns. Plan sponsors such as Canada Post are required to eliminate these funding shortfalls, over time, and they are exploring innovative options to address the crisis, including potential regulatory relief. In the short term, Canada Post plans to continue using the legislation that allows Crown corporations to better manage their funding obligations, and will again seek approval of pension relief in 2013 to reduce its special solvency payments. However, given that under current legislation relief is capped at 15% of plan assets, we expect to reach the relief limit in early 2014.

Amendments to IAS 19 "Employee benefits" to be applied effective January 1, 2013, are also expected to have a significant negative effect on net profit in 2013. Refer to Amendments to IAS 19 "Employee Benefits" (IAS 19) in Section 9.3 Accounting policy developments for more details.

Although the benefits from Postal Transformation are on track to being realized, they are not sufficient to compensate for significant volume erosion and the elevated pension and benefit costs. With the value of Canada Post's exclusive privilege increasingly reduced and facing competition on all fronts from conventional as well as digital rivals, Canada Post has to start reassessing how it can meet the future needs of Canadians and how it can change its business model, over time, including making fundamental structural network and delivery changes, to meet those needs.

Canada Post

In 2013, Canada Post will continue its focus on making fundamental changes to its business model and redefining its relevance in an increasingly digital world. Canada Post plans to take advantage of opportunities created by e-commerce to grow the Parcels business by leveraging retail presence and the motorized letter carrier delivery model. We will look to revitalize our Direct Marketing products and promote their benefits such as 100% visibility and geographic precision that are unmatched by other marketing offerings. Canada Post will continue to invest in the epost™ platform to mirror what it delivers physically, building location intelligence data assets and products, and improving online channel performance. While we anticipate that core Transaction Mail volumes will continue to erode, we hope to minimize declines by defending the mail and capturing business in opportunities such as evidence mail and e-government services.

Purolator

In 2013, Purolator will continue to be customer-focused and driven to create value for its stakeholders. Purolator 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 strengthen its core business and grow in new markets.

Logistics

In 2013, SCI will continue to focus on growing revenue and profit. This improvement will come from a full year of earnings from the 2012 acquisition, annualization of new clients in 2012, growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives.

Innovapost

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 Innovapost.

HISTORICAL FINANCIAL INFORMATION

(unaudited, in millions of Canadian dollars)	Based on IFRS			Based on previous Canadian GAAP[1]	
	2012	2011	2010	2009	2008
OPERATIONS					
Revenue from operations	**7,529**	7,484	7,453	7,312	7,733
Cost of operations	**7,398**	7,710	7,311	6,955	7,594
Profit (loss) from operations	**131**	(226)	142	357	139
Per cent of revenue from operations	**1.7 %**	(3.0) %	1.9 %	4.9 %	1.8 %
Investing and financing income (expense), net	**(4)**	(27)	(8)	22	22
Profit (loss) before tax	**127**	(253)	134	379	161
Tax expense (income)	**33**	(65)	(180)	95	67
Net profit before non-controlling interests[2]	**N/A**	N/A	N/A	284	94
Non-controlling interests in net profit of subsidiaries	**N/A**	N/A	N/A	3	4
Net profit (loss)	**94**	(188)	314	281	90
Other comprehensive loss	**(1,110)**	(1,148)	(1,457)	(1)	–
Comprehensive income (loss)	**(1,016)**	(1,336)	(1,143)	280	90
Net profit (loss) attributable to					
Government of Canada	**92**	(191)	310	N/A	N/A
Non-controlling interests[2]	**2**	3	4	N/A	N/A
	94	(188)	314	N/A	N/A
Comprehensive income (loss) attributable to					
Government of Canada	**(1,012)**	(1,334)	(1,146)	N/A	N/A
Non-controlling interests[2]	**(4)**	(2)	3	N/A	N/A
	(1,016)	(1,336)	(1,143)	N/A	N/A
Return on (adjusted) equity of Canada[3]	**4.7 %**	(9.7) %	16.2 %	17.0 %	6.1 %
STATEMENT OF FINANCIAL POSITION					
Assets					
Current	**1,617**	1,946	2,303	1,497	1,384
Segregated securities	**560**	553	499	654	862
Capital assets	**2,798**	2,544	2,288	2,216	2,034
Pension benefit assets	**83**	93	112	1,335	898
Deferred tax assets	**1,819**	1,472	1,054	179	270
Other assets	**141**	136	136	148	143
Total assets	**7,018**	6,744	6,392	6,029	5,591
Liabilities and equity					
Current	**1,467**	1,522	1,295	1,179	1,181
Pension, other post-employment and other long-term benefit liabilities	**7,052**	5,719	4,255	2,835	2,722
Other liabilities	**1,147**	1,134	1,136	199	155
Non-controlling interests	**20**	24	27	29	26
Equity of Canada	**(2,668)**	(1,655)	(321)	1,787	1,507
Total liabilities and equity	**7,018**	6,744	6,392	6,029	5,591
ACQUISITION OF CAPITAL ASSETS					
Land and buildings	**102**	105	122	65	145
Other capital assets	**510**	470	313	347	246
	612	575	435	412	391

1. On January 1, 2011, Canada Post adopted International Financial Accounting Standards (IFRS), with IFRS comparative figures from January 1, 2010. Comparative figures prior to 2010 may no longer be comparable as they are presented under previous Canadian generally accepted accounting principles (GAAP).
2. Non-controlling interests are presented outside equity under previous Canadian GAAP.
3. Under IFRS, the calculation of return on equity of Canada is adjusted by removing the impact of other comprehensive income (loss) non-reclassifying items from reported equity.

HISTORICAL FINANCIAL INFORMATION

	2012	**% Change**	2011	% Change	2010	% Change	2009[3]	% Change	2008
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS (unaudited, in millions of Canadian dollars / trading day adjusted per cent)									
Transaction Mail									
Domestic Lettermail	**2,707**	**(4.2) %**	2,813	(0.6) %	2,843	1.3 %	2,805	[3]	2,922
Outbound Letter-post (to other postal administrations)	**179**	**6.7 %**	167	(5.5) %	177	(3.7) %	184	[3]	144
Inbound Letter-post (from other postal administrations)	**126**	**1.5 %**	124	5.0 %	118	(4.5) %	124	(1.2) %	126
Canada Post segment[1]	**3,012**	**(3.3) %**	3,104	(0.7) %	3,138	0.8 %	3,113	(2.1) %	3,192
Elimination of intersegment	**(3)**		(4)		(4)		(4)		(5)
Canada Post Group of Companies[1]	**3,009**	**(3.3) %**	3,100	(0.7) %	3,134	0.8 %	3,109	(2.1) %	3,187
Direct Marketing									
Addressed Admail	**596**	**(0.7) %**	598	0.4 %	598	5.1 %	569	(10.1) %	635
Unaddressed Admail	**405**	**0.9 %**	400	0.8 %	399	4.9 %	380	(4.3) %	399
Publications Mail	**241**	**(4.2) %**	251	(1.0) %	254	(1.8) %	259	(9.9) %	289
Business Reply Mail and Other mail	**28**	**(6.8) %**	29	(4.4) %	31	(4.5) %	32	(17.4) %	39
Total mail	**1,270**	**(1.0) %**	1,278	0.1 %	1,282	3.3 %	1,240	(8.6) %	1,362
Other	**1**	**(17.4) %**	1	37.3 %	1	(62.5) %	2	(36.1) %	3
Canada Post segment[1]/ Group of Companies[1]	**1,271**	**(1.0) %**	1,279	0.1 %	1,283	3.3 %	1,242	(8.6) %	1,365
Parcels									
Domestic Parcels	**901**	**6.3 %**	844	(5.7) %	899	1.2 %	888	(2.5) %	915
Outbound Parcels (to other postal administrations)	**203**	**4.6 %**	193	(1.2) %	196	1.6 %	193	(3.2) %	200
Inbound Parcels (from other postal administrations)	**173**	**12.7 %**	153	11.3 %	138	(1.6) %	140	(4.4) %	147
Total mail	**1,277**	**6.9 %**	1,190	(3.1) %	1,233	0.9 %	1,221	(2.8) %	1,262
Other	**19**	**(29.4) %**	27	(9.2) %	29	(16.1) %	35	(7.3) %	38
Canada Post segment[1]	**1,296**	**6.1 %**	1,217	(3.2) %	1,262	0.5 %	1,256	(3.0) %	1,300
Purolator segment	**1,632**	**0.6 %**	1,615	8.6 %	1,493	4.1 %	1,433	(7.9) %	1,563
Logistics segment	**162**	**17.7 %**	138	(7.2) %	149	(1.1) %	151	(3.2) %	156
Elimination of intersegment	**(127)**		(126)		(113)		(108)		(97)
Canada Post Group of Companies[1]	**2,963**	**3.8 %**	2,844	2.3 %	2,791	2.2 %	2,732	(6.1) %	2,922
Other revenue									
Canada Post segment[1]	**287**	**9.5 %**	261	6.2 %	246	7.5 %	229	(8.3) %	251
Purolator segment[2]	**(0)**	**77.9 %**	(0)	93.9 %	(1)	(82.2) %	(0)	(109.2) %	4
Innovapost segment	**221**	**43.4 %**	153	3.9 %	148	(11.9) %	168	(4.4) %	176
Elimination of intersegment	**(222)**		(153)		(148)		(168)		(172)
Canada Post Group of Companies[1, 2]	**286**	**9.0 %**	261	6.5 %	245	7.4 %	229	(11.3) %	259
Revenue from operations									
Canada Post segment	**5,866**	**(0.3) %**	5,861	(0.8) %	5,929	1.5 %	5,840	(4.0) %	6,108
Purolator segment[2]	**1,632**	**0.6 %**	1,615	8.7 %	1,492	4.1 %	1,433	(8.2) %	1,567
Logistics segment	**162**	**17.7 %**	138	(7.2) %	149	(1.1) %	151	(3.2) %	156
Innovapost segment	**221**	**43.4 %**	153	3.9 %	148	(11.9) %	168	(4.4) %	176
Elimination of intersegment	**(352)**		(283)		(265)		(280)		(274)
Canada Post Group of Companies[2]	**7,529**	**0.2 %**	7,484	0.8 %	7,453	1.9 %	7,312	(5.1) %	7,733

1. Revenues and volumes have been restated to reflect realignments made in 2012 between lines of business.
2. The 2008 revenues for the Purolator segment were restated to include foreign exchange gains and losses.
3. In 2010, a methodology change was implemented and 2009 was 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).

