

Canada Post
Corporation | 2013
Annual Report



Canada Post Group of Companies:
By the Numbers

Understanding the 2013
Financial Results

President's Message	2
The Year in Review: 2013	4
Growth Opportunities	6
Our Physical Delivery Network	8
Our Digital Delivery Network	10
Canada Post Group of Companies	12
Chairman's Message	13
Board of Directors	14
Officers of the Corporation	14
Corporate Governance	15
Report from the Office of the Ombudsman	16
Corporate Social Responsibility	17
Canadian Postal Service Charter	18
Canadian Postal Service Charter Compliance 2013	19
Financial Performance	22

Canada Post Group of Companies: By the Numbers

(in millions of dollars)	2013	2012	% Change ¹
Operations			
Revenue from operations	7,563	7,529	0.4 %
Loss from operations ²	(193)	(106)	(81.1)%
Operating margin (%) ²	(2.6)%	(1.4)%	
Investing and financing income (expense) ³	135	(4)	
Loss before tax ²	(58)	(110)	47.3 %
Net loss ²	(29)	(83)	65.7 %
Cash provided by operating activities	326	310	5.1 %
Cash used in capital expenditures	(357)	(575)	37.9 %

Financial position			
Cash and marketable securities	1,038	868	19.5 %
Total assets ²	6,667	7,094	(6.0)%
Loans and borrowings	1,131	1,143	(1.1)%
Equity of Canada ²	(391)	(2,633)	85.1 %

Volume			
Total volume – Consolidated (in millions)	9,448	9,755	(3.1)%
Domestic Parcels growth (Canada Post segment)	6.9 %	6.0 %	
Domestic Lettermail™ erosion (Canada Post segment)	(4.8)%	(6.4)%	
Transaction Mail volume percentage decline per address	(5.9)%	(7.0)%	

Canada Post Corporation Registered Pension Plan			
Pension assets – Fair market value	19,244	16,780	14.7 %
Going concern (deficit) surplus – To be funded ⁴	(296)	81	
Solvency deficit – To be funded ⁴	(6,345)	(5,890)	(7.7)%
Employer contributions – Current	258	308	(16.5)%
Employer contributions – Special	27	63	(56.9)%

1. Adjusted for trading days, where applicable.

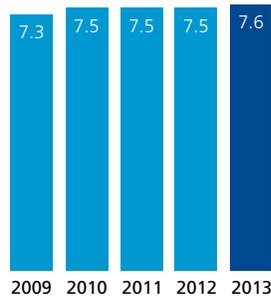
2. The 2012 comparative figures were restated as a result of the adoption of new or revised International Financial Reporting Standards (IFRS) in 2013.

3. Includes gain on sale of capital assets and assets held for sale.

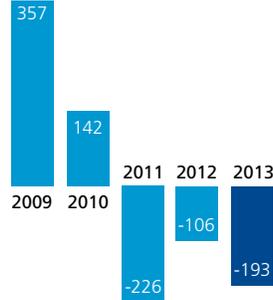
4. The number for 2013 is an estimate. Actuarial valuations for the Plan will be filed by the end of June 2014. Refer to Section 6.5 of the Management's Discussion and Analysis on page 48 for additional details.

Canada Post Group of Companies

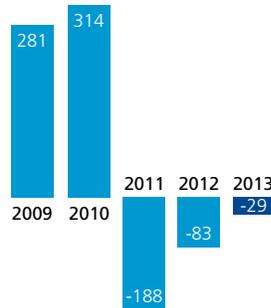
Revenue from operations
(in billions of dollars)



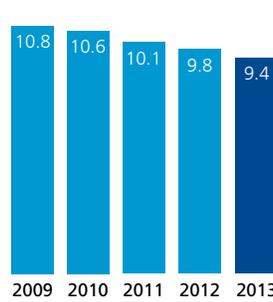
Profit (loss) from operations*
(in millions of dollars)



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



Volume
(in billions of pieces)



* 2009 is based on previous Canadian generally accepted accounting principles. 2010 to 2013 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 Holdings Ltd., SCI Group Inc. and Innovapost Inc.

Understanding the 2013 Financial Results

	CANADA POST SEGMENT	CANADA POST GROUP OF COMPANIES
<p>In 2013, the Canada Post segment and the Canada Post Group of Companies reported significant losses from operations. This was largely due to the continued decline in Transaction Mail volumes in the Canada Post segment.</p> <p>However, the losses from operations were reduced by other income (net), mostly from the sale of corporate real estate. The sale of the processing plant in downtown Vancouver accounted for \$109 million of these amounts.</p>	<p>-\$269 million</p> <p>\$144 million</p>	<p>-\$193 million</p> <p>\$135 million</p>
<p>These are the before-tax losses.</p>	<p>-\$125 million</p>	<p>-\$58 million</p>

Due to the ongoing volume decline of Transaction Mail, Canada Post anticipates a financial loss in 2014, despite the start of the implementation of the Five-point Action Plan to secure the future of the postal service.

President's Message

Canada Post has a long and proud history of serving Canadians from coast to coast to coast. It has done so for more than 250 years.

Well before Confederation, Canada Post was established on the principle of "universal service," an arrangement between the postal service and the people it serves. In this two-way promise, Canada Post was given the costly obligation of delivering mail to every address. In return, every Canadian household and business had to use Canada Post for mail service. Essentially, a monopoly on delivering letters within Canada paid for the high costs of providing mail service to a vast, sparsely populated nation.

Over time, this arrangement has fallen out of balance as households and businesses have moved away from mail as a primary source of communication. They freely use electronic means to send and receive their mail. As a result, in the digital economy, Canada Post's exclusive privilege to deliver letters no longer adequately funds what's called the universal service obligation. However, Canada Post still has this obligation to deliver to every address.

Fundamental changes to our business model are needed – not for the sake of a company, but for the sake of the country it serves.



Just a few numbers illustrate how unsustainable the situation has become. Transaction Mail volumes per address have dropped 30 per cent since 2007. Less mail equals less revenue, while the costs of providing postal service are largely fixed. In 2013, we delivered 1.2 billion fewer pieces of Domestic Lettermail™ than we did in 2006, putting at risk a service to Canadians that has existed for longer than Canada has been independent.

Once again we are facing a defining moment in our history. There are fewer letters in our system every year, yet Canadians are turning to Canada Post in growing numbers to conveniently deliver the physical goods and documents they order through digital means. Unfortunately, this shift is not as simple as less mail in the mailbox being replaced by more boxes in the mail. Fundamental changes to our business model are needed – not for the sake of a company, but for the sake of the country it serves.

Canada Post continues to play an important role in the lives of Canadians, even as their needs evolve. For retailers large and small across the country, we represent an affordable and convenient delivery network to help them participate

in the expanding digital economy, grow their business and create jobs. Small businesses and rural and northern communities still rely on the mail, and represent some of the most active online shoppers, so for them, the long-term viability of the postal service is critical.

The challenge of striking the right balance

Our challenge was to put forward a plan that balances the needs of all Canadians, while addressing the legacy costs of a system built mainly to process and deliver a large volume of mail. Reducing our cost of operations in many ways has helped, but we had to do much more to reshape the postal system and avoid chronic financial losses.

With that certainty, we announced our Five-point Action Plan in late 2013 to build the foundation of a new postal system for Canadians. It reflects what we heard from people across the country as we talked about the future of the postal service in cities, towns and online. Canadians want a postal system they can count on to meet their changing needs, but they also expect it to avoid becoming a drain on their tax dollars.

Ours is a bold but realistic plan. It's the result of two years of analyzing all options, including those at post offices around the world, to determine what would work best for Canadians. We're streamlining our operations, addressing the cost of labour, adjusting our pricing to better reflect today's environment, expanding convenience through franchise post offices and moving the remaining five million door-to-door customers to community mailbox delivery.

This comprehensive five-year plan will return Canada Post to solid financial footing and provide a platform for growth fuelled by the changing needs of the people and businesses we serve. This is more than a business plan; it's a framework for protecting the national postal service and preparing it for future generations. For the plan to succeed, it is unavoidable that some Canadians will experience change.

Moving the remaining door-to-door customers to community mailbox delivery is the most historic shift in our plan. Even with compelling reasons supporting the move, it was not a decision we took lightly.

Serving 15.5 million addresses in every corner of the country is what we're good at, but it means that we have one of the highest cost structures of Western postal administrations. It becomes more challenging each year as the number of addresses we must serve rises, while the number of pieces of Lettermail per household falls.

Community mailboxes first appeared in Canada in the 1980s and have stood the test of time for millions of Canadian households. Those who have them understand there are real advantages: community mailboxes provide more security than an unlocked mailbox, include secure parcel lockers and ensure mail doesn't pile up at the door if no one is home. They aren't as close as the door,

but they are close to the home. That's also true for those who have delivery to an apartment lobby box or a rural mailbox, meaning 10 million households will see no change as part of our plan.

It's about securing the future, not just reducing costs

Delivering mail to the door costs roughly twice as much as delivering it to a community mailbox. While the savings from converting the remaining five million households will be significant, it's about more than that. It will allow us to continue delivering mail every day, which businesses and many people still rely on.

As well, Canada Post will be able to generate additional revenue when converted customers see the convenience of a parcel locker near their home and shop more online.

The conversion will also open new opportunities in direct mail. Even in the digital era, direct mail has a strong future, as businesses seek to place their messages directly into the hands of the busy Canadians they need to reach. As our network of community mailboxes reaches further across the country, it will open up greater opportunities for product samples and other innovations in Direct Marketing.

As we move forward, our success will depend on delivering a high level of customer service in everything we do. Whether it's delivering online purchases or converting a customer to a community mailbox, we must put the customer first and be thoughtful in our approach from start to finish. Our focus on providing parcel tracking and several other postal services online and on your mobile device demonstrates our commitment to staying relevant to the changing needs of Canadians.

Although Canada Post finished 2013 with a financial loss, it also ended the year

Whether it's delivering online purchases or converting a customer to a community mailbox, we must put the customer first and be thoughtful in our approach from start to finish.

with a plan in place to secure the future of postal service for all Canadians. It's a plan designed for the future needs of our customers and reflects our rich history and national role. Canadians have trusted us for centuries to deliver items of every shape and size and, in turn, we've evolved to become a transportation and logistics company that serves and connects the entire country. Connecting the digital and physical worlds is simply the next chapter in our history.



Deepak Chopra
President and Chief Executive Officer

The Year in Review: 2013

THE CONTINUING DECLINE IN LETTERMAIL VOLUMES...

Transaction Mail is Canada Post's core product. In 2013, volumes declined for the seventh consecutive year, as Canadians increasingly paid their bills and received their statements online.

Over the last seven years, Domestic Lettermail, our largest and most profitable product, has declined on average by more than 150 million pieces a year. In 2013, Domestic Lettermail volumes declined by 4.8 per cent. Canadians mailed almost 1.2 billion fewer pieces in 2013 than they did in 2006.



What does this decline look like on a typical workday?

In 2013, we had roughly 760,000 fewer pieces of Domestic Lettermail in our system per business day than the year before, 1.8 million fewer pieces per day than two years ago, and 4.5 million fewer pieces per day than 2006.

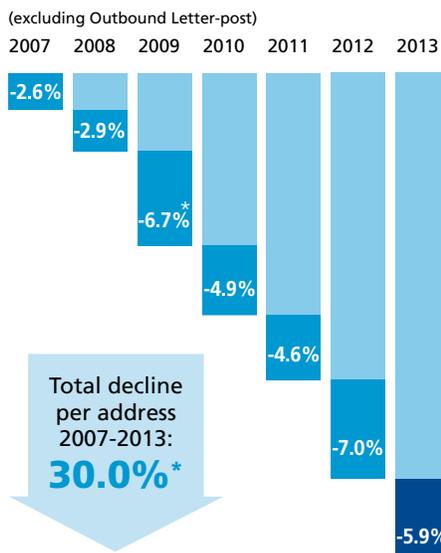
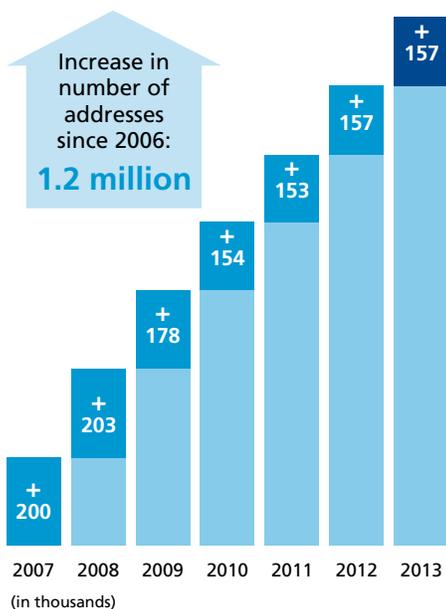
Meanwhile, the number of addresses we serve has grown on average by more than 170,000 a year since Domestic Lettermail volumes began to decline in 2007.

Delivering fewer pieces of mail to an increasing number of addresses is not a formula for success.

Nobody expects Lettermail volumes to rebound, or knows how far and fast they will continue to drop before they level off. But the overall decline makes an indisputable case for significant change in the postal system.

Transaction Mail decline per address

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



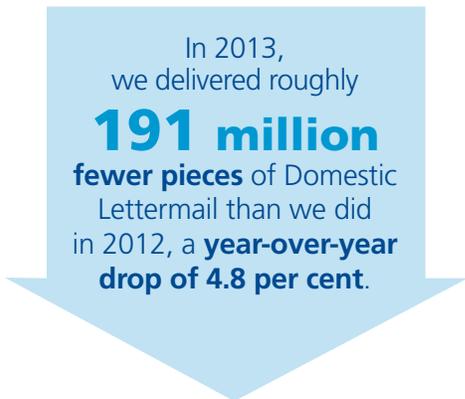
... while the number of pieces of mail we deliver to each address has been decreasing dramatically each year.

Domestic Lettermail decline

In 2006, we delivered roughly **five billion** pieces of Domestic Lettermail.

That number has dropped to roughly **3.8 billion** in 2013.

Over the last seven years, Domestic Lettermail has declined on average by more than 150 million pieces per year.



* Due to a methodology change implemented in 2010, volumes for 2009 were restated for comparability. Had 2008 volumes been restated, the decline per point of call for 2009 would have been 5.1% and the seven-year decline would have been 28.8%.

...AND THE GROWING DEMAND FOR PARCEL DELIVERY...



With the popularity of online shopping, Canada's business-to-consumer parcel delivery market is expected to grow significantly in the coming years. By 2017, the value of physical goods delivered to online shoppers in Canada is expected to climb to \$16.9 billion, up from \$9 billion in 2012, according to a leading Canadian market research firm.

While parcel delivery is a highly competitive business, Canada Post is in a strong position to meet the growing demand. It continues to be the market leader in business-to-consumer parcel delivery. Our parcel volumes grew by five million pieces compared to 2012, generating a revenue increase of 7.2 per cent. Revenues from our top e-commerce customers grew 29 per cent in 2013.

The 2013 holiday season was especially strong for Canadian e-commerce. Canada Post delivered over one million parcels on 10 different days during the six-week holiday period – up from two such days in 2012. Overall, parcel volumes for the holiday season increased by three million pieces compared to the 2012 holiday period.

...HAVE CREATED A NEED FOR A NEW POSTAL SYSTEM

Computers, tablets and smartphones are eroding the demand for traditional Domestic Lettermail. At the same time, online shopping is fuelling a growing need for convenient and reliable parcel delivery. As a result of these trends, Canada Post needs to make fundamental changes, and in 2013, it explored options to do so.

In April 2013, a Conference Board of Canada study projected Canada Post could lose close to \$1 billion a year by 2020, unless it makes fundamental changes to its business.

From May to September of 2013, our senior leaders visited 46 communities across Canada to consult with a cross-section of Canadians about their current and future postal needs. They met residential and business customers in every province. We also invited Canadians to comment online or in writing. Thousands responded, and the feedback helped form the basis for our Five-point Action Plan, which was released December 11, 2013.

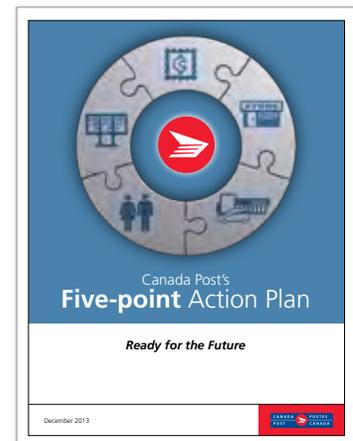
The plan introduced five initiatives, four that will reduce costs significantly, to meet

the changing needs of Canadians while helping to secure the future of the postal service for all Canadians:

1. converting the one third of Canadian households that have door-to-door delivery to community mailbox delivery,
2. introducing a new tiered pricing structure for Lettermail,
3. expanding convenience through postal franchises,
4. streamlining operations,
5. addressing the cost of labour.

These initiatives will help return the Corporation to financial sustainability. Canada Post estimates that four of the five initiatives will improve its finances by between \$700 million and \$900 million a year.

The Corporation's senior leaders travelled to 46 communities across the country to consult with Canadians about their current and future postal needs.



Canada Post released the Five-point Action Plan on December 11, 2013.



Growth Opportunities: Direct Marketing

PROMOTING DIRECT MARKETING

In 2013, Canada Post continued to use an integrated multi-channel campaign, with an extensive direct mail component, to promote Direct Marketing mail to small, medium and large businesses, and educate advertising agencies and other influencers. The campaign highlighted Direct Marketing mail as an effective component in the marketing mix.

Creating awareness

Evidence-based information, such as the fact that 61 per cent of Canadians purchased a product in-store after receiving an ad in the mail, proved the effectiveness of Direct Marketing mail. These facts were reinforced by testimonials that showed companies talking about how they used direct mail to grow their businesses.

Targeting agencies

The agency campaign was designed to build awareness of Canada Post offerings across the lines of business. It also sought to educate agencies and enable them to successfully articulate the value of Direct Marketing mail as part of a multi-channel campaign to their clients.

The campaign will continue in 2014 with an enhanced focus on direct mail's role in crossmedia.

Expanding availability

Small businesses often lack the in-house expertise to make effective use of Direct Marketing mail. The Partner Program is a low-cost channel that connects small businesses with partners such as mail service providers and printers. The partners provide help at all stages of a direct mail campaign, making it possible for small companies to take advantage of the benefits of direct mail.

In 2013, a partner directory was added to the business website at canadapost.ca. Small businesses can search it to find a partner in their area. Searches increased in 2013 to more than 3,000.

Canada Post's successful BounceMe campaign showed advertisers the creative power of direct mail.



AIR MILES® counts on direct mail

"Direct mail plays a pivotal role for the AIR MILES Reward Program."

Neil Everett, SVP and CMO,
The AIR MILES Reward Program

AIR MILES mails out more than 10 million account updates, which include reward balances and offers by 200 participating sponsors, to members every year. Last year, 70 per cent of members opened and read their update packages.



U.S. firm grows its base of high-value customers

"The response on a per-catalogue spend level was more than 100 per cent higher than that of a similar campaign we carried out a few months earlier with a U.S. postal shipping service."

Scott Sullivan, Marketing Operations
Manager, Garnet Hill

Garnet Hill, a New Hampshire-based retailer, rented customer lists and used Canada Post's Addressed Admail™ service to send 117,000 summer sale catalogues to Canadian customers and prospects.



Quality premium increases fundraiser response rates

"Including a quality premium has steadily increased our response rates, total dollars raised and average gift amount per donor over the past few years."