HISTORICAL FINANCIAL INFORMATION

	2012	**% Change**	2011	% Change	2010	% Change	2009[3]	% Change	2008
LINE OF BUSINESS DIMENSIONS									
VOLUME (unaudited, in millions of pieces / trading day adjusted per cent)									
Transaction Mail									
Domestic Lettermail	**4,015**	**(6.4) %**	4,270	(3.6) %	4,449	(4.5) %	4,657	3	4,937
Outbound Letter-post (to other postal administrations)	**112**	**0.4 %**	111	(12.1) %	127	(5.3) %	134	3	108
Inbound Letter-post (from other postal administrations)	**247**	**(1.0) %**	249	(4.5) %	261	6.2 %	246	(9.8) %	274
Canada Post segment	**4,374**	**(5.9) %**	4,630	(3.9) %	4,837	(4.0) %	5,037	3	5,319
Elimination of intersegment	**(5)**		(4)		(5)		(5)		(6)
Canada Post Group of Companies	**4,369**	**(5.9) %**	4,626	(3.9) %	4,832	(4.0) %	5,032	3	5,313
Direct Marketing									
Addressed Admail	**1,236**	**(3.3) %**	1,273	(3.5) %	1,324	1.8 %	1,301	(13.1) %	1,503
Unaddressed Admail	**3,408**	**(1.7) %**	3,453	(5.0) %	3,652	0.3 %	3,640	(10.0) %	4,061
Publications Mail	**409**	**(5.6) %**	431	(2.9) %	445	(5.5) %	471	(9.4) %	522
Business Reply Mail and Other mail	**27**	**(10.6) %**	30	(6.8) %	33	(11.0) %	37	(34.1) %	56
Canada Post segment[1]/ Group of Companies[1]	**5,080**	**(2.5) %**	5,187	(4.5) %	5,454	0.1 %	5,449	(10.9) %	6,142
Parcels									
Domestic Parcels	**100**	**6.0 %**	94	(2.4) %	97	(4.7) %	102	(5.8) %	108
Outbound Parcels (to other postal administrations)	**11**	**2.6 %**	11	(7.8) %	12	(6.9) %	13	(6.2) %	14
Inbound Parcels (from other postal administrations)	**42**	**9.4 %**	38	11.3 %	34	4.7 %	33	(10.6) %	37
Canada Post segment	**153**	**6.7 %**	143	0.4 %	143	(2.8) %	148	(6.9) %	159
Purolator segment	**139**	**(1.9) %**	141	0.3 %	141	1.8 %	138	(3.0) %	143
Elimination of intersegment	**(2)**		(1)		(1)		(2)		(3)
Canada Post Group of Companies	**290**	**2.2 %**	283	0.3 %	283	(0.3) %	284	(4.9) %	299
Other volume									
Canada Post segment[1]/ Group of Companies[1]	**16**	**230.9 %**	5	43.6 %	3		N/A		N/A
Total volume									
Canada Post segment	**9,623**	**(3.8) %**	9,965	(4.1) %	10,437	(1.8) %	10,634	3	11,620
Purolator segment	**139**	**(1.9) %**	141	0.3 %	141	1.8 %	138	(3.0) %	143
Elimination of intersegment	**(7)**		(5)		(6)		(7)		(9)
Canada Post Group of Companies	**9,755**	**(3.8) %**	10,101	(4.1) %	10,572	(1.8) %	10,765	3	11,754
EMPLOYMENT[4]									
Canada Post segment	**54,668**	**(2.7) %**	56,212	(1.2) %	56,917	(3.0) %	58,665	(1.9) %	59,808
Purolator segment	**11,986**	**0.2 %**	11,962	9.0 %	10,979	0.1 %	10,970	(0.6) %	11,038
Logistics segment[5]	**912**	**17.4 %**	777	(3.6) %	806	(9.9) %	895	0.7 %	889
Innovapost segment[6]	**712**		N/A		N/A		N/A		N/A
Canada Post Group of Companies[5, 6]	**68,278**	**(1.0) %**	68,951	0.4 %	68,702	(2.6) %	70,530	(1.7) %	71,735
MAIL NETWORK									
Post offices	**6,380**	**(1.2) %**	6,460	(0.6) %	6,499	(0.5) %	6,532	(1.3) %	6,618
Points of delivery (in thousands)	**15,338**	**1.0 %**	15,181	1.0 %	15,028	1.0 %	14,874	1.2 %	14,696
Pickup points (in thousands)[7]	**946**	**(1.7) %**	962	(1.5) %	976	(1.9) %	994	(1.3) %	1,008

1. Revenues and volumes have been restated to reflect realignments made in 2012 between lines of business.
2. The 2008 revenues for the Purolator segment were restated to include foreign exchange gains and losses.
3. In 2010, a methodology change was implemented and 2009 was 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. Logistics employee counts were restated to exclude casuals.
6. Innovapost segment employee count is now included in the Canada Post Group of Companies, further to the acquisition of control over Innovapost in March 2012.
7. 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 from 2010 to 2014 (Note 17). With the conversion to IFRS by all Canadian publicly accountable entities, a revised Financial Framework based on IFRS 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 three years from 2010 to 2012 under the revised Financial Framework:

Consolidated ratios* (unaudited)		Financial Framework	**2012**	2011	2010
Profitability					
(1) EBITDA margin		5.0% - 7.5%	**6.3** %	0.9 %	5.7 %
(2) Return on adjusted equity		0% - 5%	**4.7** %	(9.7)%	16.2 %
Leverage					
(3) Total debt to EBITDAR		2.5x - 4.0x	**3.6x**	9.6x	3.9x
(4) Total debt to adjusted book capital		45% - 65%	**53.0** %	55.5 %	53.2 %
Liquidity					
(5) (EBITDAR - capex) ÷ interest		1.0x - 2.5x	**3.7x**	(1.8)x	2.5x
Dividend payout					
(6) Dividend payout ratio	2010-2012	0% - 20%	**0.0** %	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) attributable to Government of Canada ÷ [(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 $338 million (2011 – $127 million; 2010 – $37 million) 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 (loss) non-reclassifying items removed.

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

The following chart presents the financial ratios for 2008 and 2009 under the former Policy Framework:

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

AUDITORS' 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, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information (together "the financial information"). We have also audited management's assertion regarding whether the competitive grouping of services have been cross-subsidized using revenues from exclusive privilege services for the year ended December 31, 2012. The financial information has been prepared by management in accordance with the basis of preparation described in Note 1 to the financial information.

Management's Responsibility for the Annual Cost Study Contribution Analysis
Management is responsible for the preparation of the financial information in accordance with the basis of preparation in Note 1 to the financial information and for their conclusion whether the competitive grouping of services has been cross-subsidized using revenues from exclusive privilege services. This includes determining that the basis of preparation is an acceptable basis for the preparation of the financial information in the circumstances. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on the financial information 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 our 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, we consider internal control relevant to the entity's preparation of the 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 is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion:

(a) the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2012 is prepared, in all material respects, in accordance with the basis of preparation described in Note 1 to the financial information; and

(b) Canada Post Corporation did not cross-subsidize its competitive services with revenues from exclusive privilege services, as defined in the Annual Cost Methodology described in Note 2, for the year ended December 31, 2012.

Basis of Accounting and Use
Without modifying our opinion, we draw attention to Note 1 to the financial information, which describes the basis of preparation for the financial information. The financial information is prepared to demonstrate, in accordance with the Annual Cost Methodology, that the competitive grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As a result, the financial information and management's conclusion may not be suitable for another purpose.

Other Matters
We have not audited, reviewed or performed any procedures on the validity of the Annual Cost Methodology described in Note 2 to the financial information nor on Canada Post Corporation's operational systems and special studies that yield operational data used to allocate costs to products, and therefore, we do not provide any assurance on such matters.

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 21, 2013
Ottawa, Canada

ANNUAL COST STUDY CONTRIBUTION ANALYSIS

Canada Post Corporation

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

Annual Cost Study Contribution Analysis

Year ended December 31, 2012
(in millions of dollars)

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

The following analysis is based on the assignment of 65% 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	$ 3,304	$ 2,284	$ 23	$ 255	$ 5,866
Long-run incremental costs	(1,924)	(1,688)	(20)	(148)	(3,780)
Long-run incremental contribution to the fixed costs	**$ 1,380**	**$ 596**	**$ 3**	**$ 107**	**$ 2,086**
	42 %	26 %	13 %	42 %	36 %
Unallocated fixed costs					$ (2,009)
Contribution before the under noted items					**$ 77**
Investment and other income					68
Finance costs and other expense					(47)
Profit before tax – Canada Post segment					**$ 98**

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, 2012

1. Basis of Preparation

The Annual Cost Study Contribution Analysis 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 Contribution Analysis for cost attribution purposes (Annual Cost Methodology).

The Annual Cost Methodology, which is summarized in Note 2, 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.

Under the methodology in the Annual Cost Study, a positive long-run incremental contribution from competitive services establishes that this grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As the Annual Cost Study Contribution Analysis indicates, the competitive grouping of services generated a positive long-run incremental contribution, and therefore, Canada Post Corporation did not cross-subsidize its competitive services using revenues protected by exclusive privilege for the year ended December 31, 2012.

2. Annual Cost Methodology

(a) Long-run incremental cost • The Annual 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 the relationship 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 that cannot be attributed to the provision of a service but 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 Contribution Analysis 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 Contribution Analysis are agreed to the total revenues and expenses forming the Canada Post segment of the audited consolidated financial statements.

(f) Cross-subsidization test • Under the Annual Cost Methodology in the Annual Cost Study Contribution Analysis, a positive long-run incremental contribution (revenue exceeds long-run incremental cost) from 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 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 has established and maintains 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 the 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 consists of five members who are 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, 2012, 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 to the Minister of Transport, Infrastructure and Communities.

President and Chief Executive Officer

Chief Financial Officer

March 21, 2013

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 statement of financial position as at December 31, 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, 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 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 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 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, 2012, and its financial performance and its cash flows for the year then ended 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 have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Post Corporation and its wholly-owned subsidiaries that have come to our notice during our audit 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 directive issued pursuant to section 89 of the *Financial Administration Act*.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

KPMG LLP

Chartered Accountants, Licensed Public Accountants

March 21, 2013
Ottawa, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at December 31 (in millions of Canadian dollars)	**Notes**	**2012**	2011
Assets			
Current assets			
Cash and cash equivalents	**8**	**$ 298**	$ 271
Marketable securities	**8**	**570**	842
Trade and other receivables	**24**	**615**	662
Income tax receivable		**8**	56
Prepaid expenses		**79**	93
Assets held for sale	**10**	**47**	22
Total current assets		**1,617**	1,946
Non-current assets			
Property, plant and equipment	**10**	**2,655**	2,379
Intangible assets	**10**	**143**	165
Segregated securities	**8**	**560**	553
Pension benefit assets	**11**	**83**	93
Deferred tax assets	**12**	**1,819**	1,472
Goodwill	**13**	**130**	125
Other assets		**11**	11
Total non-current assets		**5,401**	4,798
Total assets		**$ 7,018**	$ 6,744
Liabilities and equity			
Current liabilities			
Trade and other payables	**14**	**$ 453**	$ 482
Salaries and benefits payable and related provisions	**16**	**699**	732
Provisions	**16**	**85**	75
Income tax payable		**1**	2
Deferred revenue		**137**	129
Loans and borrowings	**15**	**20**	16
Other long-term benefit liabilities	**11**	**72**	86
Total current liabilities		**1,467**	1,522
Non-current liabilities			
Loans and borrowings	**15**	**1,123**	1,111
Pension, other post-employment and other long-term benefit liabilities	**11**	**7,052**	5,719
Deferred tax liabilities	**12**	**2**	–
Provisions	**16**	**5**	4
Other liabilities		**17**	19
Total non-current liabilities		**8,199**	6,853
Total liabilities		**9,666**	8,375
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**52**	45
Accumulated deficit		**(3,875)**	(2,855)
Equity of Canada		**(2,668)**	(1,655)
Non-controlling interests		**20**	24
Total equity		**(2,648)**	(1,631)
Total liabilities and equity		**$ 7,018**	$ 6,744
Contingent liabilities	**18**		
Commitments	**19**		
Subsequent event	**26**		

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

For the year ended December 31 (in millions of Canadian dollars)	**Notes**	**2012**	2011
Revenue from operations		**$ 7,529**	$ 7,484
Cost of operations			
Labour		**3,888**	4,028
Employee benefits, net of curtailment gain and past service credits	**11**	**996**	1,125
		4,884	5,153
Other operating costs	**20**	**2,200**	2,266
Depreciation and amortization		**314**	291
Total cost of operations		**7,398**	7,710
Profit (loss) from operations		**131**	(226)
Investing and financing income (expense)			
Investment and other income	**8, 21**	**50**	24
Finance costs and other expense	**15, 21**	**(54)**	(51)
Investing and financing income (expense), net		**(4)**	(27)
Profit (loss) before tax		**127**	(253)
Tax expense (income)	**12**	**33**	(65)
Net profit (loss)		**$ 94**	$ (188)
Other comprehensive income (loss)			
Items that will not be reclassified to Net profit (loss)			
Actuarial losses on defined benefit plans	**11**	**$ (1,489)**	$ (1,581)
Income tax relating to items that will not be reclassified	**12**	**372**	397
Items that may be reclassified subsequently to Net profit (loss)			
Unrealized gains on available-for-sale financial assets		**9**	54
Realized gains reclassified to Net profit (loss)		**–**	(6)
Income tax relating to items that may be reclassified	**12**	**(2)**	(12)
Other comprehensive loss		**(1,110)**	(1,148)
Comprehensive loss		**$ (1,016)**	$ (1,336)
Net profit (loss) attributable to			
Government of Canada		**$ 92**	$ (191)
Non-controlling interests		**2**	3
		$ 94	$ (188)
Comprehensive loss attributable to			
Government of Canada		**$ (1,012)**	$ (1,334)
Non-controlling interests		**(4)**	(2)
		$ (1,016)	$ (1,336)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2012 (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, 2011	**$ 1,155**	**$ 45**	**$ (2,855)**	**$ (1,655)**	**$ 24**	**$ (1,631)**
Net profit	**–**	**–**	**92**	**92**	**2**	**94**
Other comprehensive income (loss)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	**–**	**–**	**(1,481)**	**(1,481)**	**(8)**	**(1,489)**
Income tax relating to items that will not be reclassified	**–**	**–**	**370**	**370**	**2**	**372**
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	**–**	**9**	**–**	**9**	**–**	**9**
Income tax relating to items that may be reclassified	**–**	**(2)**	**–**	**(2)**	**–**	**(2)**
Other comprehensive income (loss)	**–**	**7**	**(1,111)**	**(1,104)**	**(6)**	**(1,110)**
Comprehensive income (loss)	**–**	**7**	**(1,019)**	**(1,012)**	**(4)**	**(1,016)**
Transactions with shareholders						
Non-controlling interest arising on business combination	**–**	**–**	**–**	**–**	**1**	**1**
Dividend	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Other transactions with non-controlling interests	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Total transactions with shareholders	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
Balance at December 31, 2012	**$ 1,155**	**$ 52**	**$ (3,875)**	**$ (2,668)**	**$ 20**	**$ (2,648)**

For the 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)						
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	–	–	(1,575)	(1,575)	(6)	(1,581)
Income tax relating to items that will not be reclassified	–	–	396	396	1	397
Items that may be reclassified subsequently 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)
Income tax relating to items that may be reclassified	–	(12)	–	(12)	–	(12)
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)

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31 (in millions of Canadian dollars)	**Notes**	**2012**	2011
Cash flows from operating activities			
Net profit (loss)		**$ 94**	$ (188)
Adjustments to reconcile Net profit (loss) to cash provided by operating activities:			
Depreciation and amortization	**10**	**314**	291
Pension, other post-employment and other long-term benefit expense	**11**	**455**	635
Pension, other post-employment and other long-term benefit payments	**11**	**(615)**	(731)
Gain on sale of capital assets	**21**	**(35)**	(8)
Tax expense (income)	**12**	**33**	(65)
Net interest expense	**21**	**34**	33
Change in non-cash operating working capital:			
Decrease (increase) in trade and other receivables		**70**	(30)
Increase (decrease) in trade and other payables		**(39)**	10
Increase (decrease) in salaries and benefits payable and related provisions		**(39)**	194
Increase in provisions		**9**	7
Net decrease (increase) in other non-cash operating working capital		**26**	(15)
Other income not affecting cash, net		**(22)**	(34)
Cash provided by operations before interest and taxes		**285**	99
Interest received		**36**	36
Interest paid		**(51)**	(51)
Tax received		**40**	112
Cash provided by operating activities		**310**	196
Cash flows from investing activities			
Business acquisitions, net of cash acquired	**6**	**(21)**	–
Acquisition of securities		**(1,144)**	(1,992)
Proceeds from sale of securities		**1,414**	2,232
Acquisition of capital assets		**(575)**	(540)
Proceeds from sale of capital assets		**63**	10
Cash used in investing activities		**(263)**	(290)
Cash flows from financing activities			
Payments on finance lease obligations		**(17)**	(13)
Dividend paid to non-controlling interests		**(1)**	(1)
Other financing activities, net		**(2)**	–
Cash used in financing activities		**(20)**	(14)
Net increase (decrease) in cash and cash equivalents		**27**	(108)
Cash and cash equivalents, beginning of year		**271**	379
Cash and cash equivalents, end of year		**$ 298**	$ 271

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2012)

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* (Act) in 1981, Canada Post Corporation (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.

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. The Corporation is continuing to assess the safety risks related to rural roadside mailboxes.

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). The Corporation has also elected to early adopt the amendments to IAS 1 "Presentation of Financial Statements" (IAS 1), as explained in Note 4.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 21, 2013.

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 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.

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, unless otherwise indicated.

(a) Basis of consolidation • These consolidated financial statements include the accounts of the Corporation, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI), and Innovapost Inc. (Innovapost). The results of Purolator and SCI are consolidated for the full fiscal year. The results of Innovapost are consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation. Up to this date, the investment in Innovapost qualified as an interest in a jointly controlled entity under IAS 31 "Interests in Joint Ventures," to which the Corporation had chosen to apply the proportionate consolidation method of accounting. The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

(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.

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

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 three to twelve months 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 8 [a]). 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 net 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 revenue from operations. 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.

(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. Interest expense on loans and borrowings is recognized in finance costs and other expense.

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

(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 January 1, 2010, the Corporation's date of transition to IFRS.

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.

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.

(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.

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

(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, 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.

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 assets held for sale under current assets, provided that the asset is available for immediate sale in its present condition, subject only to customary terms and conditions. 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.

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

(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, 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.

(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, Direct Marketing and Parcels. Transaction Mail includes physical delivery of bills, invoices, notices and statements. Direct Marketing includes Addressed Admail, Unaddressed Admail and Publications Mail, such as newspapers and periodicals. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Other revenue is derived from Mail Redirection, data products and services, philatelic products and other retail products and services such as money orders and postal box rentals.

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 was being amortized on a straight-line basis over the term of the contract. The contract came to a conclusion in 2012; therefore, the incentive has been fully recognized. Lease inducements are deferred and are amortized on a straight-line basis over the initial fixed lease term. Amortization of incentives and lease inducements are presented as reductions of other operating costs. The current portion of any 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 recognized as an expense when employees render the service entitling them to the contributions.

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

(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 AA-rated corporate 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 or loss and are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period.

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 or loss and is included immediately in retained earnings or accumulated 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.
- 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.

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

(j) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between the carrying values and tax bases 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.

(k) Foreign currency translation

(k.1) Subsidiaries and joint venture • Items included in the consolidated financial statements of each of the Corporation's subsidiaries and the joint venture that existed up to March 14, 2012, are measured using the currency of the primary economic environment in which the subsidiary or joint venture operated (functional currency).

(k.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 transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at the period-end rate of exchange, 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 transactions. The resulting translation adjustments are recognized in other comprehensive income or loss. Additionally, foreign exchange gains and losses related to intercompany loans that are permanent in nature are recognized in other comprehensive income or loss.

(l) 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 if substantially all the risks and rewards of ownership have passed to the Group of Companies. A lease is classified as a finance lease 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 a finance lease 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.

(m) Segmented information

(m.1) Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of the legal entities. Four reportable operating segments have been identified: Canada Post, Purolator, Logistics and Innovapost. The Logistics segment essentially comprises SCI.

The Canada Post segment provides transaction mail, direct marketing and parcel delivery 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. The Innovapost segment provides information technology services to the Corporation and its other subsidiaries.

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

(m.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 significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

(m.3) Products and services revenue 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 Estimates and Judgments

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 if 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.

3. Critical Accounting Estimates and Judgments (continued)

(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.

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 the existence of any impairment 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 13.

(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 11.

(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, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

3. Critical Accounting Estimates and Judgments (continued)

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 on the consolidated results of operations, financial position and liquidity. Refer to Note 16 for a description of 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 comprise temporary differences between the carrying values and tax bases 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. Early Adoption of New Accounting Standards

The Corporation elected to early adopt the amendments to IAS 1 titled "Presentation of Items of Other Comprehensive Income" in advance of the effective date, which is annual periods beginning on or after July 1, 2012. The amendments to IAS 1 require additional disclosures in the other comprehensive income section of the financial statements so that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to net profit or loss; and (b) items that may be reclassified subsequently to net profit or loss when specific conditions are met. Furthermore, where items of other comprehensive income are presented before related tax effects, which is the case for the Corporation, the aggregated tax amount will also have to be allocated between these two categories. While the Corporation has already presented the items of other comprehensive income under the two categories, the allocation of income tax between the two categories is a change from previous reporting. The amendments have been applied retrospectively, and the presentation of items of other comprehensive income has been modified to reflect the change.