Melissa Beauchamp, Manager, Annual Giving
and Donor Services, Markham Stouffville
Hospital Foundation

A fall campaign to acquire new donors included free holiday cards along with the mail-out. It used rented address lists and lists of former patients and past donors. The premium gift provided a positive incentive to respond.

Growth Opportunities: Parcels

DELIVERING THE ONLINE WORLD

In 2013, the corporation launched Delivering the Online World™, a nationwide marketing campaign promoting Canada Post's leading role in business-to-consumer e-commerce parcel delivery.

Improving the ways we deliver the online world will be a significant part of Canada Post's growth strategy. With new services and strategic collaborations, we are enabling retailers to offer online shoppers a better end-to-end shopping experience.



POSITIONING FOR GROWTH

Web Services

Canada Post's Web Services offer retailers a complete online shopping package for their customers. Through Web Services, retailers can offer shoppers an online checkout with shipping times and rates, convenient delivery options, order tracking and easy returns. This way, retailers can reduce cart abandonment and drive sales.

Strategic collaborations

In 2013, Canada Post teamed up with a number of e-commerce solution providers. They help make the process of

integrating Canada Post's shipping data into online retail platforms easier, more user-friendly and less expensive.

Delivered Tonight

In September, Canada Post launched a major e-commerce initiative, Delivered Tonight™. It began in Toronto with four leading online retailers in Canada – Best Buy, Future Shop, Indigo and Walmart. It enabled customers to have the items they ordered online by lunchtime delivered that evening. Delivered Tonight was launched to gauge consumer demand for a same-day delivery service, and reflects Canada Post's drive to create services that meet the needs of e-commerce in Canada.

Global markets

In 2013, Canada Post launched outbound Tracked Packet™ – USA and Tracked Packet – International, the most affordable shipping services that include tracking of packets to the U.S. and 20 other countries, thanks to collaboration with several foreign postal administrations.

In addition, we expanded our inbound Tracked Packet offering to additional countries, offering them the capability to provide parcel visibility to their customers at an affordable cost. Enhancing the cross-border online shopping experience will be a key strategy for growing our global e-commerce presence.

THE 2013 CANADA POST E-COMMERCE INNOVATION AWARDS



In September, the 2013 Canada Post E-commerce Innovation Awards™ gathered the country's most innovative online retailers of

all sizes to recognize and reward the best e-commerce strategies in the market today. Winners shared \$1-million worth of shipping and marketing prizes.

Through these Awards, Canada Post has been driving e-commerce in Canada.

In its second year, the event doubled in attendance, and the number of applicants and sponsors was also significantly higher. Judges included experts from Google Canada and Facebook Canada.

The winners:



Best E-tailer – Large:
Well.ca



Best E-tailer – Small:
Build.ca



Best Multi-channel Retailer – Large:
Lowe's Canada



Best Multi-channel Retailer – Small:
SNAKES & LATTES



Most Innovative Retailer – Large:
JewlR



Most Innovative Retailer – Small:
TenTree International



Consumer Champion:
NailPolishCanada.com

Our Physical Delivery Network

FOCUSING ON PERFORMANCE

As Canada Post transitions to a future with more parcels and fewer letters, it has sharpened its focus on the customer. Streamlining operations reduces costs, which is essential to Canada Post's financial viability. Yet, as the Corporation improves operations, it must maintain focus on a superior customer experience, improved service performance and the safety of employees. In 2013, the Physical Delivery Network did just that.

Service performance and customer service

Canada Post achieved solid results for customers in 2013. We achieved delivery service targets for Domestic Lettermail, Parcels (Expedited Parcel™ and Xpresspost™), and Addressed Admail™, despite ongoing operational changes and severe weather in January, February and December. Unaddressed Admail™ performance improved slightly over 2012.

We also enhanced the tracking of barcoded items within our delivery network by fully implementing the scanning of items sent to a depot before they go out on a delivery route.

We achieved our performance targets for scanning parcels when they are delivered. For Domestic Parcel products, delivery scan performance reached 99 per cent or above for seven consecutive months of 2013.

As well, Customer Service surpassed its targets for answering calls from customers promptly and for resolving problems quickly. Our call volumes dropped by more than 9 per cent compared to 2012.

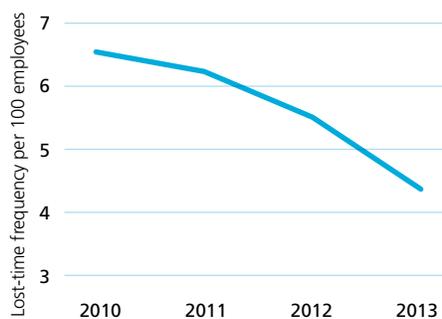
The reduction is due, in part, to the fact we offer customers different ways to ask questions, make requests or identify issues by telephone, online or through social media. We piloted online chat technology



and will continue to develop new channels as needs and opportunities arise.

No business can rest on its laurels, but we were honoured to receive the Gold Award for Customer Service Centre of the Year from the International Customer Service Association (Canada).

Safety



Lost-time injuries result in lost time beyond the day that the injury happened.

Our lost-time injury frequency has dropped by roughly 32 per cent over four years. In 2013, we reduced lost-time injury frequency by 19 per cent.

The Corporation fosters a culture of safety through leadership, prevention and training initiatives:

- an annual awareness campaign to reduce slips, trips and falls, our most common causes of workplace injuries;
- a new program promoting healthy ergonomic and material-handling techniques to reduce the next most common causes of workplace injuries;
- leadership safety action plans in all areas of operations, targeting high-risk areas for improvement;
- an ongoing machine guarding project

to ensure the safety of conveyors and other automated equipment;

- safety assessments of rural mailboxes, which were completed.

Prudent investments paying off

We have invested in automation and improved processes since 2008. An addition of \$275 million in 2013 brought total spending on our modernization program to \$1.7 billion. The program requires a total investment of about \$2 billion. At the end of 2013, our total annualized benefits were \$207 million, and we are on track to exceed \$250 million in savings per year.

Investments in technology continue to make for a more efficient and cost-effective flow of parcels and mail through our network and to the customer. In 2013, we installed 19 more high-speed Lettermail sorting machines to support the new delivery model and, by the end of the year, 140 were in use, as well as 22 automated flat sorting machines. By the end of 2013, we had installed new parcel and container sorting systems in the Edmonton, Calgary, Winnipeg and Toronto processing plants to support the growth in parcels. We also completed the expansion of our Montréal parcel processing plant. We are well-positioned for the increase in parcel volumes as online shopping continues to grow.

Construction of the Pacific Processing Centre is on schedule. The Centre, which opened in February 2014, is equipped with new sorting and handling capabilities for domestic and international mail, and expands our parcel capabilities in this critical gateway to Asia-Pacific markets.

Streamlining: The benefits

Our high-speed Lettermail machines can sort the mail along a delivery agent's line of travel on a given street or route. This sharply reduces the time delivery employees spend sorting by hand, which gives them more time to serve customers. In the new delivery model, a single delivery employee with a fuel-efficient Ford Transit Connect™ becomes a full-service agent who performs several roles: delivering mail and parcels, dropping off mail at relay boxes, collecting from street letter boxes, and picking up mail from businesses. It used to take many people to perform all these tasks.

In 2013, we implemented the new delivery model in 50 depots so that by the end of year, 179 depots in 13 cities were using it. We also restructured our delivery routes (more than 1,800 of them) to maximize efficiency as volumes shift. Together, the restructures and the new delivery model allow Canada Post to reduce costs substantially as a result of a wave of retirements. Here are some examples of the savings:



- There were 4.3 million fewer paid hours in 2013, achieved mainly through delivery restructures.
- Retirement and other departures reduced the number of employees in our plants, depots and delivery network by more than 2,100, after factoring in new hires. Converting 179 depots to our new delivery model produced the biggest savings – 1,265 letter carriers retired or left, 208 full-time and part-time carriers were hired.
- Overall productivity improved from delivery modernization and cost containment measures.
- We substantially reduced the amount of manual sorting for our fifth consecutive year.
- Labour costs decreased by \$46 million or 1.5 per cent compared to 2012, mostly due to productivity improvements.

WHAT'S COMING

By converting roughly five million addresses from door-to-door delivery to community mailbox delivery over the next five years, Canada Post expects to achieve financial benefits of \$400 million to \$500 million a year upon full implementation. The new community mailbox that will be ready for use in 2014 was designed to meet the changing needs of Canadians.

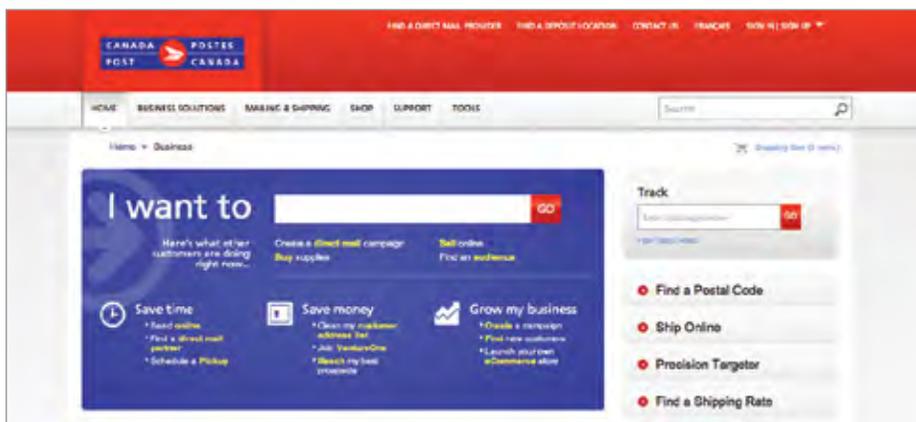
Here are some key features

- Angled top to drain rain and snow away
- Larger individual compartments: more than 50 per cent of parcels and packets mailed in Canada will fit
- Outgoing mail slot, twice as wide as on the former unit
- A new secure lock
- Larger parcel compartments: more than 80 per cent of parcels and packets mailed in Canada will fit
- Built with high-grade aluminum for durability
- Securely attached to a concrete foundation



Our Digital Delivery Network

As Canadians become more mobile and digital, so has Canada Post. Its digital solutions meet the need to access postal services even on the go. People can manage their bills and statements using epost™. They can track the progress of a parcel en route to its destination, and rest assured it arrived safely. Businesses can access our incomparable address data to use tools to reach prospects and customers more effectively. We are always adding ways and reasons for busy, on-the-go Canadians to engage with the digital post office.



canadapost.ca: meeting the digital needs of consumer and business customers.

The 24/7 post office

Canadians are increasingly engaging with Canada Post on online and mobile platforms, taking advantage of the ease and convenience that our digital services offer. Our investment in the 24/7 post office is reflected in its growing popularity. In 2013, the Canada Post digital channels had more than 150 million visits and our mobile app was used in record numbers. Customers performed 156 million digital transactions of our top postal services, and 44 per cent more customers forwarded their mail through our revamped online service compared to the year before. Based on comScore Media Metrix for December 2013, canadapost.ca was the fastest-growing of the top 30 Internet sites in Canada for 2013, and the largest shipping website in the country.

canadapost.ca

Visitors can access a variety of services, such as finding post offices, looking up postal codes and tracking parcels, as well as purchase an array of products including stamps, shipping labels and commem-

orative items. Last year, we introduced a more convenient way for movers to have their mail forwarded to their new address. By simplifying the process, we were able to shift more customers to the online channel and significantly reduce the number who had to visit a post office in person to order the service. In 2013, 29 per cent of all Mail Forwarding transactions took place online – and with more customers choosing to forward their mail for longer, we also added a new revenue stream. Meanwhile, 57 per cent of all service inquiries were conducted digitally. The ability to query service issues online continues to improve our customers' experience while reducing calls to our customer service, which helps us cut our costs.

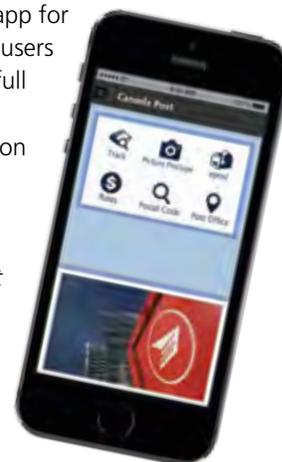
The Canada Post website is an important vehicle for serving the needs of our business customers too. In 2013, we relaunched the business site to improve how we communicate with them virtually, with a more user-friendly interface and a more streamlined and simplified navigation process. Whether it's helping them access data targeting, e-commerce

or direct mail solutions, or manage their shipping accounts with our online tools, Canada Post is working hard to meet the needs of businesses of all sizes, 24/7, no matter where they're located.

Mobile

More and more, Canadians are using mobile technology when they choose to interact with Canada Post digitally. Available on all major platforms, the Canada Post mobile app continues to be one of the top downloaded free business apps. In June, it hit a major milestone, as it achieved one million downloads since it was launched in 2010. With the app, Canadians can perform postal code lookups, find shipping rates, locate post offices and track packages. When it comes to those services, Canadians chose to perform them on mobile over online platforms 38 per cent of the time. Meanwhile, Canadians made 40 million tracking requests last year alone through the app. Users can also create custom stamps and postcards with the innovative Picture Postage™ feature and manage bills via epost. Increasing its mobile presence, Canada Post released a dedicated iPad app for epost, enabling users to perform the full range of epost functions while on the go.

The Canada Post mobile app achieved more than 1.2 million downloads in 2013.



DIGITAL DELIVERY

epost

Canada Post offers Canadians the opportunity to receive electronic copies of their government, utility and credit card bills as well as pay statements through epost, their free digital mailbox. Users can manage and file their bills and statements for up to seven years, while a digital postmark provides proof the document received has not been tampered with in any way. Last year, we added more billers and improved the navigation of the site. epost offers the best convenience and security, which is why almost 9.1 million Canadians have registered for the service, and more than 862,000 signed up in 2013 alone.

Vault

All epost users have access to the Vault™ – a virtual safety deposit box. With the Vault, users can upload and store important documents, such as wills, birth certificates, passports and photos. The

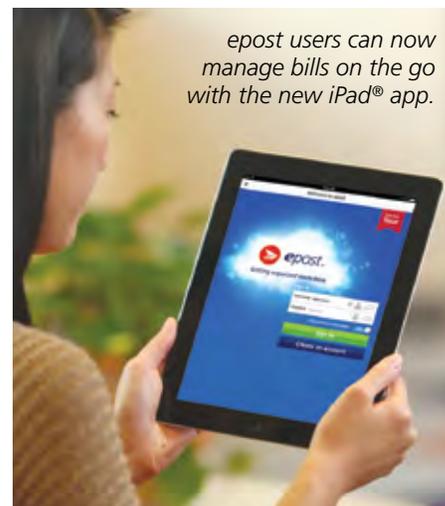
service is protected by bank-grade encryption, keeping items secure.

Digital authentication

As it evolves, epost will offer digital authentication to more Canadians, making a digital mailbox a validated alternative to a physical one. Users will receive through their epost account items that otherwise would be physically sent to their mailbox, or obtained in person. Digital authentication is key to allowing more government transactions to occur digitally – a major convenience for Canadians who wish to avoid long lineups. Throughout 2014, epost will continue to provide digital authentication to more communities in Canada.

epost Connect

Last year, we added epost Connect™ to the epost digital delivery platform that is secured with bank-grade encryption. Through epost Connect, users can send and receive confidential messages and



epost users can now manage bills on the go with the new iPad® app.

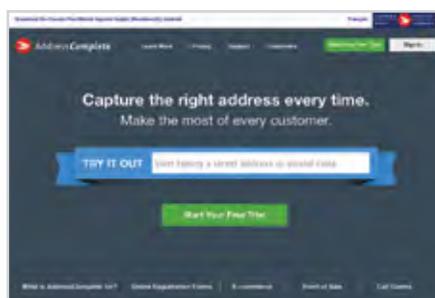
documents and share them with one or multiple recipients. They can also work seamlessly and securely with one or many recipients, on a single common platform. epost Connect is another way Canada Post is supporting businesses looking to make the transition to convenient, secure and cost-effective digital communication.

DATA SERVICES

Canada Post is investing in its business-to-consumer and business-to-business data and targeting solutions to help companies better use data to reach the right customers with the right messages, or to improve their business and e-commerce operations. New services and new partnerships in 2013 have strengthened Canada Post's unique data capabilities and increased the value it brings to customers.

AddressComplete

Launched in March 2013, the AddressComplete™ service gives retailers access to improved address accuracy by significantly reducing address errors at the



AddressComplete improves e-tailers' access to clean address data.

point of entry. It is of particular benefit to our e-commerce strategy as it helps retailers eliminate online returns that would have occurred from address errors. AddressComplete is seven times faster at

completing a form, against the standard approach. In 2013, the service validated more than 31 million addresses.

Canada Complete

In January 2013, Canada Post launched a new business-to-business list using multiple data sources. The Canada Complete™ list is considered one of the most up-to-date and accurate business lists, with monthly refreshes that reduce undeliverable mail and wasted marketing material. It offers a range of filter options including industry codes, size of workforce, sales revenue and more. The list provides an urban reach of close to one million businesses nationwide.

Apple, the Apple logo, iPad and iPhone are trademarks of Apple Inc., registered in the U.S. and other countries.

Canada Post Group of Companies

Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost) are collectively referred to as the Canada Post Group of Companies or the Group of Companies.

Offering a full range of delivery, logistics and fulfillment services, the Group of Companies is in the business of connecting the people of Canada and

enabling remote commerce across a vast and diverse country. Our vision is to be a world leader in providing innovative physical and electronic delivery solutions, creating value for our customers, our employees and all Canadians.

With annual revenues of approximately \$7.6 billion, the Group of Companies has the largest retail network in Canada, operates a fleet of more than 14,000 vehicles and employs some 66,000

people. Together, our employees deliver over 9.4 billion pieces of mail, parcels and messages each year to 15.5 million addresses in urban, rural and remote locations across Canada.

Canada Post is the largest segment of the Group of Companies, with revenue of \$5.9 billion that, after excluding intersegment revenue, represents 77.5 per cent of the Group of Companies' 2013 consolidated revenue.



Canada's largest courier company, Purolator has been providing distribution solutions within, to and from Canada for more than 50 years. Purolator's extensive network includes 175 operations facilities, 129 retail shipping centres and over 580 authorized shipping agents.

In 2013, Purolator generated revenue of \$1.6 billion and, after excluding intersegment revenue, represents 20.3 per cent of the Group of Companies' 2013 consolidated revenue.



SCI offers expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada. SCI does so through its operating entities: SCI Logistics, Progistix and First Team Transport (operating as SCI-White Glove Services).

In 2013, SCI generated revenue of \$179 million and, after excluding intersegment revenue, represents 2.2 per cent of the Group of Companies' 2013 consolidated revenue.



Innovapost's services, which are shared by the Group of Companies, include developing, maintaining and operating the computer and information technology systems of Canada Post, Purolator and SCI. The Canada Post Group of Companies holds a 98-per cent equity interest in Innovapost.

Chairman's Message

Over the past two years, Canada Post's major challenge became starkly evident. Rapidly declining Domestic Lettermail volumes and the need to serve a growing number of addresses were imposing an unsustainable strain on its finances. The decline in Domestic Lettermail volume was both indisputable and irreversible. As a consequence, Canada Post had to transform its business. In previous annual and quarterly reports, Canada Post was clear about this urgent need.