The Corporation has not chosen to apply in the current reporting period any other new IFRS or amendments to IFRS that have been issued but are not yet effective.

5. Accounting Pronouncements Requiring Implementation in Future Years

The following not-yet-effective standards and amendments issued by the International Accounting Standards Board (IASB), that have not been early adopted at the end of the reporting period, have been assessed as having a possible effect on the Group of Companies in the future. Although the Corporation is finalizing its assessment that the application of the new or amended IFRS will have on its consolidated financial statements, the following disclosure provides a preliminary assessment of the expected changes to the Group of Companies' accounting policies, along with the expected impact.

(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 addresses 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. The Group of Companies intends to adopt IFRS 9 for the annual period beginning on January 1, 2015. The extent of the impact of adoption of IFRS 9 has not yet been determined.

(b) IFRS 10 "Consolidated Financial Statements" (IFRS 10), IFRS 11 "Joint Arrangements" (IFRS 11), IFRS 12 "Disclosure of Interests in Other Entities" (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" (IAS 31), 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. The Corporation does not expect any significant impacts on its consolidated financial statements resulting from the adoption of IFRS 10.

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 a joint operator to recognize the assets, liabilities, revenue and expenses relating to its interest in a joint operation, and the use of the equity method, in accordance with IAS 28 to account for an interest in a joint venture. While the Group of Companies does not have any significant joint arrangements as defined under IFRS 11 at the end of the current year, the Corporation had one such arrangement, Innovapost, for part of the year. Upon mandatory adoption of IFRS 11 beginning in 2013, the comparative period of 2012 is also required to be accounted for in accordance with IFRS 11. Under the new standard, Innovapost will be classified as a joint operation prior to becoming a subsidiary of the Corporation on March 14, 2012. The change from proportionate consolidation (the accounting policy applied to Innovapost as a joint venture under IAS 31) to the accounting required under IFRS 11 is not expected to result in any significant changes to the consolidated financial statements for the comparative period. There is no other expected impact on adoption of IFRS 11.

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. The adoption of IFRS 12 may result in additional disclosures to be made in the Corporation's consolidated financial statements.

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. No impacts are expected upon adoption of IAS 27, as the Corporation does not issue any separate financial statements.

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. The Group of Companies does not expect to be affected by the adoption of IAS 28, since it does not have any associates or joint ventures as defined under IAS 28.

(in millions of Canadian dollars, unless otherwise indicated)

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

(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. Upon adoption of IFRS 13, the fair value measurement basis of certain pension plan assets is expected to move from bid prices to close-of-market prices, the former being the current required fair value basis for an asset under IAS 39. Upon adoption, this change is expected to affect the pension benefit assets and/or pension, other post-employment and other long-term benefit liabilities and other comprehensive income or loss. The impacts of this adjustment will be known when the Group of Companies recognizes the fair value of the plan assets on the basis of close-of-market prices in 2013. The fair value basis of other assets and liabilities is not expected to be affected by the adoption of IFRS 13. The standard's requirements will also enhance fair value disclosures and expand disclosures to certain non-monetary assets and liabilities.

(d) Amendments to IAS 19 "Employee Benefits" (IAS 19) • In June 2011, the IASB issued amendments to IAS 19, which include the following:

- A requirement for interest income on plan assets to be computed with the discount rate used to measure the plan obligation, as opposed to management's best estimate of expected long-term rate of return on plan assets.
- A requirement for the cost of managing plan assets to be recorded against the actual return on assets, thus being recorded in other comprehensive income or loss, and other administrative costs to be recorded as a period expense.
- Immediate recognition in net profit or loss of unvested past service costs and credits resulting from plan amendments.
- Possible changes to timing of recognition of termination benefits.
- Elimination of the corridor method to defer actuarial gains and losses.
- Enhanced disclosures highlighting risks arising from defined benefit plans.

The amendments are to be applied retrospectively (with certain exceptions) for annual periods beginning on or after January 1, 2013.

These amendments, based on the Group of Companies' current accounting policies, will have a material negative impact on the Group of Companies' 2012 net profit once restated for comparative purposes as required by transitional provisions. The impact is estimated as follows:

Consolidated statement of comprehensive income

For the year ended December 31, 2012	As currently reported	Amended IAS 19 effects	Pro-forma
Employee benefits, net of curtailment gain and past service credits	$ 996	$ 237	$ 1,233
Tax expense (income)	33	(59)	(26)
Net profit (loss)	$ 94	$ (178)	$ (84)
Defined benefit plan remeasurements (currently, actuarial losses)	$ (1,489)	$ 272	$ (1,217)
Income tax relating to items that will not be reclassified	372	(68)	304
Other comprehensive loss	$ (1,110)	$ 204	$ (906)
Comprehensive loss	$ (1,016)	$ 26	$ (990)

Consolidated statement of financial position

As at December 31, 2012	As currently reported	Amended IAS 19 effects	Pro-forma
Deferred tax assets	$ 1,819	$ (11)	$ 1,808
Pension, other post-employment and other long-term benefit liabilities	$ 7,052	$ (45)	$ 7,007
Accumulated deficit	$ (3,875)	$ 35	$ (3,840)
Non-controlling interests	$ 20	$ (1)	$ 19

(in millions of Canadian dollars, unless otherwise indicated)

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

Consolidated statement of financial position

As at January 1, 2012	As currently reported	Amended IAS 19 effects	Pro-forma
Deferred tax assets	$ 1,472	$ (3)	$ 1,469
Pension, other post-employment and other long-term benefit liabilities	$ 5,719	$ (11)	$ 5,708
Accumulated deficit	$ (2,855)	$ 9	$ (2,846)
Non-controlling interests	$ 24	$ (1)	$ 23

(e) Amendments to 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 [f] below). The Group of Companies is expecting to early adopt these amendments for the annual period beginning on January 1, 2013. Certain foreign postal administration settlement balances that are offset on the consolidated statement of financial position will no longer meet the revised legally enforceable right to offset criteria. As a result, it is expected that trade and other receivables, and trade and other payables will each increase by $81 million and $87 million as at January 1, 2012, and December 31, 2012, respectively.

(f) Amendments to IFRS 7 – Disclosures – 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. Due to the early adoption of amendments to IAS 32 (see [e] above) effective January 1, 2013, no material impact is expected on the Corporation’s consolidated financial statements upon the adoption of the amendments to IFRS 7.

(g) Annual Improvements to IFRS – 2009–2011 Cycle • In May 2012, the IASB issued its latest set of annual improvements in response to non-urgent issues addressed during the 2009-2011 cycle. The standards and topics covered by the amendments are as follows: IFRS 1 “First-time Adoption of International Reporting Standards” (IFRS 1) addressing the repeated application of IFRS 1 and borrowing costs, IAS 1 providing clarification on the requirements for comparative information, IAS 16 “Property, Plant and Equipment” providing additional guidance on the classification of servicing equipment, IAS 32 addressing the tax effect of distributions to holders of equity instruments and IAS 34 “Interim Financial Reporting” addressing interim financial reporting and segment information for total assets and liabilities. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, with early adoption permitted. The adoption of the annual improvements is expected to have no material impact on the Corporation’s consolidated financial statements.

(h) Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance • In June 2012, the IASB issued amendments to clarify the transition guidance in IFRS 10. The amendments also provide additional transition relief in IFRS 10, IFRS 11 and IFRS 12. The amendments limit the requirement to provide adjusted comparative information to only the preceding comparative period, and for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before the first annual period for which IFRS 12 is applied. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2013, which is aligned with the effective date of IFRS 10, IFRS 11 and IFRS 12.

(in millions of Canadian dollars, unless otherwise indicated)

6. Business Combinations

(a) After receiving approval under the *Financial Administration Act* from the Governor in Council, the Canada Post Group of Companies' purchase of all remaining voting shares in Innovapost became effective on March 14, 2012. As a result, the equity interest of the Group of Companies in Innovapost increased by a further 47%, from 51% to 98%.

Innovapost continues 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 model as a means of reducing costs, driving efficiencies, improving service delivery and extracting greater business value from the entity.

The consideration for the business combination was $26 million in cash, paid on the acquisition date. The business combination was accounted for using the acquisition method, and the results of the acquired subsidiary were included in the consolidated financial statements from the date of acquisition. Fair values approximated carrying amounts at acquisition date. The non-controlling interest in Innovapost was measured at the proportionate share of the identifiable net assets.

Details of net assets acquired were as follows:

	Purchase price allocation
Assets	
Current assets	$ 38
Non-current assets	5
Total assets	**$ 43**
Liabilities	
Current liabilities	$ 18
Non-current liabilities	2
Total liabilities	**$ 20**
Net assets	**$ 23**
Equity of Canada	$ 22
Non-controlling interest	$ 1

The purchase price also included a consideration for gaining control over the acquiree, enabling the Group of Companies to align its goals and interests for the future direction of Innovapost.

Included in current assets acquired were cash of $15 million and trade receivables of $18 million. The fair value of the receivables equals the gross contractual amount as all of the receivables are from the Group of Companies.

The Corporation's consolidated revenue and net profit would not differ materially had the acquisition in the first quarter taken place on January 1, 2012, the beginning of the reporting period, nor were they materially affected subsequent to the acquisition date after taking into account the effect of intersegment eliminations.

6. Business Combinations (continued)

(b) On May 14, 2012, a subsidiary of SCI purchased 100% of the common shares of E&J Truck Leasing Ltd., White Glove Transportation Systems Ltd., and White Glove Logistix Solutions Ltd. for a cash consideration of $10 million. Goodwill of $5 million was recorded on the acquisition, representing the expected benefits of the synergies with SCI's existing operations. The business combination was accounted for using the acquisition method, and the results of the acquired entity were included in the consolidated financial statements from the date of acquisition.

Details of net assets acquired were as follows:

	Purchase price allocation
Assets	
Current assets	$ 3
Non-current assets	4
Total assets	**$ 7**
Liabilities	
Current liabilities	$ 1
Non-current liabilities	1
Total liabilities	**$ 2**
Identifiable net assets	**$ 5**
Goodwill (Note 13)	**$ 5**

The fair value of the receivables included in current assets approximated the gross contractual amount.

Subsequent to the acquisition date and after the effect of intersegment eliminations, the amount of revenue related to the business combination included in the Corporation's consolidated revenue was $9 million. There was no material effect on the Corporation's consolidated net profit. Had the acquisition taken place on January 1, 2012, the beginning of the reporting period, the Corporation's consolidated revenue would have been $7,535 million. There would have been no material effect on the Corporation's consolidated net profit had the acquisition occurred on January 1, 2012.

7. 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 61 cents in January 2012 (2011 – 2 cents to 59 cents), and will increase by 2 cents in each of 2013 and 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. The approval to increase rates for these products effective January 14, 2013, was received on December 6, 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 mailing in bulk or in a manner that facilitates the processing thereof.

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 23).

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 28% (2011 – 29%) of the Canada Post segment revenue (Note 25).

(in millions of Canadian dollars, unless otherwise indicated)

8. 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 December 31	2012	2011
Cash and cash equivalents		
Cash	$ 243	$ 167
Money market instruments issued by		
Financial institutions	16	35
Corporations	39	69
Total cash and cash equivalents	**$ 298**	$ 271
Marketable securities		
Money market instruments issued by		
Government of Canada	$ 90	$ 125
Provincial governments	116	216
Financial institutions	195	342
Corporations	169	159
Total marketable securities	**$ 570**	$ 842
Segregated securities		
Cash	$ 9	$ 4
Bonds issued by		
Government of Canada	120	128
Provincial governments	214	203
Corporations	217	218
Total segregated securities	**$ 560**	$ 553

The remaining term to maturity at December 31, 2012, 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, 2012, were issued by Canadian entities at fixed interest rates. The weighted average effective interest rate as at December 31, 2012, was 1.2% for money market instruments (2011 – 1.1%) and 3.0% for bonds (2011 – 3.4%).

Securities are segregated due to external restrictions imposed on other retirement dental and life insurance benefit plans repatriated through the federal public sector pension reform. These defined benefit plans were partially funded by the transitional support from the Government of Canada, and therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments. Transitional support ended in 2010.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $10 million (2011 – $14 million). Interest income and gains and losses on segregated securities amounted to $21 million (2011 – $28 million).

(in millions of Canadian dollars, unless otherwise indicated)

9. 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, 2012

	Level 1[1]	**Level 2[2]**	**Level 3[3]**	**Total**
Cash and cash equivalents	$ 298	$ –	$ –	**$ 298**
Marketable securities	$ 570	$ –	$ –	**$ 570**
Segregated securities	$ 560	$ –	$ –	**$ 560**

As at December 31, 2011

	Level 1[1]	Level 2[2]	Level 3[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

1. Level 1 financial assets are defined as assets with quoted prices in active markets for identical assets.
2. 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.
3. 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.

At year end, the Group of Companies did not have any significant risk management assets or liabilities or any financial liabilities measured at fair value.

(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 15 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.

(in millions of Canadian dollars, unless otherwise indicated)

10. Capital Assets

(a) Property, plant and equipment

Property, plant and equipment consisted of the following items:

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost or deemed cost									
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 10 [b])	–	13	2	9	–	–	–	(30)	(6)
December 31, 2011	$ 312	$ 1,644	$ 240	$ 1,164	$ 329	$ 431	$ 860	$ 95	$ 5,075
Additions	28	74	30	161	85	30	28	141	577
Acquisitions through business combinations	–	–	–	–	–	2	–	–	2
Reclassified as held for sale	(30)	(30)	–	–	–	–	–	–	(60)
Retirements	(1)	(8)	(6)	(55)	(11)	(33)	–	–	(114)
Transfers (nets to nil with Note 10 [b])	–	46	2	8	–	–	–	(61)	(5)
December 31, 2012	**$ 309**	**$ 1,726**	**$ 266**	**$ 1,278**	**$ 403**	**$ 430**	**$ 888**	**$ 175**	**$ 5,475**
Accumulated depreciation									
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
Depreciation	–	63	17	63	29	38	38	–	248
Reclassified as held for sale	–	(13)	–	–	–	–	–	–	(13)
Retirements	–	(7)	(6)	(55)	(11)	(32)	–	–	(111)
December 31, 2012	**$ –**	**$ 873**	**$ 182**	**$ 704**	**$ 191**	**$ 307**	**$ 563**	**$ –**	**$ 2,820**
Carrying amounts									
December 31, 2011	$ 312	$ 814	$ 69	$ 468	$ 156	$ 130	$ 335	$ 95	$ 2,379
December 31, 2012	**$ 309**	**$ 853**	**$ 84**	**$ 574**	**$ 212**	**$ 123**	**$ 325**	**$ 175**	**$ 2,655**

(in millions of Canadian dollars, unless otherwise indicated)

10. Capital Assets (continued)

As at December 31, 2012, the Group of Companies held assets under finance leases in three asset classes: sales counters, office furniture and equipment with net book value of $6 million (2011 – $4 million); vehicles with net book value of $71 million (2011 – $54 million); and plant equipment with net book value of $16 million (2011 – $18 million).

During 2012, capitalized borrowing costs related to Postal Transformation amounted to $5 million (2011 – $2 million), with a capitalization rate of 4.3% (2011 – 4.3%).

(b) Intangible assets

Intangible assets consisted of the following items:

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2010	$ 540	$ 26	$ 27	$ 593
Additions	39	19	–	58
Retirements	(1)	–	–	(1)
Transfers (nets to nil with Note 10 [a])	7	(1)	–	6
December 31, 2011	$ 585	$ 44	$ 27	$ 656
Additions	16	19	–	35
Acquisitions through business combinations	3	–	3	6
Retirements	(40)	–	–	(40)
Transfers (nets to nil with Note 10 [a])	46	(41)	–	5
December 31, 2012	**$ 610**	**$ 22**	**$ 30**	**$ 662**
Accumulated amortization				
December 31, 2010	$ 409	$ –	$ 23	$ 432
Amortization	59	–	1	60
Retirements	(1)	–	–	(1)
December 31, 2011	$ 467	$ –	$ 24	$ 491
Amortization	65	–	1	66
Retirements	(38)	–	–	(38)
December 31, 2012	**$ 494**	**$ –**	**$ 25**	**$ 519**
Carrying amounts				
December 31, 2011	$ 118	$ 44	$ 3	$ 165
December 31, 2012	**$ 116**	**$ 22**	**$ 5**	**$ 143**

(c) Assets held for sale

The Group of Companies had several properties classified as held for sale at the end of 2012, 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.

11. 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.

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 were to resign or their employment was to be 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.

By the end of 2012, the Corporation's sick leave plan was fully curtailed and replaced by a short-term disability plan. Under this plan, employees ceased to accrue sick leave benefit entitlements, and their accumulated sick leave balance was converted into top-up credits to be used in accordance with the short-term disability program. These credits are intended to supplement eligible employees' salary in the event of an illness, accident or hospitalization.

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 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. Defined contribution plan members are not required nor permitted to contribute to the defined benefit pension plans. Purolator also has long-term benefit plans, which consist of a long-service award program and a long-term disability plan.

11. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

Certain employees of SCI 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 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. Consistent with 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 provisions. After October 31, 2002, no new members are eligible to join Innovapost's pension plan, unless otherwise permitted by its Board of Directors.

(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 benefit plans, are unfunded.

(in millions of Canadian dollars, unless otherwise indicated)

11. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

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:

For the year ended and as at December 31	**2012**		2011	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 18,481	$ 3,296	$ 16,897	$ 3,297
Current service cost	425	138	398	141
Interest cost	977	177	967	189
Employee contributions	197	–	185	–
Benefits paid	(725)	(159)	(618)	(158)
Actuarial losses (gains)	1,607	288	583	(173)
Past service costs (credits)	2	(120)	69	–
Curtailment gain	–	(49)	–	–
Business combination	14	–	–	–
Balance, end of year	20,978	3,571	18,481	3,296
Fair value of plan assets				
Fair value, beginning of year	16,093	–	16,006	–
Expected return on plan assets[1]	1,113	–	1,157	–
Actuarial gains (losses)	432	–	(1,204)	–
Employer regular contributions	349	–	328	–
Employer special contributions	97	–	239	–
Employee contributions	197	–	185	–
Benefits paid	(725)	–	(618)	–
Business combination	14	–	–	–
Fair value, end of year	17,570	–	16,093	–
Deficit	(3,408)	(3,571)	(2,388)	(3,296)
Unrecognized past service costs (credits)	–	(62)	–	(28)
Total amount recognized	**$ (3,408)**	**$ (3,633)**	$ (2,388)	$ (3,324)

1. The actual return on plan assets for 2012 amounted to $1,545 million (2011 – negative return of $47 million).

(in millions of Canadian dollars, unless otherwise indicated)

11. 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 December 31	2012	2011
Pension benefit assets	**$ 83**	$ 93
Pension benefit liabilities	$ 3,491	$ 2,481
Other post-employment and other long-term benefit liabilities	3,633	3,324
Total pension, other post-employment and other long-term benefit liabilities	$ 7,124	$ 5,805
Current other long-term benefit liabilities	**$ 72**	$ 86
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,052**	$ 5,719

(c) Historical information

(c.1) Pension benefit plans

As at	**December 31, 2012**	December 31, 2011	December 31, 2010	January 1, 2010
Fair value of plan assets	$ 17,570	$ 16,093	$ 16,006	$ 14,135
Present value of the benefit obligations	20,978	18,481	16,897	13,935
Surplus (deficit)	**$ (3,408)**	$ (2,388)	$ (891)	$ 200
Actuarial gains (losses) from experience adjustment arising on plan assets	**$ 432**	$ (1,204)	$ 393	$ –
Actuarial gains from experience adjustment arising on plan obligations	$ 51	$ 64	$ 122	$ –
Actuarial losses from change in actuarial assumptions arising on plan obligations	(1,658)	(647)	(2,189)	–
Total actuarial losses on plan obligations	**$ (1,607)**	$ (583)	$ (2,067)	$ –

(c.2) Other benefit plans

As at	**December 31, 2012**	December 31, 2011	December 31, 2010	January 1, 2010
Present value of the benefit obligations	$ 3,571	$ 3,296	$ 3,297	$ 2,824
Deficit	**$ (3,571)**	$ (3,296)	$ (3,297)	$ (2,824)
Actuarial gains from experience adjustment arising on plan obligations	$ 189	$ 256	$ 98	$ –
Actuarial losses from change in actuarial assumptions arising on plan obligations	(477)	(83)	(444)	–
Total actuarial gains (losses) on plan obligations	**$ (288)**	$ 173	$ (346)	$ –

(in millions of Canadian dollars, unless otherwise indicated)

11. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(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. Therefore, minimum and maximum asset category limits have been established.