This crisis was compounded by another challenge: Canada Post would need additional liquidity by mid-2014. By that point, it would have reached the maximum legislated relief from special payments toward the pension plan's solvency deficit. Without further relief, Canada Post estimated in 2013 that it would have to contribute some \$1 billion in pension special solvency payments in 2014 alone, on top of current service contributions. Changes had to be made if Canada Post was to secure the postal service.

The Board of Directors takes its fiduciary duty to act in the best interest of the Corporation seriously. In 2013, that meant facing the fact that the status quo was not sustainable. Failing to act was not an option. Neither were small incremental adjustments to the business. Only fundamental change to sustain Canada Post would be in the best interest of the Corporation, its employees and Canadians.

The Board of Directors acts as the custodian of an institution that has served this country for more than 250 years. Its role is to ensure that management develops and executes strategies allowing Canada Post to keep serving Canadians in an effective and self-sustaining manner. Over the past two years, management has done so, working with stakeholders and industry experts. It has identified ways in which Canada Post can continue to support Canadian business and meet the needs of Canadians. As a Board, our job is to make sure that those plans are rooted in sound, prudent

assumptions and that they will in fact address the Corporation's serious structural challenges.

In 2013, the Board took concrete steps to ensure that it remained confident about management's plans and that Canada Post was meeting all of its obligations. A special committee of the Board was created to provide additional oversight of the Corporation's transformation. We reviewed the extensive work done by management to understand the impacts that major change would have on a complex delivery network. We made sure that a clear assessment of potential risk occurred, and that mitigation was put in place. We also engaged external experts, who confirmed that management was taking all the necessary steps to apply appropriate judgment and rigour to its planning.

The Board also worked with management to ensure full public disclosure of the serious issues facing the Corporation, and public engagement about the options to address them. Each 2013 quarterly financial report noted the liquidity challenge, for example. In April 2013, *The Future of Postal Service in Canada*, a report written by the Conference Board of Canada and commissioned by Canada Post, was released and widely publicized. The report examined options for addressing Canada Post's challenges, some of which were in line with management's eventual solutions. The Board then received regular reports on Canada Post's extensive consultation with Canadians, which occurred in person in 46 communities and with organizations across Canada, and at a dedicated forum at canadapost.ca.

This work culminated with the Board of Directors approving a comprehensive plan to realign how Canada Post delivers and prices postal services to meet Canadians' needs, while substantially reducing costs. This Five-point Action Plan was released December 11, 2013. Realizing that core aspects of its business model were under



threat and no longer sustainable, Canada Post chose not to turn to taxpayers for support, but to evolve and grow.

In addition to charting the future direction of Canada Post, the Board must ensure that appropriate leadership is in place to steer the Corporation during one of the most challenging periods of its history. The executive team led by Deepak Chopra has clearly demonstrated that it understands the complexity of this challenge and has the leadership required to take Canada Post into the future.

A difficult but necessary and historic transition has begun. My fellow Board members and I are satisfied with progress to date and remain committed to providing the oversight that will help ensure Canada Post will continue to serve Canadians.

A handwritten signature in black ink that reads "Marc Courtois". The signature is written in a cursive, flowing style.

Marc A. Courtois
Chairman of the Board of Directors

Board of Directors



Marc A. Courtois ▲**●♦+

Westmount, Quebec
Chairman of the Board of Directors
Canada Post Corporation



Deepak Chopra

Ottawa, Ontario
President and CEO
Canada Post Corporation



Alain Sans Cartier ▲★

L'Ancienne-Lorette, Quebec



Thomas Cryer ■★

FCPA, FCA
Rosseau, Ontario



A. Michel Lavigne ▲▶

FCPA, 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
- ♦ Chairperson of the Strategic Initiatives Oversight 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
- ♦ Member of the Strategic Initiatives Oversight Committee

As of March 14, 2014

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

Scott G. McDonald
Chief Human Resources Officer

René Desmarais
Parcels

Mary Traversy
Business Transformation

Stéphane Dubreuil
Strategy and Corporate Marketing

André Turgeon
Chief Information Technology Officer

Douglas Jones
Delivery and Customer Experience

Vice-presidents

Bonnie Boretsky
General Counsel and Corporate Secretary

Douglas Greaves
Pension Fund and Chief Investment Officer

Susan Margles
Government Relations and Policy

Murray Dea
Real Estate

William Gunton
Marketing and Commercial Products

Serge Pitre
Sales

Stephen Edmondson
Customer Relations

Ann Therese MacEachern
Human Resources

Jo-Anne Polak
Communications and Public Affairs

John Farnand
Engineering and Postal Transformation

Barbara MacKenzie
Finance and Comptroller

Brian Wilson
Mail Processing and Network

Michael O'Bryan Corporate Auditor Steven Galezowski Corporate Treasurer

As of March 14, 2014

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 single shareholder, the Government of Canada. 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 to exercise judgment in the following general areas:

- strategic direction and corporate plans of Canada Post;
- major contracts;
- safeguard of the resources of Canada Post;
- establishment and implementation of processes for the recruitment of senior officers and Board members;
- monitoring of corporate performance and submission of timely reports to the shareholder.

The Board of Directors of Canada Post is composed 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 2013 revenue of approximately \$7.6 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 Corporation,

directors devote approximately 25 to 30 days a year to Board work.

In 2013, the Board met six times. In addition, individual committees of the Board met 17 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 with the Chief Financial Officer and Group President – Physical Delivery Network as invitees. Otherwise, the Board meets without the presence of management, unless it is required for presentations or reports. At each regular meeting, the Board holds an in camera session with outside directors only. The Audit Committee regularly meets in camera with Canada Post's external and internal auditors. Furthermore, the Board, its committees and individual directors may engage independent counsel and advisors upon request.

Committees of the Board

The Board has formed the following committees to fulfill its oversight responsibilities:

- The Audit Committee reviews financial information, which is 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 and reviews and accepts the Corporation's consolidated financial statements, the attached notes, the auditors' opinions and their assertions on independence.
- 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 all components of the more than \$19-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.
- The Strategic Initiatives Oversight Committee was formed in 2013 as a special committee to assist the Board and management with the development and implementation of strategic initiatives.

Board effectiveness

The Board regularly assesses its effectiveness and function through a self-assessment survey. The Board has established desired 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

(continued on page 16)

Report from the Office of the Ombudsman

(continued from page 15)

established for new directors. As well, a process is in place to assess ongoing development requirements of directors, and training opportunities are provided to enhance the effectiveness of existing directors.

Subsidiaries

The 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, which are dynamic in nature, are the bedrock of a quality organization that builds value and is dedicated to 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.

The Office of the Ombudsman, led by Francine Conn, provides the final level of appeal for Canada Post customers who feel that the Corporation has not lived up to its service commitments. The Office is independent of Canada Post staff and management and reports directly to the Chairman of the Board of Directors. Investigations are conducted in a fair and unbiased manner. The merits of each complaint are assessed, and an equitable resolution is found. The Office also recommends potential service improvements and reports appeals under the Canadian Postal Service Charter.

27%

In 2013, the Office received 27 per cent fewer appeals and conducted 10 per cent fewer investigations.

In 2013, the Office received 4,756 appeals, of which 2,436 were investigated. The remaining appeals did not trigger an investigation for a variety of reasons. Some customers, for example, appeal before giving Canada Post time to complete its review of their complaints. Other appeals are withdrawn or not investigated because customers are unable to provide sufficient supporting documentation.

The Office takes pride in investigating all appeals in an objective and impartial manner. It believes that all files should be treated with care and diligence and receive a thorough investigation. When an appeal is filed with the Office, it is assigned to a manager who reviews it and contacts the customer if additional information is required. The manager creates and executes an investigation plan that may include contacting third parties and reviewing Canada Post's internal systems, records and documentation. A report is then prepared with the details of the investigation. Finally, the Ombudsman's decision is issued. In 60 per cent of cases investigated, some form of corrective action was required. In the remaining cases, the investigation supported Canada Post's actions.

In 2013, the Office received 27 per cent fewer appeals and conducted 10 per cent fewer investigations. These reductions can be attributed to improvements made by Canada Post to on-time delivery and scanning compliance.



A more complete overview can be found in the Office of the Ombudsman's Annual Report which is available at canadapost.ca/ombudsman.

Corporate Social Responsibility

Canada Post's efforts in social responsibility continued in 2013. The Canada Post Community Foundation completed its inaugural grant program, providing educational support to a number of young people, and our facilities and fleet maintained sustainable and environmentally friendly operations.



COMMUNITY

After shifting focus in 2012, the Canada Post Community Foundation offered its first grants in 2013 to organizations that help young people. The Foundation provided over \$1.4 million in grants to 111 organizations across Canada that deliver programs and support services for children and youth.

Together, Canada Post employees and customers raised more than \$1.3 million in 2013. These funds will be distributed in 2014.

Since its inception, the Foundation has raised \$9.8 million and helped communities across Canada.

The 2013 Santa Letter-writing Program, now in its 32nd year, was a resounding success. More than 8,000 volunteer postal elves helped Santa reply to nearly 1.5 million letters, a 9.6-per-cent increase over 2012.

PEOPLE

In 2013 once again, we helped young people continue their education. Through the Canada Post Aboriginal Education Incentive Awards, 24 students from across the country who overcame personal, economic or social adversity in their pursuit of learning were each awarded a cash prize of \$1,000. Additionally, we provided direct educational support to a number of children of full- and part-time employees through our Scholarship Program.

Throughout 2013, employee safety remained a key focus across all levels of the Corporation. Our lost-time injury rate has dropped by roughly 32 per cent over four years, with targeting of high-risk areas contributing to this reduction.

ENVIRONMENT

In 2013, three delivery facility projects, including the Winnipeg Southwest facility (above) were certified by Canada Green Building Council under the Leadership in Energy and Environmental Design (LEED™) rating system. Three depot projects were also registered for LEED™ certification. Canada Post now has nine LEED-certified projects and 31 projects registered for LEED certification.

We also added more than 800 fuel-efficient light delivery vehicles to our fleet in 2013. These Ford Transit Connect™ vehicles have enabled us to reduce our fuel consumption and greenhouse gas emissions.

Under our Environment Policy, we are committed to environmental protection in our operations. We have determined that, in accordance with sections 66 and 67 of the *Canadian Environmental Assessment Act, 2012*, to the best of our knowledge, our projects were not likely to cause significant adverse environmental effects.

A more detailed report on our social and environmental performance will be available later in 2014 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 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 2013

On December 11, 2013, Canada Post unveiled five initiatives that together will form the foundation of a new postal system designed to serve busy Canadians and meet their changing needs for postal services. This comprehensive plan can be achieved without any changes to the *Canadian Postal Service Charter*. Our compliance to the Charter for 2013 is summarized below.

Universal service

Canada Post delivered over 9.4 billion pieces of mail, parcels and messages in 2013 to 15.5 million addresses in urban, rural and remote locations across Canada. In addition, through its membership in the Universal Postal Union (an alliance of 192 member countries), Canada Post provided inbound and outbound international postal services. Service to rural areas was provided through more than 3,700 rural retail outlets (approximately 60 per cent of all Canada Post retail outlets) and by more than 7,300 rural routes. Almost 9.1 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 2013, the Corporation applied uniform rates of postage to the following categories of letters (see table 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 2013 Annual Cost Study are outlined on page 76.

On December 11, 2013, Canada Post announced its intention to introduce a new tiered pricing structure for Domestic Lettermail to better reflect the cost of serving various customer segments. On December 21, 2013, Canada Post published in the *Canada Gazette* its proposed pricing structure and other regulated postage rate proposals intended to take effect March 31, 2014. The Canadian public was invited to raise any concerns regarding the proposals with the Minister responsible for Canada Post. Final government approval of the proposed rates occurred on March 6, 2014.

Frequent and reliable delivery

Approximately 89 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 11 per cent of Canadian households (usually located in smaller rural communities) obtained their mail at local post offices or through postal boxes located in conveniently accessible lobbies of community post offices.

The on-time service performance for Domestic Lettermail delivery was 95.5 per cent in 2013.

Convenient access to postal services

In 2013, postal services were provided in Canada through

- over 6,300 postal outlets;
- thousands of third-party retail locations authorized to sell postage stamps;
- approximately 200,000 collection points where postal items can be deposited (excluding 724,000 rural mailboxes, which are also collection points);
- 24/7 access to canadapost.ca for online services, such as tracking a package, registering a change of address and purchasing postage.

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;
- 90.7 per cent lived within 5 km;
- 79.3 per cent lived within 2.5 km.

For 2013, there were 166 events (e.g. retirement, termination of lease and facility upgrades) affecting Canada Post personnel or infrastructure that had an impact on post offices covered by the rural moratorium. Almost two thirds (107 cases) were resolved through staffing actions, allowing retail services to remain within the facility or community. Thirty cases resulted in temporary corporate outlet closures or re-openings.

Category		Postage rate
Standard (envelopes, cards, self-mailers)	0 to 30 g	\$0.63
	30 to 50 g	\$1.10
Medium (envelopes, cards, self-mailers)	0 to 20 g	\$1.10
	20 to 50 g	\$1.26
Other Lettermail (non-standard and oversize)	0 to 100 g	\$1.34
	100 to 200 g	\$2.20
	200 to 300 g	\$3.05
	300 to 400 g	\$3.50
	400 to 500 g	\$3.75

Reason for delivery method change	Number of addresses affected
Retail outlet change (e.g. change in retail location for general delivery services)	12,000
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

After consultation with the affected communities and community leaders, the remaining 29 cases were resolved through the provision of retail services at a nearby town, while maintaining delivery services in the existing community.

Secure delivery

Canada Post is committed to taking the measures necessary to protect the mail, recognizing that it holds a special position of trust and accountability for the mail it delivers on behalf of the Canadian public. The Security 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 works 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

Canada Post delivers to every address in Canada, using a variety of methods. Situations may arise where changes to delivery methods are necessary in order to address various delivery issues including delivery equipment upgrades, retail outlet location changes and safety concerns. In 2013, approximately 0.3 per cent of addresses were affected by a change of delivery method (see table above).

While Canada Post's corporate postal outlet network generally remains unchanged, operational issues may arise that have an impact on the continued suitability of an existing location for postal retail services. In 2013, 33 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.

Five of the 33 cases considered were pending completion of community consultation, final decision or implementation, as of December 31, 2013. Of the 28 cases that were resolved

- five offices moved to another location,
- 22 offices closed,
- one office remained open.

Canada Post held its eighth Annual Public Meeting October 23, 2013, in Ottawa 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 1,000 Canada Post employees and interested Canadians participated through a video webcast, while 220 attended in person, including Canada Post executives, Board members, bargaining agents and association representatives.

Responding to complaints

In 2013, Customer Service received 3.7 million customer calls and over 391,000 electronic customer inquiries through email, fax, online forms, chat and social media. These interactions related to questions, requests, problems and complaints. 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 resolution, 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 on the Ombudsman's website at canadapost.ca/ombudsman.

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 this table.

Delivery method	Number of addresses*	% of total addresses	Average annual cost per address
Door-to-door	5,079,495	33%	\$298
Centralized point (e.g. apt. lobby lockbox)	3,873,443	25%	\$126
Group mailbox, community mailbox, kiosk	4,043,567	26%	\$113
Delivery facility (postal box, general delivery)	1,775,402	11%	\$61
Rural mailbox	723,507	5%	\$192
All methods	15,495,414	100%	\$175

*As at December 31, 2013

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 the 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 2013, about 6 million letters were delivered as government mail (excluding mail from constituents to parliamentarians) and MPs mailed almost 132 million Unaddressed Admail items.

The Act also provides for free mailing of materials for the blind. 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.

Canada Post received a government appropriation of \$22 million in 2013 to help offset the financial impact of these programs on the Corporation.

Library Materials

The Library Materials service is accessible to recognized public libraries, university libraries, or other libraries that are maintained by non-profit organizations or associations and are for public use in Canada. The service provides reduced postage rates for eligible library materials circulated between a library and its patrons. Library materials may consist of books, magazines, records, CDs, CD-ROMs, audiocassettes, videocassettes, DVDs and other audiovisual materials and other similar library materials. In 2013, there were approximately 735,000

shipments of books using this service, generating \$880,000 in revenue for Canada Post. Unlike other public policy programs delivered on behalf of the federal government, Canada Post receives no appropriation or compensation of any kind from the government to offset the reduced postage rate. The foregone revenue for Canada Post was estimated to be almost \$8 million for 2013.



Financial Performance

CONTENTS

Management's Discussion and Analysis

Forward-looking Statements.....	23
1 Executive Summary.....	24
2 Core Businesses and Strategy.....	29
3 Key Performance Drivers.....	35
4 Capabilities.....	37
5 Risks and Risk Management.....	43
6 Liquidity and Capital Resources.....	47
7 Changes in Financial Position.....	53
8 Discussion of Operations.....	55
9 Critical Accounting Estimates, Adoption of New Accounting Standards and Accounting Policy Developments.....	61
10 Outlook for 2014.....	67

Supplementary Information

Historical Financial Information.....	69
Additional Information.....	72
Auditor's Report on Annual Cost Study Contribution Analysis.....	75
Annual Cost Study Contribution Analysis.....	76
Notes to Annual Cost Study Contribution Analysis.....	77

Consolidated Financial Statements

Management's Responsibility for Financial Reporting.....	78
Independent Auditors' Report.....	79
Consolidated Statement of Financial Position.....	80
Consolidated Statement of Comprehensive Income.....	81
Consolidated Statement of Changes in Equity.....	82
Consolidated Statement of Cash Flows.....	83
Notes to Consolidated Financial Statements.....	84

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the year ended December 31, 2013, 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, 2013, 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 20, 2014, 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, and 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 43 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 20, 2014, 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 2013 financial results

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. With 66,000 employees, the Canada Post Group of Companies is one of Canada's largest employers. Every year, our employees deliver over 9.4 billion pieces of mail, parcels and messages to 15.5 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,300 retail post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport 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 has an obligation to 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 materials rate to allow public and academic libraries to move books and other materials between libraries and library users at reduced postage rates.

Canada Post is part of the global postal industry comprising foreign postal administrations (posts). All posts have traditionally financed their USO through a legislated exclusive privilege, or monopoly over a portion of the postal market. However, the exclusive privilege, which at one time financed the cost of the USO, has lost its value in a digital world.

The historic, irreversible and global trends in demand for Lettermail™ delivery are not merely regular declines seen in typical economic cycles. They are, in fact, a structural shift in demand away from traditional Lettermail. Posts have responded to their changing environment in a number of ways, including restructuring operations, modernizing processing and delivery networks, reducing the number of owned postal outlets and their workforce, and enhancing their parcel services to take advantage of the growing e-commerce market. Some posts are also offering digital mail services to complement their physical mail products.

Canadians' needs for postal services are also changing more and more each year with the increasing popularity of internet and mobile devices. These changes have been widely publicized and created significant discussions among Canadians in 2013. In April 2013, The Conference Board of Canada issued a report entitled *The Future of Postal Services in Canada*. This report projected that Canada Post was on its way to losses of \$1 billion a year by 2020, and outlined a number of options to reduce these losses. Canada Post also talked to Canadians about what they wanted from their postal service.