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 4.50%. 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 and economic areas and management styles. The asset allocations, by asset category, of the Corporation's pension plan were as follows:

As at December 31	**2012**	2011
	Actual	Actual
Cash and money market instruments	2 %	2 %
Bonds	32 %	34 %
Canadian equities	21 %	23 %
U.S. equities	21 %	21 %
International equities	15 %	13 %
Real estate	8 %	5 %
Other assets less liabilities	1 %	2 %
Pension plan assets of the Corporation	**100 %**	100 %

The pension plan assets of Purolator, SCI and Innovapost are governed by similar investment objectives and policies and account for 3% (2011 – 3%) of the total plan assets of $17,570 million (2011 – $16,093 million).

Total plan assets include $1,868 million (2011 – $2,345 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $130 million (2011 – $127 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.

(in millions of Canadian dollars, unless otherwise indicated)

11. 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:

For the year ended December 31			2012			2011
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 425	$ 138	$ 563	$ 398	$ 141	$ 539
Interest cost	977	177	1,154	967	189	1,156
Expected return on plan assets	(1,113)	–	(1,113)	(1,157)	–	(1,157)
Actuarial losses (gains)[1]	–	(26)	(26)	–	33	33
Past service costs (credits)	2	(86)	(84)	69	(11)	58
Curtailment gain	–	(49)	(49)	–	–	–
Defined benefit costs	291	154	445	277	352	629
Defined contribution costs	10	–	10	6	–	6
Total costs	301	154	455	283	352	635
Return on segregated securities	–	(21)	(21)	–	(28)	(28)
Net costs	**$ 301**	**$ 133**	**$ 434**	$ 283	$ 324	$ 607

1. 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 December 2012, the Corporation signed a new collective agreement with the Canadian Union of Postal Workers. The new terms and conditions resulted in a modification of the post-employment health plan arrangement. In addition, the sick leave benefit plan was curtailed and replaced by a short-term disability plan. The vested portion of the past service costs (credits), as well as the sick leave curtailment gain have been recognized immediately in net profit. The non-recurring gains resulting from the terms and conditions of the new collective agreement, combined with the impact of the Corporation's 2012 valuation exercise, resulted in non-cash accounting gains of $152 million that are included in the above table.

(f) Other comprehensive income

Amounts recognized in other comprehensive income were as follows:

For the year ended December 31			2012			2011
	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	$ (3,461)	$ (122)	$ (3,583)	$ (1,674)	$ (328)	$ (2,002)
Actuarial gains (losses)	(1,175)	(314)	(1,489)	(1,787)	206	(1,581)
Balance, end of year	**$ (4,636)**	**$ (436)**	**$ (5,072)**	$ (3,461)	$ (122)	$ (3,583)

(in millions of Canadian dollars, unless otherwise indicated)

11. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(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	**2012**		2011	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	4.4 %	4.5 %	5.3 %	5.5 %
Long-term rate of compensation increase	2.75 %	2.75 %	3.0 %	3.0 %
Consumer price index	2.25 %	2.25 %	2.5 %	2.5 %
Benefit costs:				
Discount rate	5.3 %	5.5 %	5.7 %	5.8 %
Expected long-term rate of return on plan assets	7.0 %	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	7.5 %	N/A	7.9 %
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 17	N/A	Year 18

In 2012, the Corporation's consumer price index assumption was modified from 2.50% to 2.25%, which resulted in a $600-million reduction of its registered pension plan defined benefit liability.

(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 affected 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 2012:

Change in discount rate of 0.5%

	Increase	**Decrease**
Total of current service and interest costs	$ (48)	$ 52
Present value of the benefit obligations	$ (1,505)	$ 1,632

Change of 0.5% in expected long-term rate of return on plan assets

	Increase	**Decrease**
Pension benefit costs	$ (80)	$ 80

(in millions of Canadian dollars, unless otherwise indicated)

11. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(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 2012:

	Increase	Decrease
Total of current service and interest costs	$ 42	$ (32)
Present value of the benefit obligations	$ 413	$ (328)

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 assumptions 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:

For the year ended December 31	**2012**	2011
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 159	$ 158
Employer regular contributions to funded pension benefit plans	349	328
Employer special contributions to funded pension benefit plans	97	239
Total cash payments for defined benefit plans	605	725
Contributions to defined contribution plans	10	6
Total cash payments	**$ 615**	$ 731

In 2013, the Group of Companies' total contributions to pension benefit plans are estimated to be $390 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 to be made over specified future periods. Relief from these special solvency contributions is available to Crown corporations but must be approved by the Minister of Finance and the Minister of Transport, Infrastructure and Communities (Ministers).

The Corporation obtained approval from the Ministers to reduce special solvency contributions from January 1, 2011 to June 30, 2013. Without this funding relief, an additional $897 million in special solvency contributions would have been required from the Corporation in 2012. The aggregate amount of the funding relief as at December 31, 2012 is $1.3 billion.

The Canada Post Corporation Registered Pension Plan regular contributions and special contributions are estimated to be $269 million and $28 million, respectively, in 2013. The latter reflects the Corporation's intent to seek agreement from the Ministers for the continued use of the funding relief through June 30, 2014, as permitted by the legislation. Without this funding relief, the Corporation's special contributions for 2013 would increase by approximately $1.2 billion.

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, 2011	December 31, 2012
Purolator	December 31, 2011	December 31, 2012
SCI	December 31, 2011	December 31, 2012
Innovapost	June 30, 2012	December 31, 2013

(in millions of Canadian dollars, unless otherwise indicated)

12. 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 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 loss (OCL) were as follows:

	December 31, 2011	**Recognized in Net profit**	**Recognized in OCL**	**December 31, 2012**
Net deferred tax assets (liabilities)				
Capital assets	$ (11)	$ (14)	$ –	$ (25)
Salaries and benefits payable and related provisions	92	(10)	–	82
Pension, other post-employment and other long-term benefit liabilities	1,380	(34)	372	1,718
Other	11	33	(2)	42
Net deferred tax assets	$ 1,472	**$ (25)**	**$ 370**	**$ 1,817**

	December 31, 2010	Recognized in Net loss	Recognized in OCL	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

As presented in the consolidated statement of financial position:

As at December 31	**2012**	2011
Deferred tax assets	**$ 1,819**	$ 1,472
Deferred tax liabilities	**2**	–
	$ 1,817	$ 1,472

As at December 31, 2012, the Corporation has recognized a deferred tax asset of $1,770 million on its deductible temporary differences and suffered a tax loss in the current period. This is based on management's assessment that all available evidence, such as profitability information derived from long-term forecasted operating results, suggests that their realization is probable.

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, 2012, was $128 million (2011 – $181 million).

(in millions of Canadian dollars, unless otherwise indicated)

12. Income Taxes (continued)

The major components of tax expense (income) were as follows:

For the year ended December 31	**2012**	2011
Current tax expense (income) relating to		
Current tax expense (income)	$ 14	$ (25)
Adjustments for prior years	(6)	–
	8	(25)
Deferred tax expense (income) relating to		
Origination and reversal of temporary differences	22	(43)
Adjustments for prior years	3	–
Reduction in tax rate	–	3
	25	(40)
Tax expense (income)	**$ 33**	$ (65)

Tax expense differs from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25.0% (2011 – 26.5%) to profit (loss) before tax. The reasons for the differences are as follows:

For the year ended December 31	**2012**	2011
Profit (loss) before tax	$ 127	$ (253)
Federal tax at parent's statutory rate	32	(67)
Subsidiaries' provincial tax less federal tax abatement	1	2
Effect of statutory tax rate changes on deferred taxes	2	–
Other	(2)	–
Tax expense (income)	**$ 33**	$ (65)

The federal statutory tax rate decreased from 26.5% in 2011 to 25% in 2012, which is the applicable long-term federal statutory tax rate.

Income tax recognized in other comprehensive loss was as follows:

For the year ended December 31		**2012**			2011	
	Before tax	**Tax recognized**	**Net of tax**	Before tax	Tax recognized	Net of tax
Items that will not be reclassified to Net profit (loss)						
Actuarial losses on defined benefit plans	$ (1,489)	$ 372	$ (1,117)	$ (1,581)	$ 397	$ (1,184)
Items that may be reclassified subsequently to Net profit (loss)						
Unrealized gains on available-for-sale financial assets	9	(2)	7	54	(13)	41
Realized gains reclassified to Net profit (loss)	–	–	–	(6)	1	(5)
	$ (1,480)	**$ 370**	**$ (1,110)**	$ (1,533)	$ 385	$ (1,148)

(in millions of Canadian dollars, unless otherwise indicated)

13. 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 those segments that have a goodwill balance were as follows:

As at December 31			**2012**	2011
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning of the year	$ 121	$ 4	$ 125	$ 125
Goodwill acquired during the year (Note 6)	–	5	5	–
Balance, end of the year	**$ 121**	**$ 9**	**$ 130**	$ 125

Goodwill impairment testing
Impairment testing for goodwill is carried out annually at September 30 for both the Purolator and Logistics segments. In the current year, Purolator changed its annual goodwill impairment test date from June 30 to September 30, after initially performing the impairment test as at June 30. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior year.

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 past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (2011 – 3.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 16% (2011 – 19%), which is based on Purolator's weighted average cost of capital.

14. Trade and Other Payables

Trade and other payables consisted of the following items:

As at December 31	**2012**	2011
Accruals and other payables	$ 243	$ 255
Trade payables	119	130
Outstanding money orders	34	35
Taxes payable	57	62
Total	**$ 453**	$ 482

Refer to Note 24 for market, credit and liquidity risks relating to trade and other payables.

(in millions of Canadian dollars, unless otherwise indicated)

15. Loans and Borrowings

Loans and borrowings consisted of the following items:

As at December 31	**2012**		2011	
	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]	$ 622	$ 498	$ 623	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1, 3]	582	498	580	498
Non-redeemable bonds maturing March 2016, interest at 10.35%, payable semi-annually on March 15 and September 15[2, 3]	70	55	75	55
Finance lease obligations, maturing on various dates from 2013 through 2015, net of implicit interest at rates varying from 5.7% to 7.5%[4]	7	7	4	4
Finance lease obligations, maturing in 2019, net of implicit interest at rates varying from 3.3% to 5.5%[5]	85	85	72	72
Total loans and borrowings	**$ 1,366**	**$ 1,143**	$ 1,354	$ 1,127
Current loans and borrowings	**$ 20**	**$ 20**	$ 16	$ 16
Non-current loans and borrowings	**$ 1,346**	**$ 1,123**	$ 1,338	$ 1,111

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. 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 instalments.
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 to be equal to, or less than, 2.5:1. The subsidiary is in compliance with this covenant.

A subsidiary also has an unsecured three-year term revolving line of credit to borrow a maximum of $75 million. There was no amount drawn under this facility as at December 31, 2012, or December 31, 2011. This credit facility contains two covenant requirements. On a quarterly basis the subsidiary's 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 as at December 31, 2012.

(in millions of Canadian dollars, unless otherwise indicated)

15. Loans and Borrowings (continued)

Interest expense on loans and borrowings amounted to $46 million (2011 – $48 million).

Future principal repayments on loans and borrowings excluding finance lease obligations are as follows:

As at December 31	**2012**	2011
2016	$ 55	$ 55
2025	500	500
2040	500	500
	$ 1,055	$ 1,055

Finance lease obligations at December 31, 2012, were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 23	$ 3	$ 20
Later than one year and not later than five years	68	6	62
Later than five years	10	–	10
Finance lease obligations	$ 101	$ 9	$ 92
Current finance lease obligations	$ 23	$ 3	$ 20
Non-current finance lease obligations	$ 78	$ 6	$ 72

Finance lease obligations at December 31, 2011, were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 19	$ 3	$ 16
Later than one year and not later than five years	55	5	50
Later than five years	10	–	10
Finance lease obligations	$ 84	$ 8	$ 76
Current finance lease obligations	$ 19	$ 3	$ 16
Non-current finance lease obligations	$ 65	$ 5	$ 60

(in millions of Canadian dollars, unless otherwise indicated)

16. Provisions

The following table presents the movement in provisions for the year ended December 31, 2012:

	Claims	Other	Total
Balance at December 31, 2011	$ 55	$ 24	$ 79
Additional provisions recognized	23	30	53
Payment of provisions	(10)	(17)	(27)
Reduction from remeasurement of provisions	(13)	(2)	(15)
Balance at December 31, 2012	**$ 55**	**$ 35**	**$ 90**
Current provisions	**$ 54**	**$ 31**	**$ 85**
Non-current provisions	**$ 1**	**$ 4**	**$ 5**

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 related 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, 2012, and 2011 balances for the other provisions category consist of a number of items, including decommissioning obligations associated with asbestos removal and site restoration costs for properties that 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, planned within the next two years. The estimated cash outflows have been discounted at a risk-free interest rate between 0.9% and 1.1% (2011 – between 0.9% and 2.4%). The Corporation estimates that the undiscounted cash outflows required to transfer its recognized decommissioning obligations approximate $4 million (2011 – $2 million), the present value of which was $4 million at December 31, 2012 (2011 – $2 million).

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, 2012, balance in the other provisions category include lease retirement obligations for significant leases, which are legal obligations to restore leased premises to their original state at the termination of the leases, 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 nine 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 18 regarding contingent liabilities disclosures for these items.

Pay equity
On November 17, 2011, the Supreme Court of Canada upheld the decision of the Canadian Human Rights Tribunal (Tribunal) 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 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 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 is consulting with PSAC in order to reach an agreement on the final amount.

17. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* (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. A revised, IFRS-based Financial Framework was approved in 2012 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 were $1,143 million at December 31, 2012, compared to $1,127 million at December 31, 2011. The increase of $16 million in 2012 is due to an increase in finance lease obligations. 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 and post-employment benefit plans, as these are recognized in other comprehensive income or loss and are included immediately in retained earnings or accumulated deficit. The equity of Canada was in a deficit position of $2,668 million at December 31, 2012, compared to a deficit position of $1,655 million at December 31, 2011.

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.
- Generate a reasonable return to the Government of Canada in support of the objectives of the IFRS-based Financial Framework.
- 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. As of March 21, 2013, the Corporation's 2013-2017 Corporate Plan has not been submitted.

The declaration, amount and payment of a dividend to the Government of Canada are subject to the Acts. 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.

In total, $271 million in dividends were paid to the Government of Canada from 2004 to 2008. No dividend was paid to the Shareholder in the years 2009 to 2012 while the Corporation was in a high asset investment mode. The Financial Framework includes a dividend payout target of 0% to 20% for 2010 and 2011, and 15% to 20% for 2012 through 2014.

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk in Note 24 (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, both of 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.

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 Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, a subsidiary must satisfy certain restrictive covenants that require minimum financial ratios related to working capital and debt/equity, and the purchase of capital assets. The subsidiary is in compliance with all covenants (Note 15).

18. Contingent Liabilities

(a) A complaint was filed with the Canadian Human Rights Commission (Commission) alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*.

On October 10, 2012, the Corporation received notice from the Commission that the CPAA has requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief on December 10, 2012, in response to the Commission's request for submission.

The outcome of this complaint is currently not determinable and as a result no provision has been recorded in the consolidated financial statements.

(b) The previous collective agreement between the Corporation and the Canadian Union of Postal Workers (CUPW) expired on January 31, 2011. The parties began negotiating a new contract in October 2010. In January 2011, CUPW applied for conciliation as provided for under the *Canada Labour Code* and beginning on June 2, 2011, exercised its right to strike through rotating strikes across the country. On June 14, 2011, the Corporation locked out employees. Back-to-work legislation was tabled by the Government of Canada on June 20, 2011, and the legislation received royal assent on June 26, 2011. CUPW has filed an application contesting the constitutionality of the legislation.

After continued negotiations, tentative agreements were reached between the Corporation and CUPW on October 5, 2012. The new agreements were ratified and then signed on December 21, 2012.

The outcome of CUPW's application contesting the constitutionality of the back-to-work legislation 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 directors or officers of the Group of Companies or as directors or officers 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. 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 16 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 that 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 16).

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.

(in millions of Canadian dollars, unless otherwise indicated)

19. 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 December 31	**2012**	2011
Not later than one year	$ 152	$ 162
Later than one year and not later than five years	380	355
Later than five years	353	312
Total	**$ 885**	$ 829

Included in the above numbers are lease payments to be made in the normal course of business in the amount of $19 million with a related party, the Government of Canada, for premises used in postal operations (2011 – $16 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 generally run for a period of one to twenty years, with the average lease term being five years. Leases are often renewable, containing one to three options to renew 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 most 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, 2012, $148 million was recognized as an expense in net profit in respect of operating leases (2011 – $168 million). This amount is net of lease revenues of $10 million (2011 – $10 million).

(b) The Corporation has contractual arrangements with third-party suppliers approximating $208 million related to its Postal Transformation. These contractual arrangements are subject, in most instances, to the Corporation's contractual right of termination and extend to 2015 as follows:

As at December 31	**2012**	2011
Not later than one year	$ 183	$ 337
Later than one year and not later than five years	25	51
Later than five years	–	–
Total	**$ 208**	$ 388

(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. As at December 31, 2012, a subsidiary had a contractual arrangement committing to minimum expenditures of $16 million by June 30, 2014.

(in millions of Canadian dollars, unless otherwise indicated)

20. Other Operating Costs

Other operating costs consisted of the following:

For the year ended December 31	2012	2011
Non-labour collection, processing and delivery	$ 1,336	$ 1,332
Property, facilities and maintenance	324	322
Selling, administrative and other	540	612
Other operating costs	**$ 2,200**	$ 2,266

21. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

For the year ended December 31	2012	2011
Interest revenue	$ 12	$ 16
Gain on sale of capital assets	35	8
Other income	3	–
Investment and other income	**$ 50**	$ 24
Interest expense	$ (46)	$ (49)
Other expense	(8)	(2)
Finance costs and other expense	**$ (54)**	$ (51)
Investing and financing income (expense), net	**$ (4)**	$ (27)

22. Interests in Other Entities

Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Place of incorporation	Place of operation	Proportion of ownership interest held directly or indirectly	
				December 31, 2012	December 31, 2011
Purolator Holdings Ltd.	Transportation and courier services	Canada	Canada and United States	91 %	91 %
SCI Group Inc.	Logistics and transportation services	Canada	Canada	99 %	99 %
Innovapost Inc.	IS/IT services	Canada	Canada	98 %	51 %

From the beginning of the fiscal year until March 14, 2012, the Corporation had a 51% ownership interest in Innovapost, the Group of Companies' primary information technology service provider. On March 14, 2012, the Group of Companies purchased the remaining voting shares in Innovapost (Note 6).

During the period prior to the business combination, the Corporation treated Innovapost as a joint venture in spite of having majority share ownership, as unanimous consent of both venturers was required for all decision-making activities. As a result, prior to March 14, 2012, the Corporation accounted for Innovapost in its consolidated financial statements using proportionate consolidation. Virtually all of Innovapost's services were provided to the Group of Companies based on consideration contractually established and agreed to by the joint venture. All revenue was intersegment and has been eliminated, and all cash flows were operating in nature. The cost of operations in the Corporation's consolidated financial statements for the period up to March 14, 2012, includes its proportionate share of Innovapost's expenses of $27 million, compared to a full year of proportionate consolidation in 2011 of $132 million. The Corporation's proportionate share of the assets and liabilities of Innovapost at December 31, 2011, was $33 million and $21 million, respectively.

(in millions of Canadian dollars, unless otherwise indicated)

23. 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 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

Transactions with the Government of Canada, its agencies and other Crown corporations consisted of the following:

For the year ended December 31	2012	2011
Related party revenue	**$ 271**	$ 314
Compensation payments for programs:		
Government mail and mailing of materials for the blind	**$ 22**	$ 22
Food Mail Program	**–**	14
Payments from related parties for premises leased from the Corporation	**$ 7**	$ 7
Related party expenditures	**$ 29**	$ 24

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage (Note 7). The Food Mail Program, whereby the Government of Canada compensated the Corporation for the difference between the cost of shipping eligible goods and the postage paid by shippers, pursuant to an agreement with the Department of Indian Affairs and Northern Development (now Aboriginal Affairs and Northern Development Canada), was terminated on March 31, 2011. The Corporation has no role in the shipment of goods under the new program.

The amounts due to and from related parties and included in the statement of financial position were as follows:

As at December 31	2012	2011
Due to/from related parties		
Included in trade and other receivables	**$ 19**	$ 28
Included in trade and other payables	**$ 10**	$ 9
Deferred revenue from related parties	**$ 7**	$ 6

Future payments from related parties for premises leased from the Corporation are as follows:

As at December 31	2012	2011
Not later than one year	$ 6	$ 6
Later than one year and not later than five years	25	25
Later than five years	12	18
Total	**$ 43**	$ 49

(b) Key management personnel compensation

Key management personnel (KMP) are defined as the Boards of Directors and members of the senior executive teams responsible for planning, controlling and directing the activities of the Group of Companies.

The remuneration of KMP was as follows:

For the year ended December 31	2012	2011
Short-term employee benefits	$ 8	$ 9
Post-employment benefits	2	2
Total (excluding termination benefits)	**$ 10**	$ 11

The 2012 KMP Group of Companies' compensation relating to the Boards of Directors included in the table directly above was \$0.3 million (2011 – \$0.3 million).