From May to September 2013, senior leaders from Canada Post met Canadians in 46 communities, large and small, across the country and also invited feedback by letter and at canadapost.ca. Thousands of Canadians including employees responded, and these comments helped form the basis for the Five-point Action Plan that Canada Post unveiled December 11, 2013. This plan introduced five initiatives that will form the foundation of a new postal system designed to serve Canadians' emerging postal needs and help the Corporation succeed in the digital age, not by abandoning what it is, but by doing what it does best – deliver to Canadians. These five initiatives will begin taking effect in 2014 and include 1) converting the remaining one-third of Canadian households, representing five million addresses, which still receive their mail at the door, to community mailbox delivery, 2) introducing a new tiered pricing structure for Lettermail, 3) expanding convenience through postal franchises, 4) streamlining operations, and 5) addressing the cost of labour. These five initiatives are a major component of a strategy to help Canada Post return to profitability and ensure that the Corporation remains financially viable and self-sustaining. Implementation is expected to take five years to complete, and once fully implemented, four of the five initiatives are expected to contribute an estimated \$700 million to \$900 million per year to the Corporation's bottom line.

In February 2014, the Government of Canada also provided relief to Canada Post from the requirement to make special payments to its Registered Pension Plan during the next four years (from 2014 to 2017) to allow Canada Post time to address the plan's long-term sustainability. During the relief period, Canada Post will work with its unions and other representatives of pension plan members to restructure the pension plan. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period.

Financial highlights

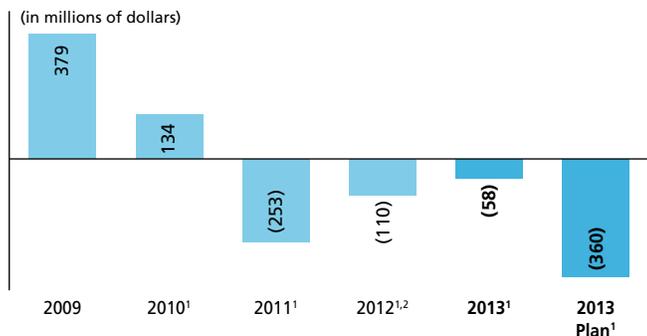
Given the challenges faced by the postal industry, the Canada Post segment realized a loss from operations of \$269 million in 2013. Net investing and financing income of \$144 million, mainly resulting from gains on the sale of real estate assets, reduced the loss before tax to \$125 million. Financial results were mostly influenced by a number of factors:

- Continued mail-volume erosion in Transaction Mail, Canada Post's core mail business, caused by the rise in digital communications and the historic shift away from paper-based communications. Businesses and consumers' needs are changing, and they have an abundance of choices when selecting products and their preferred modes of communication. With more Canadians communicating and managing their communications online, Lettermail volumes have declined sharply. In 2013, this trend continued as the Canada Post segment experienced a 4.8% decline in Domestic Lettermail volumes. To compound this decline, the number of Canadian points of delivery has grown by more than 170,000 per year for the last seven years, resulting in increased costs due to the obligation to provide delivery service to more addresses.
- Significant obligations of the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment benefits. The disproportionate size of these pension and other post-employment benefit obligations compared to the Corporation's cash position and profit, combined with the funding volatility, put substantial pressure on its cash flows and ability to fund needed investments in modernization and growth. Volatility caused by year-over-year changes in discount rates, investment returns and other actuarial assumptions also create a significant financial impact on the Group of Companies' benefit plans often resulting in large swings in comprehensive income (loss). In 2013, this volatility resulted in net remeasurement gains, net of tax, of \$2,313 million being recorded in other comprehensive income. Under International Financial Reporting Standards (IFRS), the Corporation recognizes remeasurement adjustments on pension and other post-employment plans directly to equity. Remeasurement losses of previous years are the main cause of the accumulated deficit at the end of 2013. Also, without funding relief permitted by legislation, Canada Post would have had to pay to the RPP an additional \$2.4 billion in special contributions from 2011 to 2013.
- Parcel growth due to the increasing popularity of online shopping, especially in the business-to-consumer e-commerce delivery market, where Canada Post holds a leading position. In 2013, revenue from Canada Post's Parcels line of business increased by \$93 million or 7.2% compared to 2012. Parcel volumes also increased by 5 million pieces or 2.8% in 2013 compared to 2012. This included a very successful holiday season that saw fourth quarter revenues and volumes increase by \$42 million or 9% and 3 million pieces or 2.4% respectively. However, this encouraging parcel growth was not enough to offset larger declines in Transaction Mail and Direct Marketing volumes.
- The sale of corporate real estate assets, which generated gains of \$164 million for Canada Post. This included the sale of the mail processing plant in downtown Vancouver in the first quarter of 2013. Canada Post sold the plant for net proceeds of \$152 million and realized a gain on sale of \$109 million. The plant was one of Canada Post's most significant properties and was disposed of in January 2013.
- Major cost savings through a focus on cost saving initiatives, Postal Transformation and IT restructuring. As a result, in 2013, Canada Post was able to reduce costs of operations (excluding employee benefit costs and amortization) by over \$60 million compared to 2012.

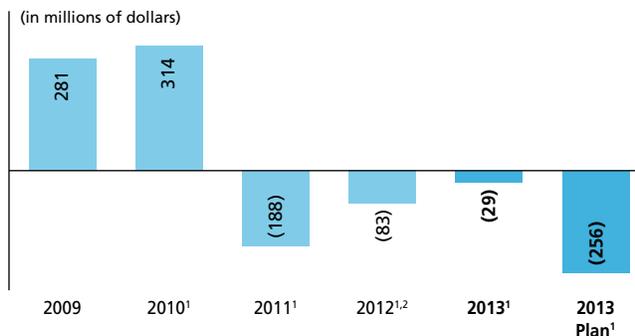
Canada Post Group of Companies – 2013

The 2013 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

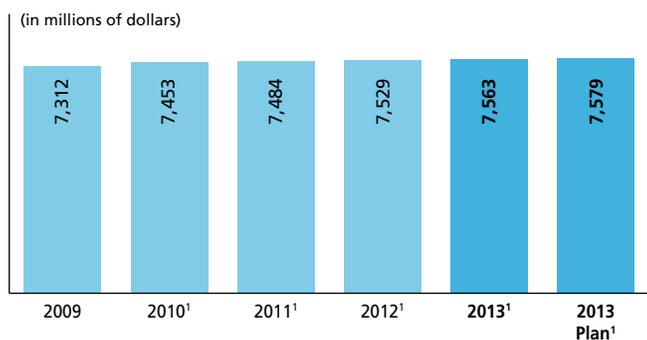
Consolidated profit (loss) before tax



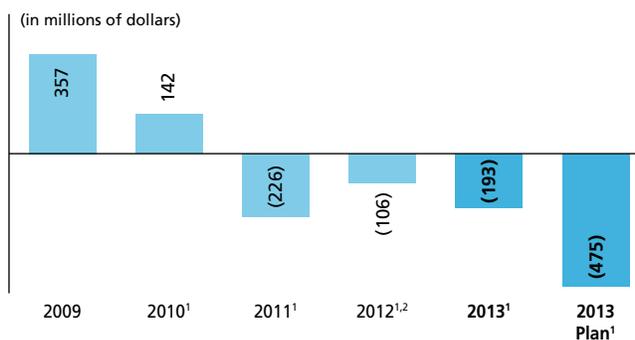
Consolidated net profit (loss)



Consolidated revenue from operations



Consolidated profit (loss) from operations



1. Beginning 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 2009 financial results are based on previous Canadian generally accepted accounting principles (GAAP) and, therefore, may not be comparable to years 2010 to 2013.

2. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

The following table presents the Corporation's consolidated performance for the 2013 fiscal year compared to the 2013 Corporate Plan.

(in millions of dollars)

Year ended December 31	2013 Results	2013 Plan	Change	Explanation of change
Consolidated				For further information, see Section 2 – Core Businesses and Strategy on page 29 and Section 8 – Discussion of Operations on page 55.
Revenue from operations	7,563	7,579	(16)	Slightly below plan (Canada Post segment – \$13 million above plan and Purolator segment – \$29 million below plan).
Cost of operations	7,756	8,054	298	Exceeded expectations by \$298 million (Canada Post segment – \$272 million and Purolator segment – \$28 million) mainly due to <ul style="list-style-type: none"> • productivity improvements in the Canada Post segment • continued cost-containment activities across the Canada Post Group of Companies.
Loss from operations	(193)	(475)	282	
Investing and financing income (expense), net	135	115	20	Exceeded expectations by \$20 million (Canada Post segment – \$11 million, Purolator segment – \$6 million and Logistics segment – \$3 million) mainly due to increased gains on the disposal of assets.
Loss before tax	(58)	(360)	302	

The following table presents the Corporation's consolidated performance for the 2013 fiscal year compared to 2012.

(in millions of dollars)

Year ended December 31	2013	2012 (restated) ¹	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations on page 55.
Revenue from operations	7,563	7,529	34	0.4 %	Mainly due to growth in parcel revenue and price increases in the Canada Post segment, offset by volume erosion caused by electronic substitution, bill consolidation and intense competition in Canada Post's Transaction Mail and Direct Marketing lines of business.
Cost of operations	7,756	7,635	121	1.6 %	Mainly due to higher labour and benefit costs as a result of non-recurring non-cash accounting gains recorded in 2012 in the Canada Post segment to account for changes to its sick leave and health plans, partially offset by cost containment initiatives across the Group of Companies.
Loss from operations	(193)	(106)	(87)	(81.1) %	
Loss before tax	(58)	(110)	52	47.3 %	Mainly due to gains from the sale of real estate assets in the Canada Post segment.
Tax expense (income)	(29)	(27)	(2)	(11.0) %	
Net loss	(29)	(83)	54	65.7 %	
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources on page 47.
Cash and cash equivalents	468	298	170	56.7 %	Increase mainly due to cash proceeds from the sale or real estate assets in the Canada Post segment in 2013.
Cash provided by operating activities	326	310	16	5.1 %	Mainly driven by a lower net loss, partially offset by an increase in tax payments.
Cash used in investing activities	(134)	(263)	129	48.5 %	Mainly due to a decrease in net acquisitions of capital assets in the Canada Post segment.
Cash used in financing activities	(22)	(20)	(2)	(12.1) %	Mainly due to an increase in capital lease payments in the Purolator segment.

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Outlook 2014

For Canada Post, 2014 will be a very important year as it continues to transform its business. This transformation will start with the execution of the Five-point Action Plan, unveiled in December 2013, and investments in retail initiatives, delivery and operations networks, and community mailboxes. Canada Post will begin converting addresses from door-to-door to community mailbox delivery in 2014. Transformation will also include the continued investment in Postal Transformation, the \$2-billion multi-year program that began in 2008. These investments will build the foundation of a new postal system that is designed to serve Canadians' emerging postal needs and critical to the success of the Corporation.

The rise in digital communications has created a dramatic shift in the way that Canadians, both individuals and businesses, communicate – moving away from the tradition of Lettermail and adopting mainly electronic alternatives. This trend is expected to continue in 2014 with lower Domestic Lettermail volumes. The pace of decline is uncertain and represents a significant risk to the Group of Companies. As a result, the Canada Post Group of Companies anticipates another year of losses in 2014 due to the challenges in the Canada Post segment.

The loss will be reduced due to the beneficial impacts of higher pension asset returns in 2013 and an increase in the discount rate. This highlights the volatility related to employee benefits and clearly demonstrates that Canada Post must continue its focus on fundamental changes to ensure a sustainable financial performance.

However, the shift to electronic delivery will also create opportunities for Canada Post and its subsidiaries, especially in parcels, as Canadians increase their spending online and become more reliant on parcel delivery. The rise in demand for e-commerce is expected to increase parcel revenue and volumes, especially in the business-to-consumer market. Therefore, continuing to succeed in the parcel business will be crucial to the success of the Canada Post Group of Companies.

Another important area for Canada Post will be growing the Direct Marketing business, which represents a significant part of the revenues for Canada Post and the Group of Companies. The Corporation believes that there are opportunities for growth in Direct Marketing, as it provides businesses with a very good rate of return on their marketing investments. It also offers many benefits, such as information that is tangible (recipients can hold and keep it), targetable (to a specific audience based on a number of criteria), and highly read. Canada Post believes that Direct Marketing will continue to be very competitive in the marketing segment in 2014.

Addressing the sustainability of the Canada Post Corporation Registered Pension Plan will be of major importance going forward, given the magnitude of pension obligations compared to the financial position and income of the Corporation, and the volatility caused by investment

returns, discount rates and changes in other assumptions. In February 2014, the Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This will provide time for Canada Post to work with its unions and other representatives of pension plan members to restructure the pension plan.

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 the people of Canada and enabling remote commerce across a vast and diverse nation. Our vision is to be a world leader in providing innovative physical and electronic delivery solutions, creating value for our customers, employees and all Canadians.

The Canada Post Group of Companies provides a full range of delivery, logistics, and fulfillment services to customers and, combined, has annual revenues of approximately \$7.6 billion. The Group of Companies has the largest retail network in Canada with almost 7,000 retail locations, operates a fleet of over 14,000 vehicles and employs some 66,000 people.

Our employees deliver over 9.4 billion pieces of mail, parcels and messages each year to 15.5 million addresses in urban, rural and remote locations across Canada.

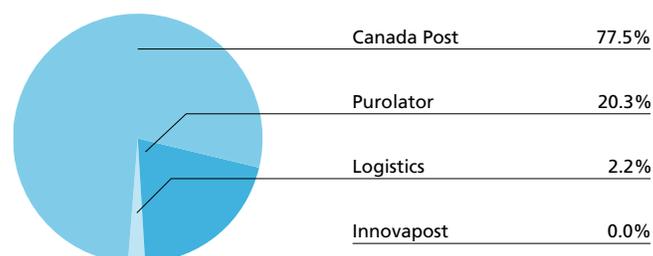
Canada Post is the largest segment of the Group of Companies with revenues of \$5.9 billion in 2013. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, Admail™ products and periodicals.

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 2013.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions with revenues of \$179 million in 2013.

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

Revenue by segment – 2013



Revenue by segment	2011	2012	2013
Canada Post	78.0%	77.6%	77.5%
Purolator	20.3%	20.4%	20.3%
Logistics	1.7%	2.0%	2.2%
Innovapost	0.0%	0.0%	0.0%

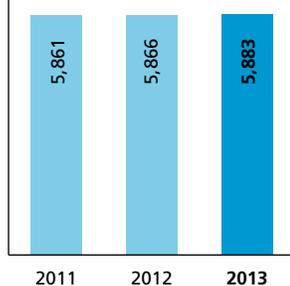
Canada Post segment

Canada Post operates Canada's largest retail network with over 6,300 retail post offices, has a fleet of almost 11,000 vehicles and annually delivers over 9.3 billion pieces of mail and parcels. With 52,000 employees, Canada Post provides service to 15.5 million addresses.

The Canada Post segment generated revenue of \$5.9 billion and, after excluding intersegment revenue, represents 77.5% of the Group of Companies' 2013 consolidated revenue of \$7.6 billion.

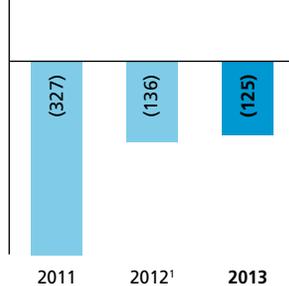
Revenue

(in millions of dollars)



Loss before tax

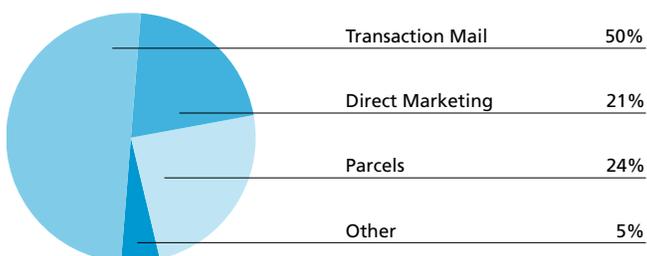
(in millions of dollars)



1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

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 – 2013



Revenue by line of business	2011	2012	2013
Transaction Mail	53%	51%	50%
Direct Marketing	22%	22%	21%
Parcels	21%	22%	24%
Other	4%	5%	5%

Transaction Mail

Transaction Mail is our portfolio of services for the 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 almost \$3 billion or 50% of Canada Post's 2013 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 90%. However, Lettermail is declining rapidly as Canadians are adopting digital alternatives. This decline is creating a profound effect on a business model founded on paper-based communications.

Customers include businesses 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 customers to personalize mailings and tailor promotional messages to specific consumers or prospects. The Unaddressed Admail product enables 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 \$1.2 billion or 21% of Canada Post's 2013 operating revenue of \$5.9 billion. Canada Post has experienced challenges in trying to achieve growth in this competitive segment. There has been a lot of experimentation in the marketing industry as businesses have allocated more of their marketing spending to less costly digital alternatives in order to maximize returns of their advertising campaigns.

Customers include businesses of all sizes and governments. Canada Post also works 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 \$1.4 billion or 24% of Canada Post's 2013 operating revenue of \$5.9 billion. The Parcels line of business has been growing steadily over the last couple of years with the increased popularity of e-commerce. This has

created new opportunities for Canada Post, especially in the business-to-consumer market, to benefit from an extensive retail network and expertise in delivery to Canadian addresses.

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

Other

The Other line of business consists of a broad array of products and services, including epost™ (an online bill-presentation service that allows users to receive, pay and manage bills in one place), mail redirection, data products, and commemorative stamps, gifts and coins.

The Other category accounts for \$288 million or 5% of Canada Post's 2013 operating revenue of \$5.9 billion

Customers include business, governments and consumers.

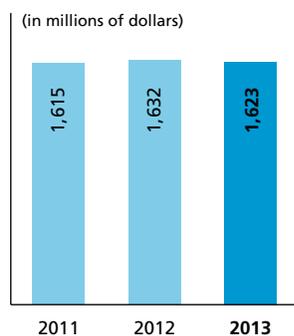
Purolator segment

Purolator is Canada's largest courier company and has provided distribution solutions within, to and from Canada for over 50 years. Purolator offers services and customized solutions to customers delivering shipments across town or the world. Purolator has an extensive service network in Canada that includes 175 operation facilities, 129 retail shipping centres, over 580 authorized shipping agents and more than 260 drop boxes as well as two customer contact centres and 10 PostNet™ business centres.

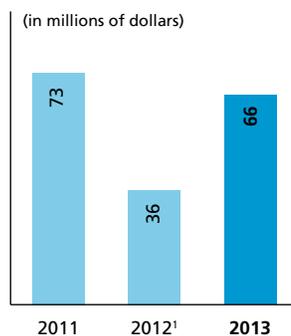
In 2013, Purolator generated revenue of \$1.6 billion, which after excluding intersegment revenue, represented 20.3% of the 2013 Group of Companies' consolidated revenue of \$7.6 billion.

Benefiting from 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 to synergies, such as airline haul, to the Group of Companies.

Revenue

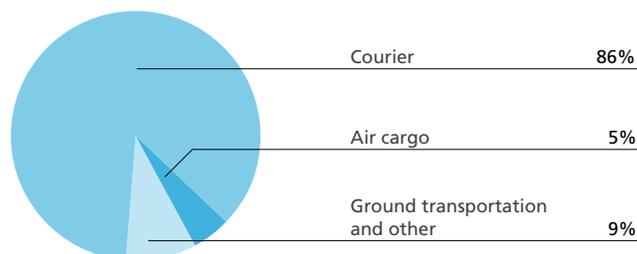


Profit before tax



1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Revenue by market – 2013



Revenue by market	2011	2012	2013
Courier	86%	85%	86%
Air cargo	6%	6%	5%
Ground transportation and other	8%	9%	9%

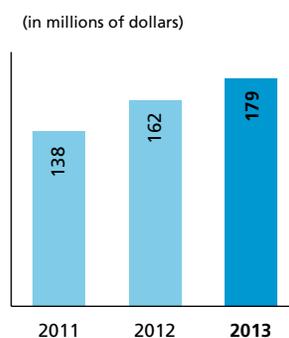
Logistics segment – SCI Group

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 with 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.

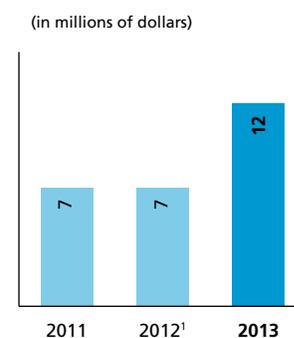
SCI Group offers its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada.

SCI Group generated revenue of \$179 million, which, after excluding intersegment revenue, represented 2.2% of the 2013 Group of Companies' consolidated revenue of \$7.6 billion.

Revenue



Profit before tax



1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Innovapost segment

Innovapost is the shared services entity for the Group of Companies. Its services include the development, maintenance and operation of computing and information systems required by the Group of Companies, which holds a 98% equity interest in Innovapost.

2.2 Our business environment

Global trends

The global economy began to build momentum in the second half of 2013, which is expected to carry over into 2014. The United States economy finished the year strongly despite a partial government shutdown in the fall, and Europe is showing signs that it is beginning to emerge from a protracted recession. Despite these encouraging signs, foreign postal administrations (posts) continued to experience structural mail volume declines that are acknowledged as a fact of postal life.

The challenge of managing mail volume decline while maintaining extensive and growing networks needed to fulfill their universal service obligation (USO) has led more posts to reconsider the sustainability of that mandate. The International Postal Corporation (IPC) reports an average decline of 19% in mail volume per household, from 2008 to 2012, among 39 participating postal administrations. In a digital world, the exclusive privilege, which at one time financed the posts' cost of fulfilling the USO, has lost much of its ability to sustain that mandate.

Posts are responding to this changing environment. Many administrations are working to reduce their full-time equivalents in an effort to become leaner and more responsive to shifting demand. Operational restructures are addressing the need to rebalance the network to take advantage of the e-commerce parcels opportunity. A number of posts have invested in secure, near-to-address

delivery networks, such as parcel lockers and cluster mailboxes to position themselves as shippers of choice in this growing market. Changes to the retail network design facilitate the growing parcels business by offering dedicated parcel shops and the extended opening hours offered by contracted outlets; the IPC reports that on average 55% of postal retail outlets in the 39 surveyed postal administrations are now contracted. Posts, especially in Europe, are looking beyond their borders for growth opportunities and also continue to invest in less labour-intensive adjacent businesses (e.g. freight and logistics) and non-adjacent businesses (e.g. financial services). Some posts have begun to develop aggressive pricing strategies to finance their USO, while others have made the case to governments for changes to their USO, reflecting changing customer needs as well as their financial situations.

Canada

While the Canadian economy also picked up some momentum in the second half of 2013, Canada Post continues to face significant challenges that threaten its sustainability. Core Transaction Mail volumes continue to decrease, while delivery points increase resulting in a decline of 30% in the number of pieces of mail delivered per address between 2007 and 2013 (see table below). The defined benefit pension deficit is putting enormous pressure on liquidity. Growth of the e-commerce market has led to growth in our Parcels business and increasingly fierce competition. Canada Post faces challenges in being competitive as a result of an inflexible and high cost structure. Significant changes are required to ensure Canada Post's cost competitiveness. In December 2013, Canada Post released the Five-point Action Plan to address operational sustainability, while enabling the Corporation to refocus its attention on a growth agenda that will help ensure future profitability and its ability to fulfill the USO.

Transaction Mail (excluding outbound)	2007	2008	2009 ¹	2010	2011	2012	2013
Delivered volume percentage change	(1.3)%	(1.6)%	(5.5)%	(3.9)%	(3.7)%	(6.1)%	(4.9)%
Delivery addresses percentage change	1.4 %	1.4 %	1.2 %	1.0 %	1.0 %	1.0 %	1.0 %
Mail volume percentage decline per address	(2.6)%	(2.9)%	(6.7)%	(4.9)%	(4.6)%	(7.0)%	(5.9)%

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

2.3 Our strategy and strategic priorities

Canada Post

The rise in digital communications has dramatically changed the postal needs of Canadians. Paper communications are rapidly being replaced by electronic means to communicate, invoice, pay bills and advertise. Our revenues are declining due to this behavioural shift, but our cost base is largely fixed. Canada Post recognizes that this shift requires fundamental changes to the way it serves customers. Canada Post also recognizes that the postal service remains an essential enabler of remote trade and commerce. Its

viability is crucial for small businesses and rural and northern communities that still rely on mail. Retailers across Canada require an affordable delivery network for them to participate in the fast-growing digital economy. Our strategic priorities will guide us to meet the emerging postal needs of Canadians, while ensuring that we overcome our financial challenges and continue to remain financially self-sufficient. Our main strategic priorities consist of redefining postal service through the Five-point Action Plan, growing the business by becoming a leader in enabling e-commerce and repositioning Direct Marketing in the age of digital and social media, and focusing unrelentingly on cost savings.

Redefining postal service through the Five-point Action Plan

The postal service of the future will reflect and serve Canadians' new postal needs – one with a greater number of parcels and less mail with more valuable items. Canada Post recently launched the Five-point Action Plan to better serve all customers and return to profitability. This plan reflects a cross-country discussion about postal services with Canadians, both residential and business customers. The five-month discussions, which began in May 2013, confirmed many new patterns that Canada Post has seen unfold at post offices, in processing plants and in the makeup of the mail. With this plan, Canada Post will make major changes in delivery, retail, operations, and pricing. Five initiatives will form the basis of a sustainable business model and help Canada Post build the foundation of a new postal system. Implementation is expected to take five years to complete, and once fully implemented, four of the five initiatives are expected to contribute an estimated \$700 million to \$900 million per year to the Corporation's bottom line.

Broadening community mailbox delivery

The one third of Canadian households that still receive mail at the door, representing five million addresses, will be converted to community mailbox (CMB) delivery over the next five years. The other two thirds already receive mail and parcels through community mailboxes, grouped or lobby mailboxes or curbside rural mailboxes. As Canadians are receiving more parcels and fewer letters, CMBs offer both convenience and security: locked personal compartments and parcel compartments are all available in one place. This is especially important given that Canadians are buying and requesting more sensitive and high-value items online. These include government-issued cards, health supplements and medications, as well as retail products and items that cannot be sent electronically. It is important that these kinds of items be delivered to a place that is locked, secure and convenient to access. Community mailboxes serve this need well. Cost is also a major factor behind the CMB initiative. CMB conversion will provide considerable savings, mostly from reductions in the number of delivery employees, as delivering to a community mailbox takes much less time than delivering to the door. Given the irreversible decline in mail, Canada Post must control costs, while providing a high level of service at a competitive price.

Offering a new approach to pricing

Canada Post introduced a new tiered pricing structure for letters mailed within Canada. The new pricing structure offers a more commercial approach that better reflects the cost of serving various customer segments, while benefitting those who use the postal service most. As digital communications are rapidly replacing paper-based communications, Lettermail still holds value, especially for identification, evidence and special occasion mail; small businesses also depend on mail for critical business functions such as sending invoices and receiving payments from customers. The new pricing structure takes effect March 31, 2014. Domestic stamps in booklets or coils, representing 98% of the volume sold in this category, will

cost \$0.85 each, up from \$0.63. Single domestic stamps, representing approximately 2% of the volume sold in this category will cost \$1 each, up from \$0.63. Businesses that use postage meters will pay \$0.75 for each piece of Lettermail, while customers who prepare mail in such a way that reduces processing costs (known as incentive Lettermail) will continue to benefit from prices that are lower than the meter rate. The pricing for U.S., international and oversized Lettermail and mail weighing more than 30 grams will also increase and typically fall in line with new established pricing levels, but will not include a uniquely differentiated booklet or coil price. Prices for parcels and for addressed and unaddressed advertising mail are not affected by Lettermail increases.

Expanding convenience through postal franchises

Canada Post has the largest retail network in Canada with over 6,300 postal outlets. As more people have begun to shop online in recent years, Canada Post has recognized that its retail network is key to fulfilling Canadians' desire for improved e-commerce parcel services. By providing more convenient locations for parcel pickup and returns, especially in rural and northern communities, Canada Post helps Canadians shop online more confidently. The Corporation will strengthen its retail network by seeking new partnerships with retail businesses to open more franchised postal outlets in stores across Canada. These franchises are popular with customers because they are conveniently located as a "store within a store" in shopping hubs of neighbourhoods they serve, and they are open at more convenient times than many corporate outlets. Customers will have more choices for picking up parcels and for returning them when they need to. This is especially important for sensitive and high-value items, and parcels too large to fit in a CMB, as well as customers who want to collect parcels near work or a surprise gift for a member of the household. Canada Post will streamline the network of traditional post offices by closing some locations that are no longer convenient for customers or where traffic patterns warrant. Many corporate post offices do not generate enough revenue to support costs. Canada Post will also examine alternatives to post offices, such as kiosks, and additional stamp shops will be tested in convenient locations that support the wider retail network. All changes will honour the *Canadian Postal Service Charter*, the moratorium on closing rural post offices and collective agreements.

Streamlining operations

Decreasing Lettermail volumes have led to excess capacity in our processing functions, particularly for mail sortation and distribution, and there is no longer enough mail destined for local addresses to sort by hand for delivery within a community. Canada Post has been preparing for a future with less mail and more parcels for a number of years. In 2010, the Corporation launched an aggressive plan to replace its aging sortation and delivery processes with more modern and cost-effective approaches driven by technology. The sortation equipment in place today is very fast and accurate and can sequence mail along the delivery personnel's line of travel for each route. Economies of scale

are also being realized by consolidating Lettermail processing into major plants within major urban centres to benefit from the use of cost-effective, high-speed automated mail processing equipment. There has also been a massive shift toward motorization, where many carriers now leave their depot with a fuel-efficient vehicle containing mail and parcels for delivery. This improvement provides a better end-customer experience, especially in the Parcels business, at a much lower cost. Canada Post will continue to transform its operations to meet the changing needs of Canadians, allowing it to realize significant annual savings, achieve efficiency improvements and better serve the growing parcel market.

Addressing the cost of labour

Canada Post has a much higher labour cost structure than that of competitors, and this is not sustainable. The health of the business depends on the ability to be as cost-competitive and as operationally flexible as possible. This is essential in a highly competitive parcel market of an increasingly digital world. A realignment of labour costs to reflect changes to the business is crucial to our success. We plan to bring the cost of labour, as well as pension and employee benefit costs, in line with that of competitors through attrition and collective bargaining. With around 15,000 employees expected to retire or leave the Corporation over the next five years, we will have an opportunity to reduce the workforce by between 6,000 and 8,000 positions as we implement changes laid out in the Five-point Action Plan. We will continue to work with the unions to strengthen our competitiveness and sustainability, while trying to minimize the impact of changes on existing employees. Regulations introduced by the Government of Canada in February 2014 provide relief from the need to make special payments into the RPP for four years (from 2014 to 2017). This relief will give us time, as we work with our unions and other representatives of pension plan members, to take necessary steps to permanently address the sustainability of the pension plan. A leaner workforce will make us more flexible, more competitive, and more able to respond quickly to the changing marketplace.

Growing the business

Becoming a leader in enabling e-commerce

Canada Post plans to capitalize on the growth of e-commerce and the popularity of online shopping among Canadians by investing in innovation and convenience and offering more delivery options. We will continue to make investments in scanning and tracking improvements, as visibility of purchases throughout the shipping process is a key requirement for online shoppers. We will continue to position ourselves as the preferred provider for business-to-consumer deliveries in Canada, with a focus on improving relationships with e-commerce shippers, enhancing our delivery options to differentiate us from competition in residential delivery.

Repositioning Direct Marketing in the age of digital and social media

The marketplace is very fragmented and marketers have many options to convey their messages using a variety of products. Nevertheless, direct mail remains an important part of a multimedia mix for large and small businesses – it is an affordable product with an excellent return on investment. We are repositioning our marketing mail offering, especially targeting loyalty mailers with the increase of loyalty programs being offered due to the rise of big-data analytics. We are also looking at a number of initiatives aimed at repositioning Direct Marketing as a valuable part of a multimedia campaign and redesigning our products to make them easier to use and simplify pricing.

Strengthening digital commercialization

We intend to further develop the Digital Delivery Network and capture some of the migration of communications to electronic channels. These investments will help us achieve revenue growth from digital products, support new revenue growth in our Direct Marketing and Parcels businesses, and support cost reduction initiatives across our business. Our digital strategy includes building a more comprehensive digital equivalent of the physical post office. Through this virtual post office, Canadians will be able to access Canada Post's products and services on all platforms, including mobile. Canada Post will benefit from the epost™ platforms to connect credentialed users with authenticated content and enable new service capabilities across digital services and e-commerce markets.

Focusing unrelentingly on cost-savings

Implementing cost-saving initiatives

To remain competitive, we work very hard to reduce costs wherever possible, while minimizing the impact on service to Canadians. We will continue to improve processes and reduce retail costs through a number of customer self-service options, such as self-service kiosks and the virtual post office. We will also closely monitor the work required to operate retail outlets and optimize staffing levels to better align with customer traffic.

Completing Postal Transformation

Canada Post is nearing completion of the \$2-billion infrastructure-renewal and cost-reduction project. Investments in plants, equipment, and sorting and delivery processes will continue in 2014, leading to an increase in annual cost savings. We forecast that we will exceed our target of \$250 million in annual cost savings.

Achieving savings in IT services

The newly restructured Innovapost is an important part of our strategy to strengthen synergies in the Group of Companies by building increased business capabilities on common platforms, where possible. Central to the technology transformation strategy is the restructuring of the Group of Companies' IT supply chain and the procurement of a number of outsourced service agreements. Moving from exclusive supplier contracts to

multiple-supplier arrangements will allow the Group of Companies to take advantage of industry expertise and best practices, new technologies and reduced labour costs to optimize the value and cost of service delivery across all IT services. We expect to exceed our target of \$50 million in annual cost savings.

Purolator

Purolator's long-term vision is to be the leading provider of integrated business-to-business transportation and logistics solutions within, to and from Canada, valued for its innovative solutions, recognized for its superior network and preferred for its exceptional customer service.

Purolator's market differentiation is anchored on

- being customer-focused;
- building sustainable market differentiation;
- addressing current vulnerabilities, while building a foundation for growth;
- creating quantifiable value and financial benefits for our customers and shareholders.

Purolator's overall strategic priorities are

- maintaining a sustainable operating model,
- protecting core markets,
- generating new profit streams.

SCI Group

SCI's vision is to become a recognized leader of integrated supply chain solutions that leverages the most comprehensive delivery network in Canada, driving value from high-growth vertical markets.

SCI's ability to integrate both transportation and contract logistics services into clients' solutions is a cornerstone of the business strategy. SCI's distribution and inventory management capabilities converge with a strong transportation offering, which allows the company to avoid commoditization, pursue higher margins and build deeper relationships with clients.

The company focuses on key market segments: retail and e-commerce, health care, and technology including high-tech, office solutions and telecommunications (offering both contract logistics and transportation services). A key financial objective is to shift SCI's revenue composition over five years to higher growth and margin segments, such as retail and e-commerce, and health care.

In 2014, 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. While capitalizing on the proven sets of services, SCI will continue to strengthen e-commerce solutions for small to medium-sized clients, build up reverse logistics capabilities and expand its high-value transportation network in western Canada.

Innovapost

With a focus on information systems and information technology (IS/IT), Innovapost is an important part of a strategy to strengthen synergies in 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 the key drivers of our progress against 2013 objectives

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 2013 objectives:

3.1 Operational transformation

2013 objective

Achieve operational excellence through transformation and customer focus.

2013 results

- The multi-year Postal Transformation project is progressing as planned and we achieved key milestones for 2013. We installed and deployed 19 new multi-line optical character readers (mail sequencing equipment) and upgraded one automated flat sorting machine. We also replaced critical infrastructure, including four new and six retrofitted depots and implemented the new delivery model in 50 depots and converted three major sites (Edmonton, Calgary, Montréal) to parcels automation. To date, we have realized \$207 million in Postal Transformation annualized benefits, and the savings generated from the project are projected to exceed the target of \$250 million in annual cost savings at full implementation.

- We continued to streamline the retail network to save costs by closing over 50 corporate postal outlets, where customers were already well served by other more convenient locations. We also extended access to customers by establishing agreements with new retailers to sell Canada Post products. We continued to invest in our retail point-of-sale system, developing enhancements that led to increased sales, and improved customer experience and delivered value.
- We enhanced end-to-end visibility of tracked items within the Canada Post delivery network by fully implementing depot sort scans, where all barcoded items (packages, parcels and documents) sent to a depot are scanned as part of the process used to sort items to a route. We also introduced originating processing scans to ensure that each individual item is scanned at the plant where it is first processed, as well as new out-for-delivery scans for Unaddressed Admail™. We also achieved parcel scanning performance targets.
- We achieved customer service-level targets for answering and responding to customer queries, while contact centre call volumes dropped by more than 9% over 2012 through initiatives, such as interactive voice response changes and website improvements, which reduced track-status calls and redirected calls to online self-help and automated responses.
- Despite ongoing operational changes related to the Postal Transformation initiative, we exceeded delivery service targets for the Lettermail™, Parcels and Addressed Admail™ product lines. While Unaddressed Admail performance fell short of our target for the year, performance increased on a year-over-year basis.

2013 objective

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

2013 results

- Following the Group of Companies' 2012 purchase of the remaining shares of Innovapost from CGI and the creation of a shared services delivery organization, the IT transformation initiative focused on the renewal/re-procurement of the IT supply chain. We selected a new data centre vendor and three new application development service providers, increasing our capabilities and reducing costs. Additionally, we insourced network and telephony management as well as retail helpdesk service to improve service and further reduce costs. We exceeded planned savings, implemented new performance measures to tighten the alignment of shared services with clients, and significantly improved application and infrastructure stability.

2013 objective

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

2013 results

- We achieved year-over-year labour costs savings of \$46 million, primarily through implementation of Postal Transformation.
- We carefully managed attrition, which allowed us to minimize the need for replacement staff and achieve labour savings, while respecting the provisions of our collective agreements.
- We continued our focus on training and delivered over 540,000 hours of company-wide training on updated business practices, structures and equipment to front-line employees and supervisors.
- We reduced lost-time injury frequency by 19%. We continue to focus on maintaining a healthy and safe workplace by raising safety awareness with our employees and introducing initiatives on an ongoing basis to identify and promptly address high-risk situations and activities.

2013 objective

Maximize the full potential of the Group of Companies.

2013 results

- Our goal is for the Canada Post Group of Companies to achieve more synergies in terms of costs and revenues by integrating and coordinating activities, where appropriate. We achieved our new business Group of Companies revenue growth plan from a number of new joint customers by selling our combined capabilities and business solutions, including Direct Marketing, courier and logistics, transportation management, fulfillment, inventory management, and same-day delivery services.
- Canada Post and Purolator launched PuroPost™, a new service aimed at business-to-consumer shippers based in the U.S. PuroPost offers guaranteed service to residential locations in Canada. Benefits include nationwide coverage, faster crossing of the border and competitive pricing.