In addition to the amounts noted in the table directly above, during 2012 KMP remuneration relating to one-time termination benefits in the amount of \$2 million was incurred (2011 – \$3 million). There have been no transactions with KMP other than compensation.

23. Related Party Transactions (continued)

(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. The only significant transactions for the year ended December 31, 2012, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to the subsidiary in the amount of $111 million (2011 – $111 million). As at December 31, 2012, $5 million is due to the company from the subsidiary (2011 – $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.

(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 $8 million (2011 – $7 million). As at December 31, 2012, $1 million (2011 – $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 11.

24. 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, 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 commodity prices.

(a.1) 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 therefore, they are 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, 2012 (2011 – 13 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 loss by $70 million at December 31, 2012 (2011 – $71 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.

(a.2) 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 (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro (€), British pound (£) and yen (¥), whereas payment is usually denominated in US$.

(in millions of Canadian dollars, unless otherwise indicated)

24. Nature and Extent of Risks from Financial Instruments (continued)

During the year, the Group of Companies continued its economic hedge program to mitigate its exposure to foreign exchange balances and also implemented an economic hedge program to mitigate its exposure to 2012 forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the four currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures where cash flows are highly probable. The notional amounts of forward contracts outstanding were as follows:

As at December 31, 2012

Currency	**Nominal value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$16	$ 16	$0.99/US$	January 10, 2013	Sell forward	$ –
Euro	€9	12	$1.30/€	January 11, 2013	Sell forward	–
British pound	£2	3	$1.60/£	January 11, 2013	Sell forward	–
Yen	¥250	3	$0.012/¥	January 11, 2013	Sell forward	–
Total		$ 34				**$ –**

As at December 31, 2011

Currency	Nominal value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$28	$ 29	$1.02/US$	January 17, 2012	Sell forward	$ –
Euro	€12	16	$1.36/€	January 18, 2012	Sell forward	1
British pound	£2	3	$1.60/£	January 18, 2012	Sell forward	–
Yen	¥260	3	$0.013/¥	January 18, 2012	Sell forward	–
Total		$ 51				$ 1

The foreign exchange gains (losses) and foreign exchange derivative gains (losses) recognized were as follows:

For the year ended December 31		**2012**			2011	
	Foreign exchange gains (losses)	**Derivative gains (losses)**	**Total**	Foreign exchange gains (losses)	Derivative gains (losses)	Total
Unrealized	$ 2	$ (1)	$ 1	$ (2)	$ 1	$ (1)
Realized	(2)	6	4	6	(2)	4
Total	**$ –**	**$ 5**	**$ 5**	$ 4	$ (1)	$ 3

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2012, all other variables held constant, would have been an increase or decrease in net profit or loss for the year by $5 million (2011 – $3 million).

(a.3) 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 on some of its products. This is an industry-accepted practice and long-standing technique in mitigating risk.

(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.

(in millions of Canadian dollars, unless otherwise indicated)

24. Nature and Extent of Risks from Financial Instruments (continued)

Credit risk arising from investments is mitigated by investing with issuers who meet specific criteria and imposing 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 (2011 – 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 on 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.

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 each foreign postal administration, 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 for 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 past-due period 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 December 31	**2012**	2011
Trade receivables:		
Current	$ 396	$ 424
1-15 days past due	66	49
16-30 days past due	19	20
Over 30 days past due	25	38
Allowance for doubtful accounts	(8)	(12)
Trade receivables – net	$ 498	$ 519
Trade receivables from foreign postal administrations	85	100
Risk management financial assets	–	1
Other receivables	32	42
Trade and other receivables	**$ 615**	$ 662

Impairment losses on trade and other receivables recognized during the year were $2 million (2011 – $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 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 (Note 17). 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.

(in millions of Canadian dollars, unless otherwise indicated)

24. Nature and Extent of Risks from Financial Instruments (continued)

Within these limits, the Corporation's loans and borrowings amounted to $1,058 million as at December 31, 2012 (2011 – $1,055 million). The Corporation has an approved short-term borrowing limit of $250 million for cash management purposes, of which $13 million (2011 - $14 million) was used to issue letters of credit as at December 31, 2012.

As at December 31, 2012, the Corporation's subsidiaries had access to financing facilities amounting to $200 million, of which $85 million (2011 – $72 million) was drawn, and they also had letters of credit issued in the amount of $6 million (2011 – $4 million) (Note 15).

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, 2012

	Effective interest rate	Less than one year	Later than one year and not later than five years	Later than five years	**Total**
Non-interest bearing[1]	N/A	$ 653	$ 1	$ –	$ 654
Bonds, Series 1	4.39 %	22	87	1,001	1,110
Bonds, Series 2	4.12 %	20	82	663	765
Non-redeemable bonds	10.6 %	6	69	–	75
Finance lease obligations	3.3 % - 7.5 %	23	68	10	101
		$ 724	**$ 307**	**$ 1,674**	**$ 2,705**

As at December 31, 2011

	Effective interest rate	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	N/A	$ 709	$ 1	$ –	$ 710
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
		$ 776	$ 300	$ 1,717	$ 2,793

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

Liquidity risk is also affected by the Group of Companies' management of debt and equity levels that is summarized in Note 17.

(in millions of Canadian dollars, unless otherwise indicated)

25. 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).

Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities and business units. The terms and conditions of these transactions are comparable to those offered in the marketplace, with the exception of the IT business unit for services that are used internally, as Innovapost operates on a cost-recovery basis subsequent to the March 14, 2012, business combination (Note 6). On a consolidated basis, no external customer's purchases account for more than 10% of total revenues.

For the year ended and as at December 31, 2012

	Canada Post	**Purolator**	**Logistics**	**Innovapost**	**Intersegment and consolidation**	**Total**
Revenue from external customers	$ 5,843	$ 1,538	$ 148	$ –	$ –	$ 7,529
Intersegment revenue	23	94	14	221	(352)	–
Revenue from operations	$ 5,866	$ 1,632	$ 162	$ 221	$ (352)	$ 7,529
Labour and employee benefits	$ 4,015	$ 726	$ 67	$ 76	$ –	$ 4,884
Other operating costs	1,523	804	82	138	(347)	2,200
Depreciation and amortization	251	61	5	2	(5)	314
Cost of operations	$ 5,789	$ 1,591	$ 154	$ 216	$ (352)	$ 7,398
Profit from operations	$ 77	$ 41	$ 8	$ 5	$ –	$ 131
Investment and other income	$ 68	$ –	$ –	$ –	$ (18)	$ 50
Finance costs and other expense	(47)	(3)	–	–	(4)	(54)
Profit before tax	$ 98	$ 38	$ 8	$ 5	$ (22)	$ 127
Tax expense (income)	19	10	3	1	–	33
Net profit	$ 79	$ 28	$ 5	$ 4	$ (22)	$ 94
Total assets	$ 6,476	$ 788	$ 97	$ 98	$ (441)	$ 7,018
Acquisition of capital assets	$ 547	$ 62	$ 6	$ 2	$ (5)	$ 612
Total liabilities	$ 9,256	$ 397	$ 63	$ 50	$ (100)	$ 9,666

For the year ended and as at December 31, 2011

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	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
Labour and employee benefits	$ 4,377	$ 678	$ 57	$ 41	$ –	$ 5,153
Other operating costs	1,580	805	69	91	(279)	2,266
Depreciation and amortization	233	56	5	1	(4)	291
Cost of operations	$ 6,190	$ 1,539	$ 131	$ 133	$ (283)	$ 7,710
Profit (loss) from operations	$ (329)	$ 76	$ 7	$ 20	$ –	$ (226)
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)
Total assets	$ 6,188	$ 767	$ 83	$ 46	$ (340)	$ 6,744
Acquisition of capital assets	$ 504	$ 70	$ 4	$ 2	$ (5)	$ 575
Total liabilities	$ 8,027	$ 308	$ 51	$ 24	$ (35)	$ 8,375

(in millions of Canadian dollars, unless otherwise indicated)

25. Segmented Information (continued)

(b) Geographic area revenue information

For the year ended December 31	2012	2011
Canada	$ 7,081	$ 7,087
United States	353	310
Rest of world	95	87
Total revenue	**$ 7,529**	$ 7,484

(c) Products and services revenue information

For the year ended December 31, 2012

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 1,828	$ (3)	$ 1,825
Direct Marketing	1,271	–	1,271
Parcels	3,096	(126)	2,970
Other	476	(223)	253
	$ 6,671	$ (352)	$ 6,319
Unattributed revenue			
Stamp postage	$ 520	$ –	$ 520
Meter postage	690	–	690
	$ 1,210	$ –	$ 1,210
Total	**$ 7,881**	**$ (352)**	**$ 7,529**

For the year ended December 31, 2011

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 1,898	$ (4)	$ 1,894
Direct Marketing	1,279	–	1,279
Parcels	2,976	(126)	2,850
Other	379	(153)	226
	$ 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

The 2011 comparative amounts in the second table have been reclassified to conform to the current year presentation. Due to a realignment of products and services between lines of business, an aggregated amount of $126 million was reclassified to the other category from Transaction Mail, Direct Marketing and Parcels.

26. Subsequent Event

Subsequent to year end, the Corporation disposed of one of its significant properties that was classified as held for sale at December 31, 2012. The net proceeds from the sale were $152 million, resulting in a gain of $109 million to be recognized in the Corporation's 2013 consolidated financial statements.

Our Size and Scope

EMPLOYEES

68,000

Canada Post Group of Companies, full-time and part-time paid employees; excludes temporary, casual and term employees
(approximate figure)

FLEET

More than
9,600
Canada Post-owned vehicles
78 million
kilometres travelled in 2012

ADDRESSES SERVED

More than
15.3 million

RETAIL POST OFFICES AND STREET LETTER BOXES

Almost
6,400
retail post offices across Canada

29,000
street letter boxes

MAIL AND PARCEL BOXES

7.7
million addresses
served by centralized, group or community mail and parcel boxes

PLANTS AND DEPOTS

21
major mail processing plants

500
letter carrier depots

MOBILE APP

810,000

downloads of Canada Post's mobile app since its launch
as of December 31, 2012 (approximate figure)

CANADAPOST.CA

More than
111 million
visits to canadapost.ca in 2012

EPOST™ DIGITAL MAILBOXES

More than
8.2 million
registered since launch
as of December 31, 2012

CANADA POST
2701 RIVERSIDE DR SUITE N1200
OTTAWA ON K1A 0B1

General inquiries: 1-866-607-6301
For more detailed information, please visit our website at **canadapost.ca**.

This publication is printed on Rolland Enviro100 Print, which contains 100% post-consumer fibre.

This paper is certified Environmental Choice and FSC Recycled as well as Processed Chlorine Free and manufactured using biogas energy.

Ce rapport est aussi publié en français.