3.2 Pursuit of growth opportunities

2013 objective

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

2013 results

- We continued to enhance the convenience of the online shopping experience for online shoppers and online merchants with parcel Web Services. Launched in 2012, Web Services enable the integration of Canada Post shipping information into an online merchant's website. In 2013, we introduced a dedicated support team of solution advisors to engage and assist online merchants with integration. This led to over 500 client engagements and 250 completed Web service integrations during the year, and merchants increased their shipping transactions with Canada Post.

- To meet merchant and shopper demand for same-day delivery in large urban centres, we introduced an innovative pilot project Delivered Tonight™, in the Greater Toronto Area during the holiday shopping season. Shoppers who ordered products through participating online retailers earlier in the day had their order delivered to them that same evening.
- We introduced the Tracked Packet™ product to provide U.S. and international customers the visibility and service into Canada.
- To build our presence in the e-commerce community, we launched a new parcel brand campaign, Delivering the Online World™. The campaign was supported by advertising across several media platforms and three new television commercials to promote our e-commerce leadership position and superior convenience for parcel delivery. In addition, we hosted the second annual Canada Post E-commerce Innovation Awards™, with over 600 of Canada's key e-commerce players in attendance, to honour companies that transformed the Canadian online retail sector.
- Parcel revenues from our top e-commerce customers increased by 29%.
- We exceeded on-time service performance targets for all products, including Expedited Parcel™ and Xpresspost™.

2013 objective

Achieve leadership in digital delivery through the epost™ network.

2013 results

- We continued to improve the navigation and usability of epost™ and added 38 new billers. We registered more than 862,000 new users of epost™, bringing the total registered users to almost 9.1 million at the end of 2013. We delivered 78 million transactions, which included bills, statements, and invoices delivered to the epost™ box as well as transactions presented or viewed through our various presentment locations. We also launched epost™ Connect. This platform guarantees that all sensitive and confidential information sent digitally by customers is protected with bank-grade encryption.
- Canadians are embracing our online post office. Over 150 million visits to our website were made by Canadians (business and consumers) over the course of 2013, 18 million more than 2012. Canada Post's mobile app, introduced in 2011, continued to gain recognition and usage.

2013 objective

Leverage the untapped potential of mail.

2013 results

- We generated revenue of over \$60 million and growth of 5.5% over 2012 in the philatelic area by expanding our philatelic program and associated product lines and increased the reach of our products by launching targeted marketing campaigns to support the stamp program and hosting local philatelic awareness events in our retail outlets.

- We repositioned Direct Marketing within the new digital advertising landscape through education and awareness campaigns, which included presentations, forums and workshops, marketing and communication programs, market research, improvements to the Precision Targeter™ online tool and pricing incentives.

2013 objective

Aggressively grow the data and location intelligence business.

2013 results

- 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 launched AddressComplete™, a solution that enables businesses to eliminate the capture of incorrect or incomplete customer address information by validating customer addresses in real time, directly in the address fields on a website or application.

4 Capabilities

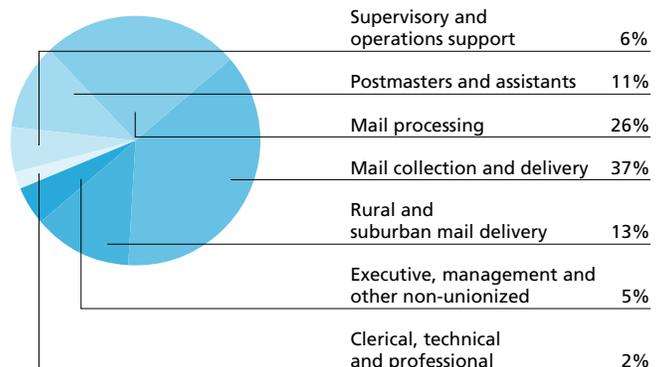
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with 66,000¹ people, including 14,000 among its subsidiaries. The workforce is diverse and is found in every urban, rural and remote community in the country.

Canada Post segment

Workforce by type of work – 2013



Employees play a vital role in the success of the Corporation and are key to delivering a positive, trusted and reliable customer experience.

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

Talent management and learning and development

Canada Post segment

In 2013, Canada Post's primary areas of focus were talent management, workforce management and training. To support these initiatives, we enhanced our talent management framework, introduced a refreshed set of corporate values and revised our performance management program. In addition, we continued our executive development program (LEAD 2.0) for a second consecutive year as a means of growing our leadership talent and supporting the company's succession plan.

We also established and implemented a strategy to proactively match attrition patterns with labour requirements. This is particularly important as we adjust the size of our workforce to reflect new methods of mail delivery. An estimated 15,000 full-time employees (or an average of 3,000 per year) are expected to leave the Canada Post segment between 2014 and 2018 as a result of retirements and normal attrition.

As the Corporation transforms, its employees need to be prepared to assume new or modified roles. As in prior years, 2013 saw continued focus on training associated with updated business processes, structures and equipment using tools such as e-learning. This included the delivery of over 540,000 hours of corporate-wide training to front-line employees and supervisors.

In addition to training, the recruitment and selection process is instrumental for our people to be confident and capable of achieving business goals. With a focus on four designated groups (women, members of visible minorities, Aboriginal peoples and people with disabilities), we expanded our recruiting efforts to increase visibility of our job opportunities in these areas. Our efforts were aligned with the commitment outlined in our 2012-2014 Canada Post Employee Equity Plan. Furthermore, we increased the use of social media to advertise and attract new candidates to our jobs. The Summer Student Program was one of the first applications of social media for recruiting – an example of using the right tool for the right audience. These efforts will continue into 2014 as will the continued focus on attracting and retaining a diverse workforce.

In 2013, we continued our efforts to improve employee relations. As well as promoting and reinforcing expected leadership behaviours and values, we reduced grievances by 11% and lost-time injury frequency by 19%. Also, in conjunction with front-line leaders, 12 sites were selected to deploy an integrated employee relations approach designed to improve the work environment and business outcomes.

Purolator

Early in 2013, gaining greater insights into ideas, concerns and observations of employees was identified as an area to address. Purolideas is an idea generation and collection tool that forms part of the complete innovative thinking tool set that will assist Purolator on the journey to becoming a more innovative organization.

During the summer of 2013, Purolator introduced "Straight talk @ the table with Patrick Nangle" – an open forum discussion with Purolator's President and CEO to discuss ideas and company goals and share best practices over breakfast. This dynamic mix of presentation and face-to-face interaction gives front-line employees a new learning experience and a new perspective on the direction of the company.

In September 2013, Purolator employees were invited to participate in a virtual all-employee town-hall webcast, hosted by Patrick Nangle and the senior executive team as they offered insight into where the company is and how it plans to achieve goals. The meeting was webcast to employees in Canada and the U.S. through a private portal and then a recording was made available for them to view online. Employees could text or email their questions with selections read live during the meeting.

As Purolator continues to grow and reinforce its prominence in the Canadian marketplace, it is important to provide employees with the opportunity to communicate their opinions on what is working and what needs to be improved. As reflected in the corporate value of People First, Purolator's success as a company is a direct result of the satisfaction and commitment of its employees. In October 2013, all non-unionized Purolator employees had the opportunity to give feedback in the 2013 MyVoice pulse survey. They were encouraged to complete the survey to help advance Purolator's evolution as a profitable and personable company.

Health and safety

Canada Post segment

Canada Post encourages a culture of health and safety and is committed to strengthening health and safety programs by building safety leadership, identifying, preventing and controlling hazards, and making continuous improvement. This strategy helped to reduce the number of injuries in 2013, dropping lost-time injury frequency by 19% on a year-over-year basis.

Slips, trips and falls were once again the most common causes of workplace injuries in 2013. The annual awareness campaign remained an integral part of ensuring that employees had the tools, information and guidance needed to perform their work safely. Since injuries can occur off Canada Post property, the Corporation continued to raise awareness among home and business owners on how they can play a role in keeping delivery personnel safe.

Ergonomic injuries related to manual material handling and musculoskeletal-related injuries represent the second highest causes of workplace injuries. In 2013, Canada Post introduced a program designed to reduce musculoskeletal injuries. This program coaches management staff and supervisors on injury prevention by encouraging and promoting healthy ergonomic and material-handling techniques.

Several other initiatives have contributed to improving workplace health and safety. For example, we recommended changes to the training and evaluation program for employees driving on corporate business. These changes are expected to be implemented in 2014. As well, leadership safety action plans were completed for all areas of operations, with each location targeting high-risk areas for improvement.

Activities designed to improve compliance with statutory health and safety requirements were also performed. A tracking database, built in 2012, was launched for local joint health and safety committees, as well as health and safety representatives. Assessments were conducted to determine compliance with incident investigation statutory and corporate requirements.

The safety management system continues to be enhanced to improve the overall management of safety priorities and programs throughout the Corporation.

Health and safety of rural and suburban mail carriers

Rural customers typically receive their mail in a rural mailbox (RMB) at their driveway entrance. These rural addresses represent about 5% of the 15.5 million addresses in Canada. Continued urbanization in Canada has increased the volume and speed of rural traffic and raised potential safety hazards for rural and suburban mail carriers.

In 2013, we completed the remaining 10% of safety assessments of the 843,000 RMBs across the country. The assessments were performed using the Traffic Safety Assessment Tool (TSAT), which was designed by third-party experts. At the end of the project, we preserved delivery to approximately 90% of RMBs. Throughout the safety assessments, we followed a robust process of community outreach to communicate findings with members of Parliament, municipal officials and customers.

To avoid potential repetitive strain injuries and address ergonomic concerns, we continue to deploy right-hand drive vehicles or reaching devices for those addresses where employees deliver mail through the passenger-side window of a vehicle.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees¹	Expiry date of the collective agreement
CUPW-UPO ²	35,131	January 31, 2016
CUPW-RSMC ³	7,125	December 31, 2015
CPAA ⁴	5,750	December 31, 2014
APOC ⁵	3,437	March 31, 2014
PSAC/UPCE ⁶	1,357	August 31, 2012
Total	52,800	

1. Includes full-time and part-time employees including those on unpaid leave, as at December 31, 2013, and excludes temporary, casual and term employees.
2. 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.
3. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.
4. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.
5. 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.
6. 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 in areas such as finance and engineering.

Pay equity update

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 against Canada Post dating back to 1983. After several months of negotiations and additional court activity, the Corporation and PSAC signed a memorandum of agreement on June 25, 2013, outlining details such as eligibility, calculation methodology, application of interest and payment process. This agreement, consistent with the Supreme Court ruling and approved by the Canadian Human Rights Tribunal on August 6, 2013, provides the certainty and clarity required to proceed with payments to eligible employees and former employees. A team of employees continues the lengthy and complex process of reviewing tens of thousands of employee files in preparation of payment. Pay equity payments, commenced in August 2013, are being made on an ongoing basis. Given the complexity of reviewing and processing each file, completing this process will take time.

PSAC/UPCE

The collective agreement with PSAC/UPCE expired on August 31, 2012. PSAC/UPCE 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 in areas such as finance and engineering. After 12 months of talks, Canada Post tabled a final offer on September 17, 2013. The final offer recognizes the financial challenges the Corporation is facing. The parties began mediation in late

October. In early November, mediation concluded and PSAC/UPCE agreed to put Canada Post's final offer to its membership for a vote. PSAC/UPCE is responsible for the timing and organization of the voting process. The vote did not take place and as such, on February 4, 2014, Canada Post filed for conciliation. On February 19, 2014, the Minister of Labour appointed a conciliator. During conciliation on March 16, 2014, Canada Post received a written commitment from PSAC/UPCE to put the Corporation's final offer to a vote and communicate the results by April 27, 2014.

CUPW-UPO

Canada Post began implementing changes introduced in the two collective agreements it signed with CUPW on December 21, 2012. These changes, which include new starting wages for new employees, a zero per cent wage increase for 2015-16, and the adoption of the Short-Term Disability Program in place of the traditional sick leave program, start to bring our cost structure more in line with the competitive realities we are facing. As well, over the course of 2013, we met with CUPW to continue discussions regarding business and pension-related challenges. Canada Post and CUPW-UPO are now in the last year of the first four-year agreement, which expires on January 31, 2015. The second agreement is a one-year agreement, expiring on January 31, 2016.

CUPW-RSMC

As with the UPO agreement, we signed an agreement with CUPW-RSMC on December 21, 2012, and began implementing the negotiated changes over the course of 2013, which included wage and benefit improvements. Canada Post and CUPW-RSMC are now in the third year of the four-year collective agreement, which will expire on December 31, 2015.

APOC

The five-year collective agreement with APOC will expire on March 31, 2014. The Association represents supervisors, superintendants, and supervisory support groups, such as trainers, route measurement officers and sales employees. APOC served Canada Post notice to bargain on December 18, 2013. Negotiations for a new collective agreement will begin in the first quarter of 2014. The APOC collective agreement provides for final offer selection arbitration as a means of resolving outstanding issues when a negotiated settlement cannot be reached. The process is used in place of a strike or lockout.

CPAA

Canada Post is in its 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. As with the APOC collective agreement, the CPAA agreement refers to the final offer selection process as a means to resolving outstanding issues in place of a strike or lockout. It is anticipated that negotiations will commence in the third quarter of 2014.

Purolator

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees¹	Expiry date of the collective agreement
Teamsters ²	9,022	December 31, 2016 December 31, 2017
Other ³	396	December 31, 2013 January 31, 2015
Total	9,418	

1. Includes all full-time and part-time employees including those on unpaid leave, as at December 31, 2013, and excludes temporary, casual and term employees.
2. Teamsters represent employees in operations and clerical and administrative employees.
3. Other represents clerical and administrative employees.

In 2013, Purolator and a number of Teamsters 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. By the end of 2013, Purolator had ratified agreements with all Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia. These new agreements expire on December 31, 2017.

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

On August 31, 2013, the Communications, Energy and Paperworkers Union of Canada (CEP) (known in Quebec as the Syndicat canadien des employés des communications, de l'énergie et du papier [SCEP]) merged with the Canadian Auto Workers (CAW) to create a new union – Unifor. The agreement between Purolator and Unifor, which governs the employment relationship with administrative and clerical employees in Quebec, expired at the end of 2013. Purolator commenced bargaining with Unifor in the first week of December 2013.

Logistics – SCI Group

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees¹	Expiry date of the collective agreement
Unifor ² – Toronto	248	December 31, 2014
Unifor ² – Laval	22	November 30, 2016
Total	270	

1. Includes all full-time and part-time employees including those on unpaid leave, as at December 31, 2013, and excludes temporary, casual and term employees.
2. On August 31, 2013, the Communications, Energy and Paperworkers Union of Canada merged with the Canadian Auto Workers (CAW) to create a new union – Unifor.

4.2 Our network and infrastructure

The vast and complex operating network of Canada Post 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 2013, over 9.3 billion pieces of mail and parcels were processed, representing roughly 37 million items sorted and delivered daily.

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

- 21 mail processing plants
- 6,300 post offices, corporately owned or managed by authorized dealers
- 500 letter carrier depots
- 15,000 letter carrier routes
- 1,100 mail service carrier routes
- 28,000 street letter boxes
- 184,000 group and community mailboxes sites serving 4 million addresses
- 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 more than 160 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 infrastructure transformation plan

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 \$275 million

in 2013, bringing our investment to date to \$1.7 billion. At the end of 2013, our total annualized benefits were \$207 million, and we are on track to exceed \$250 million in savings per year.

Investing in our facilities, equipment and processes

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

Construction of the Pacific Processing Centre in Vancouver to replace two obsolete processing plants is on schedule. The expansion of the Montréal bulk mail facility to allow for replacement of obsolete parcel processing equipment was completed in 2013.

We also continued our focus on the installation of updated mail processing equipment in our plants. We installed 19 multi-line optical character readers (MLOCRs) and upgraded one automated flat sorting machine (AFSM), completing all of the planned mail installations. By the end of 2013, a total of 140 MLOCRs and 22 AFSMs 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, speed and capability of the new equipment, Canada Post was able to significantly improve plant productivity in 2013 as well as machine sequencing of mail.

We are also modernizing and increasing capabilities for processing parcels of all sizes. By the end of 2013, we had installed new parcel and container sorting systems in the Edmonton, Calgary, Winnipeg, and Toronto processing plants, and installation is nearing completion in Montréal and Vancouver. These systems offer fully automated sorting capabilities and can handle the expected increase in parcel volumes from the growing e-commerce market. Packages, 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, these upgraded systems reduce the requirement for material-handling equipment and offer significant improvements in ergonomics for our employees and reliability for our customers.

In 2013, we continued to invest in technology to increase product visibility from end to end, reduce our reliance on personal knowledge and manual processes, and further integrate our network. 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 for all products. The new Quality and Security of the Mail (QSM) system, which correlates data from a variety of corporate systems, has continued to be valuable in identifying operational issues and trends.

In 2014, our focus will be to continue our progress in parcel processing and transform delivery operations. The new Montréal parcel and container sorting systems will be operational in 2014. The new Pacific Processing Centre provides Canada's west coast with sorting and handling capabilities for domestic and international mail.

Investing in the delivery process

Canada Post delivers to 15.5 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, we continued to implement the new delivery model across the country.

In 2013, we continued to focus on the introduction of the new delivery model to more delivery depots. The new delivery model was implemented in 50 depots in 2013 and has now been launched in 179 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 that 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 foot and letter-based operation to a delivery operation capable of handling parcels and packets.

The new delivery model includes the motorization of full-service agents who deliver and pick up all products in a geographic area. In 2013, we added over 800 fuel-efficient light delivery vehicles to our fleet. The Ford Transit Connect™ vehicles have an improved fuel economy of close to 50% compared to existing step vans. We have reduced fuel consumption and greenhouse gas emissions compared to 2009 when we began to modernize our fleet, of almost 11,000 vehicles that travel more than 79 million kilometres a year.

Changes to the delivery process will continue in the Greater Toronto Area and Vancouver in 2014 to 2016.

Capital investments

Capital asset expenditures in the Canada Post segment reached \$341 million in 2013 and focused on the continued implementation of Postal Transformation, replacement of the existing asset base and facility upgrades.

The year-over-year decrease of \$206 million is driven by the reduction of Postal Transformation spending as the project draws to completion and capital reduction in areas such as asset replenishment, line of business investment and other business sustaining projects as a result of cash preservation initiatives.

In 2014, Canada Post plans to invest \$323 million in capital assets. A top priority will be implementing the Five-point Action Plan, with planned spending of \$84 million in 2014, which will focus on community mailbox and retail initiatives. We will continue to invest in Postal Transformation with \$95 million of planned spending. The

remaining \$144 million will focus on funding required to support strategic growth and transformation initiatives, and maintain critical components of our existing infrastructure following two consecutive years of cash preservation. 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 2013, Purolator invested \$30 million of capital in the relocation of the Edmonton facility to the Edmonton International Airport, the move to a larger facility in Prince George, British Columbia, the Purolator International legacy migration project, and improvements to the resiliency, responsiveness and recovery capabilities of critical applications.

In 2013, Purolator increased its investment in technology and infrastructure as it focused on enhancing online customer experience with the addition of new features such as new shipment tracking, customer feedback and enhanced "find location" tools at purolator.com.

4.3 Sales channels

Retail network

Canada Post has the largest retail network in Canada, with 6,300 retail post offices serving consumers and businesses. This extensive network consists of approximately 3,800 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.

From 2011 to 2013, we focused on operational excellence, particularly with respect to maximizing the efficiencies within the network. We continued to invest in our retail point-of-sale system, developing enhancements that increase sales, improve the customer experience and deliver value. We developed on-screen dashboards, complementary selling offers, coupon functionality, direct shipment and real-time performance reporting. These enhancements drive value to each customer visit and to the overall performance of the store and will be critical in the future for the network.

To serve our rural clients, the retail network includes over 3,700 locations in diverse and remote areas across Canada. When an unforeseen event affects the operation of a post office in a community, Canada Post ensures that local mail delivery is maintained by using a community outreach process. This process includes open consultation with federal and local officials so 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 2014, we will further enhance the retail point-of-sale system to obtain maximum value in every transaction. We will also focus on developing strategies and processes to better manage our vast network as cost effectively as possible. In addition, we are investigating two lower cost

solutions for standard parcel and stamp consumer transactions: kiosks and a light version of our point-of-sale system for parcel pickups. Both provide less expensive alternatives for serving our customers and will be considered in support of the overall network strategy.

Online network

Customers should be able to reach Canada Post through their channel of choice, be it in person, by telephone, on paper or online. Customers can choose to use the online channel, 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. We aim to improve the online channel performance and heighten the customer experience across digital touch points by improving and simplifying the user experience of online channels, increasing commercialization of the Web, using online channels to support the physical network, and offering more products and services through our mobile app and the epost™ platform.

Commercial

Our commercial customers are served by our highly skilled sales force, which is structured to maximize opportunities around Web 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 customers.

4.4 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 on a timely basis to senior management, including the Corporation's President and Chief Executive Officer (CEO) and 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, 2013.

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).

The President and CEO and the CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2013, in

accordance with the Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the President and CEO and the CFO have determined that the Group of Companies' internal control over financial reporting is effective as at December 31, 2013. 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 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, 2013, 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

Significant core volume declines

Canada Post is experiencing significant pressures on its volumes across its traditional lines of business. This is especially prevalent in Transaction Mail and Direct Marketing. Lettermail™ volume and revenue erosion is a fact of life for foreign postal administrators (posts) around the world. The availability of electronic delivery alternatives, combined with a greater level of comfort in their security and reliability mean that Lettermail erosion is happening globally at an accelerated rate. Direct Marketing mail erosion is not only affected by electronic

substitution and the slow economic recovery, but also by diminishing Direct Marketing expertise in the advertising industry. Further acceleration in the rate of decline would have a substantial impact on the Corporation's cash flow and the capacity to maintain financial sustainability.

Risk mitigation

Canada Post is responding to the accelerated rate of volume decline through a combination of cost management, pricing changes, and diversification measures as well as service enhancements and revenue growth initiatives. Cost management is focused on the restructuring of our network. While we have gained significant operational efficiencies with the success of our Postal Transformation program, the ongoing drop in mail volumes is forcing us to explore further opportunities to modify our business model. As a result, we have unveiled the Five-point Action Plan to realign how we deliver and price postal services to meet Canadians' emerging needs, while reducing costs substantially. Beyond the Five-point Action Plan, we are pursuing growth and diversification by continuing to pursue e-commerce opportunities and repositioning our direct mail offering. Our digital presence is growing with the evolution of epost™ and electronic services. We are using new online tools, targeted pricing and educational actions to help revitalize the Direct Marketing business. Further revenue growth initiatives are focused on parcels and the rapidly growing e-commerce sector, and include enhanced capabilities of related Web services and parcel returns.

Achieving financial sustainability

Canada Post has a mandate to fund operations with revenues from the sale of products and services, rather than become a burden on taxpayers. With the increasing use of digital communication and the accelerated decline of traditional mail volumes, Canada Post has begun to incur financial losses. If no actions are taken, continued losses would soon jeopardize the financial self-sufficiency of the Corporation. Therefore, further changes to the existing business model are necessary to restore profitability and achieve financial sustainability.

Risk mitigation

Changes identified in the Five-point Action Plan are aimed at achieving long-term financial stability. Once fully implemented, four of the five initiatives are expected to contribute an estimated \$700 million to \$900 million per year to the Corporation's bottom line.

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 provide benefits from its extensive physical network, while the epost™ 2.0 service offers a free digital mailbox for Canadians. Both sectors present challenges. Global competitors, who offer seamless cross-border capabilities, have entered the

Canadian e-commerce market and benefit from much lower labour costs. 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. As this new structure matures, we continue to focus on aligning efforts to ensure that the two units are supporting common corporate strategic imperatives.

In physical delivery, we continue to expand parcel capacity to ensure that we are able to take advantage of market growth. We are strengthening our value proposition for the e-commerce segment through initiatives such as the Delivered Tonight™ pilot in the Greater Toronto Area, which provides industry leading responsiveness for online shoppers. Our presence in the digital marketplace is strengthened with the continued evolution of epost™ and development of related revenue opportunities. We are also seeking talent with the appropriate marketing and technical skill sets to match the changing industry.

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 marketplace and implement changes to its business model, including employee benefit plans. With collective agreements expiring almost every year, Canada Post finds itself continuously in negotiations with one or more of its unions; for example, negotiations on a new agreement with almost 1,500 employees represented by PSAC/UPCE will continue in 2014. PSAC/UPCE has committed to putting the Corporation's final offer to a vote and communicating the results by April 27, 2014. New negotiations with employees represented by APOC and the CPAA will also start in 2014.

Risk mitigation

Collective agreements with the CPAA and APOC provide for final offer selection arbitration, which can be used in place of a strike or lockout when a negotiated settlement cannot be reached. Canada Post's objective during collective bargaining is to protect its financial viability and sustainability, while limiting, as much as possible, the impact to current employees. The Corporation's approach across all its bargaining agents is to consistently work with them to ensure a shared understanding of the structural challenges facing the Corporation and to reach settlements that balance employee expectations and cost containment. The Corporation will work with all its bargaining agents to ensure a smooth implementation of the Five-point Action Plan.

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 \$19 billion in market value. The scale of the RPP, given its size relative to the Corporation's revenue and earnings, and 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 three primary risk factors:

- continued low long-term interest rates, which serve to increase the pension obligation;
- lower-than-expected returns on assets, which would create a shortfall in assets available to meet the RPP's obligation;
- changes to non-economic factors, such as members' demographics.

As of December 31, 2013, the going-concern deficit to be funded is estimated at \$296 million, and the solvency deficit to be funded is estimated at \$6.3 billion. The final actuarial valuations for the RPP will be filed by the end of June 2014. Actual results may differ significantly from these estimates as actuarial assumptions are being finalized.

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 48.

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, a number of new asset classes have been introduced in order to enhance overall returns and lower volatility.

In February 2014, the Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This measure will address the immediate need for additional liquidity. During the relief period, Canada Post will work with its unions and other representatives of pension plan members to restructure the pension plan in order to ensure its sustainability.

Procurement risks related to major suppliers' transition

Failure to effectively execute the procurement process and successfully make the transition when a new provider is selected could have significant impacts on Canada Post's finances, reputation and operations.

Risk mitigation

The Corporation is addressing this risk through robust procurement processes, with guidance from a fairness commissioner and the hiring of third party and industry experts, as well as extended windows for transition periods.

Information systems and information technology

Canada Post's information systems and information technology (IS/IT) is facing some internal and external challenges. The inevitable global trend toward an economy becoming more digital and connected will require even greater levels of internal agility and reactivity to remain competitive. Externally, the growing threat of cyberattacks and the increasing occurrences of personal data breaches due to malevolent acts reported worldwide are taken very seriously by the Corporation.

Risk mitigation

The new governance structure of Innovapost will help better align the IS/IT objectives with existing and future requirements of the Group of Companies. Canada Post is working closely with the Government of Canada to address the risk of cyberattacks. Business continuity and disaster recovery plans are also in place.

Brand

Canada Post is traditionally associated with a legacy product – Transaction Mail. Each year, Canada Post delivers more parcels to Canadians than any other company. To fully embrace the growth opportunity associated with e-commerce, the Canada Post brand needs to be associated more closely with parcels and the online world. Canada Post also faces the challenge of maintaining high levels of favourability and trust, while successfully transforming its business model.

Risk mitigation

Canada Post is carefully repositioning its brand with a targeted advertising campaign that promotes its parcel delivery capability and leadership in Canada.

5.3 Operational risks

Attrition

Canada Post faces an unprecedented rate of employee departures over the next five years, with nearly 15,000 employees expected to retire or leave the Corporation. 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 meetings with new employees to identify issues, and a workforce planning framework to manage and monitor risk. In addition, the changes being implemented as part of the Five-point Action Plan will allow us to gradually reduce the workforce by between 6,000 and 8,000 positions, providing an additional opportunity to manage attrition.

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.

Maintaining operational excellence during business transformation

Over the next five years, Canada Post will implement the Five-point Action Plan. By that time, four of the five initiatives are expected to contribute an estimated \$700 million to \$900 million per year to the Corporation's bottom line. There is a risk in achieving expected benefits within this timeframe if the Corporation's efforts are delayed by various factors.

Risk mitigation

Measures will be implemented to ensure a sound approach throughout all stages of the deployment of the Five-point Action Plan. These include detailed execution plans, rigorous project management and active engagement of the entire Corporation and the Board of Directors to ensure that expected savings are achieved.

Business continuity

Canada Post and its customers rely on physical and electronic delivery networks that are vulnerable to disruptions of natural or human origin. The Corporation's extensive physical network is also increasingly dependent on key operating systems, equipment, transportation network and IT infrastructure.

Risk mitigation

Postal Transformation is addressing critical infrastructure and equipment modernization 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 IT transformation. The Corporation and its partners continuously monitor threats to the business environment.

Health and safety

The health and safety of employees is a long-standing concern for Canada Post. 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 attention is focused on other initiatives. 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 officers continue to focus on the coaching of safe practices for employees and supervisors. The rural mailbox safety review ended in 2013. While the majority of reviewed mailboxes were found satisfactory, those posing a risk to delivery personnel were either moved or modified. Additionally, a health and safety update is presented to the Human Resources and Compensation Committee, which is scheduled to meet three times in 2014. The same report is then submitted to the Board of Directors. For further information, see Health and safety in Section 4.1 on page 38.

Service quality

On-time delivery performance in 2013 has remained very strong. As the Corporation continues to shift its focus toward the more competitive parcel market and faces digital substitution for its marketing products, maintaining the highest level of service quality will need to remain as the priority to ensure customer satisfaction and retention.

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 social responsibility. We have committed to register all new building projects for LEED™ (Leadership in Energy and Environmental Design) certification; 31 are registered to date, including the two mail processing facilities in Winnipeg and Vancouver. We are also replacing our existing delivery vehicles with smaller, more fuel-efficient ones, which now account for almost 50% of our fleet. 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.

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. Completion of the discovery process is still under way.

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. We are awaiting a decision from the Commission.

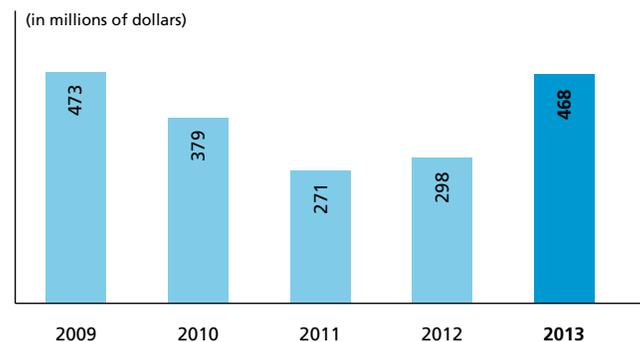
CUPW-RSMC pay equity complaint

In 2013, individual members of the Rural and Suburban Mail Carriers unit of CUPW (CUPW-RSMC) filed complaints with the Canadian Human Rights Commission alleging, among other things, discrimination by the Corporation concerning work of equal value. The Commission had previously declined jurisdiction in respect of similar complaints filed in 2012. Consistent with the process already in place for the 2012 complaints, the Corporation requested that the Commission use its jurisdiction to decline to hear the 2013 complaints on the basis of procedural errors and that the non-litigated internal dispute process be exhausted first. After the Commission declined jurisdiction in respect of the 2012 complaints to the Commission, further claims were filed against the Corporation on behalf of individual members by CUPW-RSMC in various locations. These claims contend, among other things, that the Corporation is in violation of the *Canadian Human Rights Act* by denying pay equity between the RSMC unit and external employees in the Corporation's postal operations unit. We are awaiting a decision from the Commission.

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 \$468 million as at December 31, 2013 – an increase of \$170 million compared to December 31, 2012. The increase was mainly due to cash proceeds from the 2013 sale of real estate assets, including the Vancouver Mail Processing Plant, in the Canada Post segment. Without the temporary pension relief from making special payments obtained in February 2014, this level of cash would be insufficient to fund Canada Post's pension obligations in 2014.

6.2 Operating activities

(in millions of dollars)	2013	2012	Change
Cash provided by operating activities	326	310	16

Cash generated from operating activities was \$326 million in 2013 – an increase of \$16 million when compared to 2012. This cash flow improvement was primarily driven by a lower net loss, partially offset by an increase in tax payments.

6.3 Investing activities

(in millions of dollars)	2013	2012	Change
Cash used in investing activities	(134)	(263)	129

Cash used in investing activities was \$134 million in 2013 – a reduction of \$129 million compared to 2012. This was primarily due to a decrease in net capital asset and business acquisitions of \$395 million, mainly due to less spending on Postal Transformation as the project approaches its final stages and an increase in proceeds from the sale of significant real estate assets, including Canada Post's Vancouver Mail Processing Plant. This was partially offset by a \$266 million reduction in net proceeds from the sale of securities.

Capital expenditures

(in millions of dollars)	2013	2012	Change
Canada Post	330	537	(207)
Purolator	23	35	(12)
Logistics	6	5	1
Innovapost and intersegment	(2)	(2)	(0)
Canada Post Group of Companies	357	575	(218)

The Canada Post Group of Companies decreased its capital expenditures by \$218 million in 2013 when compared to 2012. The decrease in expenditures was mainly due to less spending on Postal Transformation.

- Canada Post segment capital expenditures totalled \$330 million in 2013, a year-over-year drop of \$207 million, primarily due to less spending on Postal Transformation as the project approaches its final stages.
- Purolator segment capital expenditures totalled \$23 million in 2013 – \$12 million lower than 2012. Capital expenditures were mainly driven by new capital projects to support growth in online services, customer service improvements and acquisition of new vehicles.

6.4 Financing activities

(in millions of dollars)	2013	2012	Change
Cash used in financing activities	(22)	(20)	(2)

Cash used in financing activities increased by \$2 million in 2013 when compared to 2012, 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 \$19 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, in April 2011, changes to pension legislation were made, providing Crown corporations with funding relief on special solvency contributions if certain conditions were met. Under those regulations, the aggregate amount of the relief is limited to 15% of the plan assets.

Canada Post received approval from the Minister of Finance and the Minister of Transport, to reduce its special solvency contributions from January 1, 2011, to June 30, 2014. In 2013, the Corporation continued to use the funding relief permitted by legislation. Canada Post made \$27 million in employer special contributions in 2013, compared to \$63 million in 2012. Without this relief, an additional \$1.2 billion in special solvency contributions would have been required from the Corporation in 2013. The aggregate amount of the funding relief received as at December 31, 2013, is \$2.4 billion. As the aggregate amount of the relief is limited to 15% of RPP assets, the Corporation expected to reach the maximum aggregate amount of the relief in early 2014, putting significant pressure on its cash resources as it would require the Corporation to resume its solvency payments. With physical mail volumes expected to continue to erode, it would not have been possible for the Corporation to make the required cash payments in 2014 or over the next few years.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This temporary measure recognizes the serious operational challenges encountered by Canada Post.

During this period of time, Canada Post will work with its unions and other representatives of pension plan members to evaluate all options, including changes to plan design, in order to become financially sustainable.

The actuarial valuation for the RPP as at December 31, 2012, filed in June 2013, disclosed a going-concern surplus of \$81 million (using the smoothed value of RPP assets) and a solvency deficit (using the three-year average solvency ratio basis), before any relief, of \$5.9 billion.¹

The mortality tables were updated in 2013 based on the Canadian Institute of Actuaries (CIA) Report on Canadian Pensioners Mortality (CPM), more specifically the 2014 RPP Public Sector Mortality Tables with the CPM improvement scale, adjusted for experience. Mortality tables represent the probability of death within a year for plan members of various ages. The updated tables, combined with the CPM improvement scale, increased the life expectancy of plan members both during and after employment, resulting in significant increases in the going-concern and solvency obligations.

The current estimate of the financial position of the RPP as at December 31, 2013, is a going-concern deficit of approximately \$296 million (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately \$6.3 billion² (using the three-year average solvency ratio basis), despite a strong return on investments of 16.9% in 2013. These preliminary estimates are subject to significant changes as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2013 will be filed by the end of June 2014. Actual results may differ significantly from these estimates.

The going-concern funded status deteriorated during the year, mainly because the increase to the going-concern obligations due to the change in the mortality tables more than offset the strong return on investments. The increase in discount rate, the strong return on investments and the change to the mortality assumptions collectively had a positive effect on the solvency deficit when using the market value of plan assets. However, the solvency deficit to be funded deteriorated further in 2013, mainly due to a decrease in the three-year average solvency ratio used for this valuation.

In 2013, the employer current service contributions to the defined benefit pension plan amounted to \$258 million, compared to \$308 million in 2012. Employer current service contributions for 2014 are estimated at \$250 million. Without pension relief, the Corporation would have been required to make special payments of approximately \$1.3 billion in 2014.

On December 14, 2012, the *Jobs and Growth Act, 2012*, Bill C-45, was enacted, enabling changes to the public service pension plans. Consequently, effective January 1, 2013, the cap for the employees' share of current service costs was increased from 40% to 50%. The Board of Directors of Canada Post has approved changes to the RPP, and the Corporation is moving to 50/50 cost sharing by 2015. CUPW is challenging this decision to raise the rate of employee contributions as the union alleges that it is a violation of the terms of the collective agreement.

Canada Post, the RPP sponsor, records remeasurement gains and losses, net of tax, in other comprehensive income (loss). In 2013, the remeasurement gains, net of tax, amounted to \$1,946 million.

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* (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, 2013, and during 2013, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had \$919 million of unrestricted liquid investments on hand as at December 31, 2013, and \$100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period. In addition, the Corporation will start implementing the initiatives included in the Five-point Action Plan to address the operational sustainability and help ensure the Corporation's profitability. Based on the temporary relief and the implementation of the Five-point Action Plan, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's subsidiaries had a total of \$119 million of unrestricted cash on hand and undrawn credit facilities of \$131 million as at December 31, 2013, ensuring sufficient liquidity to support their operations for at least the next 12 months.

1. Solvency deficit when using market value of plan assets is approximately \$6.5 billion.

2. Solvency deficit when using market value of plan assets is estimated at \$5.1 billion.

Access to capital markets

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 \$100 million for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of \$500 million from the Government of Canada's Consolidated Revenue Fund. 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 \$1,057 million of borrowings as at December 31, 2013, the Canada Post segment had \$1,443 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, 2013, amounted to \$74 million, resulting in consolidated borrowings of \$1,131 million as at December 31, 2013. This represents a decrease of \$12 million over the 2012 year-end level of \$1,143 million, reflecting that the Corporation funded itself primarily through use of cash-on-hand, funds generated from operations during 2013 and the pension plan funding relief permitted by legislation.

Dividend

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 the Corporation is required to submit a dividend proposal as part of the Corporate Plan. The Corporation indicated in the 2013-2017 Corporate Plan its intention not to pay a dividend in 2013, given its financial results and outlook and ongoing large cash investments in Postal Transformation. Canada Post has not paid a dividend to the Government of Canada since 2008.

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	2013				
	Measured at fair value		Measured at cost ¹		Total
	Available for sale	Fair value through profit and loss	Loans and receivables	Other liabilities	
Financial assets					
Cash and cash equivalents	–	468	–	–	468
Marketable securities	–	570	–	–	570
Trade and other receivables	–	–	779	–	779
Segregated securities	510	–	–	–	510
Total financial assets	510	1,038	779	–	2,327
Financial liabilities					
Non-interest bearing ²	–	–	–	728	728
Bonds	–	–	–	1,051	1,051
Other loans and borrowings	–	–	–	80	80
Total financial liabilities	–	–	–	1,859	1,859

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

2. 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 as fair value through profit or loss or available for sale.

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 12 years as at December 31, 2013, (2012 – 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 \$58 million (2012 – \$70 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2013, and on other comprehensive income (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 other comprehensive income or loss.

Loans and borrowings of \$1,131 million (2012 – \$1,143 million) include fixed-rate debt with prepayment options and finance 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 exposure to 2013 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/losses included in revenues from operations amounted to a \$1 million loss in 2013 (2012 – \$5 million gain). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2013, all other variables held constant, would have been an increase or decrease in net loss for the year by \$4 million (2012 – \$5 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 outstanding receivables.

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 that it is subject to any significant concentration of credit risk.

There was no impairment loss on investments recognized during the year (2012 – nil), and impairment losses on trade and other receivables were \$3 million (2012 – \$2 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 Group of Companies 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 Group of Companies 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 49.

For further details on risk associated with financial instruments, see Note 24 to the consolidated financial statements on page 118 and Section 6.6 Liquidity and capital resources on page 49.

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 115 and 120, respectively.

(in millions of dollars)	Total	Less than 1 year	1-5 years	More than 5 years
Bonds ¹	1,055	–	55	1,000
Interest on bonds	848	48	177	623
Finance lease obligations	86	25	57	4
Operating leases ²	934	152	355	427
Total	2,923	225	644	2,054

1. 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%.

2. Operating leases include the future minimum payment obligations associated with facilities, transportation equipment and other operating leases.

In addition to the contractual obligations and commitments included in the table above, as at March 20, 2014, the Group of Companies has contractual arrangements with third-party suppliers approximating \$992 million. These contractual arrangements extend to 2022 and allow for termination with penalties.

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 48.

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 \$290 million (2012 – \$293 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 (2012 – \$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, 2013, and 2012, were \$11 million and \$10 million, respectively, and included compensation related to short-term employee benefits and post-employment benefits. The increase over prior year is mainly attributable to the filling of vacant positions at a subsidiary in 2013. See Note 23 to the consolidated financial statements on page 116 for additional details.

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 114 for additional details on other contingent liabilities.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between December 31, 2013, and December 31, 2012

(in millions of dollars)

ASSETS	2013	2012 (restated) ¹	Change	%	Explanation of change
Cash and cash equivalents	468	298	170	56.7 %	Refer to Section 6 – Liquidity and Capital Resources (page 47)
Marketable securities	570	570	0	0.1 %	No material change.
Trade and other receivables	779	702	77	11.0 %	Mainly due to increased international settlements receivable at Canada Post and increased receivables at Purolator.
Income tax receivable	6	8	(2)	(21.4) %	Mainly due to the receipt of the prior year's refund for Canada Post and Innovapost offset by Purolator's current year's expected refund.
Prepaid expenses	82	79	3	4.0 %	No material change.
Assets held for sale	10	47	(37)	(78.2) %	Mainly due to the disposal of properties held for sale at Canada Post.
Total current assets	1,915	1,704	211	12.4 %	
Property, plant and equipment	2,707	2,655	52	2.0 %	Mainly due to Canada Post capital acquisitions.
Intangible assets	129	143	(14)	(10.0) %	Mainly due to the amortization of software assets exceeding acquisitions.
Segregated securities	510	560	(50)	(8.9) %	Mainly due to unrealized losses for Canada Post.
Pension benefit assets	177	83	94	113.5 %	Mainly resulting from net remeasurement gains combined with employer contributions being higher than the pension defined benefit expense.
Deferred tax assets	1,093	1,808	(715)	(39.6) %	Mainly due to the decrease of temporary differences resulting from remeasurement gains recognized in other comprehensive income for Canada Post's Registered Pension Plan asset and other post-employment benefits.
Goodwill	130	130	0	0.1 %	No material change.
Other assets	6	11	(5)	(44.9) %	Mainly due to a decrease in borrowed sick leave as a result of changes from the introduction of the short-term disability program for CUPW.
Total non-current assets	4,752	5,390	(638)	(11.8) %	
Total assets	6,667	7,094	(427)	(6.0) %	

1. The amounts for 2012 were restated as a result of adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

(in millions of dollars)

LIABILITIES	2013	2012 (restated) ¹	Change	%	Explanation of change
Trade and other payables	620	540	80	15.0 %	Mainly due to increased payables in the Canada Post segment.
Salaries and benefits payable and related provisions	580	699	(119)	(17.0) %	Primarily due to a decrease in accrued salaries at Canada Post as a result of an extra pay in 2013 (fewer days outstanding) and pay equity payments made.
Provisions	81	85	(4)	(5.5) %	No material change.
Income tax payable	1	1	0	53.9 %	No material change.
Deferred revenue	145	137	8	5.6 %	Primarily due to increased stamp deferral from the 2014 stamp-rate increase, partially offset by reduced customer credit balances.
Loans and borrowings	23	20	3	13.0 %	Due to increased capital leases for vehicles at Purolator.
Other long-term benefit liabilities	71	72	(1)	(2.3) %	No material change.
Total current liabilities	1,521	1,554	(33)	(2.2) %	
Loans and borrowings	1,108	1,123	(15)	(1.3) %	Due to principal repayments of finance leases at Purolator.
Pension, other post-employment and other long-term benefit liabilities	4,382	7,007	(2,625)	(37.4) %	Resulting from net remeasurement gains mainly attributable to increase in discount rates and return on assets in excess of interest income on plan assets, partially offset by actuarial losses caused by changes to mortality rates assumptions.
Deferred tax liabilities	3	2	1	62.9 %	No material change.
Provisions	2	5	(3)	(64.8) %	No material change.
Other liabilities	16	17	(1)	(6.5) %	No material change.
Total non-current liabilities	5,511	8,154	(2,643)	(32.4) %	
Total liabilities	7,032	9,708	(2,676)	(27.6) %	

1. The amounts for 2012 were restated as a result of adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

(in millions of dollars)

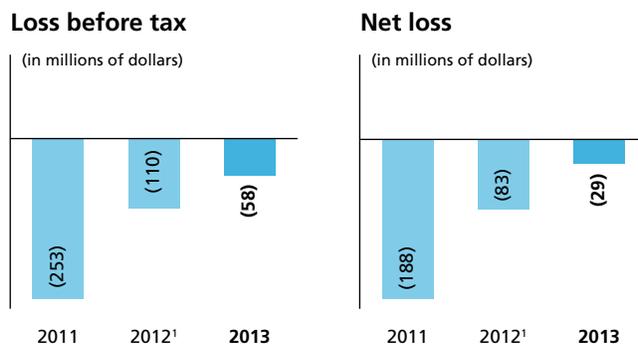
EQUITY	2013	2012 (restated) ¹	Change	%	Explanation of change
Contributed capital	1,155	1,155	0	0.0 %	
Accumulated other comprehensive income	18	52	(34)	(66.0) %	Mainly due to net unrealized losses on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(1,564)	(3,840)	2,276	59.3 %	Mainly attributable to remeasurement gains on pension and other post-employment plans.
Equity of Canada	(391)	(2,633)	2,242	85.1 %	
Non-controlling interests	26	19	7	37.9 %	
Total equity	(365)	(2,614)	2,249	86.0 %	
Total liabilities and equity	6,667	7,094	(427)	(6.0) %	

1. The amounts for 2012 were restated as a result of adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8 Discussion of Operations

A detailed discussion of our financial performance in 2013

8.1 Consolidated trends



1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8.2 Consolidated results from operations

Consolidated results

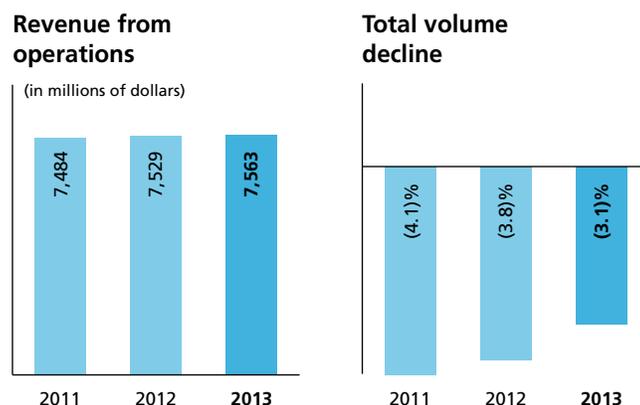
(in millions of dollars)	2013	2012 (restated) ¹	Change	%
Revenue from operations	7,563	7,529	34	0.4 %
Cost of operations	7,756	7,635	121	1.6 %
Loss from operations	(193)	(106)	(87)	(81.1) %
Investing and financing income (expense), net	135	(4)	139	–
Loss before tax	(58)	(110)	52	47.3 %
Tax expense (income)	(29)	(27)	(2)	(11.0) %
Net Loss	(29)	(83)	54	65.7 %
Other comprehensive income (loss)	2,279	(906)	3,185	–
Comprehensive income (loss)	2,250	(989)	3,239	–

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

The Canada Post Group of Companies had a loss before tax of \$58 million in 2013, an improvement of \$52 million when compared to the prior year mainly due to gains from the sale of real estate assets, including the Vancouver Mail Processing Plant, in the Canada Post segment.

The Canada Post Group of Companies had a loss from operations of \$193 million in 2013, a decrease in earnings of \$87 million compared to the prior year, primarily due to increases in employee benefit costs.

Consolidated revenue from operations



Revenue from operations totalled \$7,563 million in 2013 and increased marginally year-over-year by \$34 million or 0.4%. Growth in parcel revenue and price increases in the Canada Post segment and SCI revenue growth were barely sufficient to offset volume erosion, caused by electronic substitution, bill consolidation and competition in Canada Post's Transaction Mail and Direct Marketing lines of businesses.

Consolidated cost of operations

Cost of operations increased by \$121 million or 1.6% in 2013 compared to 2012, primarily from higher employee benefit costs in the Canada Post segment, as non-recurring non-cash accounting gains were recorded in 2012 in the Canada Post segment to account for changes to sick leave and health plans. These cost increases were partially offset by 2013 cost containment initiatives across the Canada Post Group of Companies.

Consolidated investing and financing income (expense), net

Net investing and financing income improved by \$139 million in 2013 compared to the prior year. Improvements were primarily due to higher gains on disposal of real estate assets in the Canada Post segment.

Consolidated other comprehensive income (loss)

Consolidated other comprehensive income amounted to \$2,279 million in 2013, mainly due to net remeasurement gains on the pension and other post-employment plans. These gains resulted from strong investment returns on pension plan assets and an increase in the discount rates used to measure these plans, partially offset by losses due to changes in mortality assumptions.

8.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	2009 ¹	2010	2011	2012 ²	2013
Canada Post	280	33	(329)	(157)	(269)
Purolator	54	79	76	39	65
Logistics	9	11	7	7	10
Innovapost	15	19	20	5	–
Intersegment and unallocated	(1)	–	–	–	1
Canada Post Group of Companies	357	142	(226)	(106)	(193)

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

2. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Segmented results – Profit (loss) before tax

(in millions of dollars)	2009 ¹	2010	2011	2012 ²	2013
Canada Post	319	56	(327)	(136)	(125)
Purolator	53	76	73	36	66
Logistics	9	11	7	7	12
Innovapost	15	19	20	5	0
Intersegment and unallocated	(17)	(28)	(26)	(22)	(11)
Canada Post Group of Companies	379	134	(253)	(110)	(58)

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

2. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of \$125 million in 2013, an improvement of \$11 million or 8.6% when compared to 2012. This improvement was attributable to net investing and financing income, mainly resulting from gains on the sale of real estate assets, including the Vancouver Mail Processing Plant, and labour savings, partially offset by increases in employee benefit costs. Without the gains from the sale of real estate assets, Canada Post would have experienced a much higher loss.

Canada Post summary

(in millions of dollars)	2013	2012 ¹	Change	%
Revenue from operations	5,883	5,866	17	0.3 %
Cost of operations	6,152	6,023	129	2.1 %
Loss from operations	(269)	(157)	(112)	(70.0)%
Investing and financing income (expense), net	144	21	123	570.8 %
Loss before tax	(125)	(136)	11	8.6 %

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Revenue from operations

Canada Post generated revenue from operations of \$5,883 million in 2013 – an increase of \$17 million or 0.3% when compared to 2012. Continued strong performance in Parcels, driven by the surging business-to-consumer e-commerce market, helped Canada Post generate revenue increases of over \$90 million in 2013. This was significantly offset by declines in Transaction Mail and Direct Marketing revenue as continued mail volume erosion due to electronic substitution, bill consolidation and intense competition negatively affected revenue in 2013.

Revenue and volumes by line of business

	Revenue				Volume				
	(in millions of dollars / trading day adjusted percentage)				(in millions of pieces / trading day adjusted percentage)				
	2013	2012	Change	%	2013	2012	Change	%	
Transaction Mail									
Domestic Lettermail™	2,688	2,707	(19)	(0.7)%	3,824	4,015	(191)	(4.8)%	
Outbound Letter-post	157	179	(22)	(12.4)%	92	112	(20)	(18.1)%	
Inbound Letter-post	120	126	(6)	(4.8)%	228	247	(19)	(7.5)%	
Total Transaction Mail	2,965	3,012	(47)	(1.6)%	4,144	4,374	(230)	(5.3)%	
Direct Marketing									
Addressed Admail™	586	602	(16)	(2.7)%	1,174	1,252	(78)	(6.3)%	
Unaddressed Admail™	398	405	(7)	(1.7)%	3,439	3,408	31	0.9%	
Publications Mail™	231	241	(10)	(4.1)%	382	409	(27)	(6.3)%	
Business Reply Mail™ and Other Mail	25	28	(3)	(8.2)%	24	27	(3)	(11.6)%	
Other	1	1	0	7.8 %	–	–	–	–	
Total Direct Marketing	1,241	1,277	(36)	(2.8)%	5,019	5,096	(77)	(1.5)%	
Parcels									
Domestic Parcels	969	901	68	7.5 %	107	100	7	6.9%	
Outbound Parcels	209	203	6	3.2 %	11	11	0	(2.8)%	
Inbound Parcels	193	173	20	11.5 %	40	42	(2)	(5.6)%	
Other	18	19	(1)	(6.4)%	–	–	–	–	
Total Parcels	1,389	1,296	93	7.2 %	158	153	5	2.8%	
Other Revenue	288	281	7	2.5 %	–	–	–	–	
Total	5,883	5,866	17	0.3 %	9,321	9,623	(302)	(3.1)%	

Transaction Mail

Total Transaction Mail revenue amounted to \$2,965 million in 2013. Transaction Mail revenue was made up of the following three product categories: Domestic Lettermail (\$2,688 million), Outbound Letter-post (\$157 million) and Inbound Letter-post (\$120 million).

Total 2013 Transaction Mail revenue decreased by \$47 million, and volume declined by 230 million pieces compared to 2012. The revenue and volume decline represent a year-over-year decrease of 1.6% and 5.3%, respectively. Year-over-year changes are broken down by product category as follows:

- Domestic Lettermail revenue declined by \$19 million or 0.7%, and volumes declined by 191 million pieces or 4.8% compared to 2012. Decreases in volume and revenue were primarily driven by erosion due to electronic substitution. Demand for Lettermail continues to fall with the rise in digital alternatives as well as pay-for-paper initiatives implemented by many of our largest customers, especially in the banking and telecommunication segments.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) decreased by \$22 million or 12.4% compared to the previous year. The revenue decrease was due to volume declines in commercial and retail channels.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) totalled \$120 million and dropped by \$6 million or 4.8% compared to 2012. Overall inbound volumes declined by 19 million pieces or 7.5% due to declining volumes from the U.S., being only partially offset by volume growth from the rest of world, particularly from Asia-Pacific countries.

Direct Marketing

Total Direct Marketing revenue amounted to \$1,241 million in 2013. Direct Marketing revenue was made up of the following four product categories: Addressed Admail (\$586 million), Unaddressed Admail (\$398 million), Publications Mail (\$231 million), and Business Reply Mail and Other Mail (\$26 million).

Total 2013 Direct Marketing revenue decreased by \$36 million or 2.8% compared to 2012 as revenue dropped in all four product categories. Year-over-year changes by product category are summarized as follows:

- Addressed Admail revenue declined by \$16 million or 2.7% and volumes declined by 78 million pieces or 6.3% compared to 2012. The revenue decline was caused by commercial customers, especially in the banking, financial and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels.

- Unaddressed Admail revenue decreased by \$7 million or 1.7% compared to the previous year. While volumes increased by 31 million pieces or 0.9% due to the introduction of pricing incentives in 2013, volumes did not increase sufficiently to increase revenues, and the average revenue per piece declined by 2.6%.
- Publications Mail revenue declined by \$10 million or 4.1% and volumes declined by 27 million pieces or 6.3% compared to 2012. The revenue decline was caused by volume erosion due to a decline in mail publication subscriptions, partially offset by a 2.4% increase in average revenue per piece.
- Business Reply Mail and Other Mail experienced declines in revenue of \$3 million or 8.2% and volume of 3 million pieces or 11.6% compared to the prior year.

Parcels

Total Parcels revenue was \$1,389 million in 2013 and was made up of the following four product categories: Domestic Parcels (\$969 million), Outbound Parcels (\$209 million), Inbound Parcels (\$193 million), and Other (\$18 million).

Total 2013 Parcels revenue increased by \$93 million or 7.2% compared to 2012. The increase reflects the strength of the fast growing business-to-consumer e-commerce delivery market as customers continue to order more products online. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue increased by \$68 million or 7.5%, and volumes increased by seven million pieces or 6.9%. Most of the growth was from higher customer usage of the Expedited Parcel™ service, mainly related to e-commerce shipments.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) increased by \$6 million or 3.2% compared to 2012, due primarily to an increase in revenue per piece of 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 11.5%, while volumes dipped by two million pieces or 5.6% compared to 2012. Revenue growth was predominately from an increase in the average revenue per piece for goods purchased online from the United States, mainly due to the success of the new Tracked Packet™ service in 2013, which includes an added fee for tracking and other features.
- Other Parcels revenue declined by \$1 million or 6.4% compared to 2012.

Other Revenue

Other Revenue totalled \$288 million in 2013 – an increase of \$7 million or 2.5% when compared to the prior year. The revenue increase was mainly due to the strong performance in Mail Redirection and Mover programs and growth in consumer products and services, which include the sales of new stamps, gifts and collectibles.

Cost of operations

In 2013, the Canada Post segment's cost of operations totalled \$6,152 million – an increase of \$129 million or 2.1% when compared to the prior year.

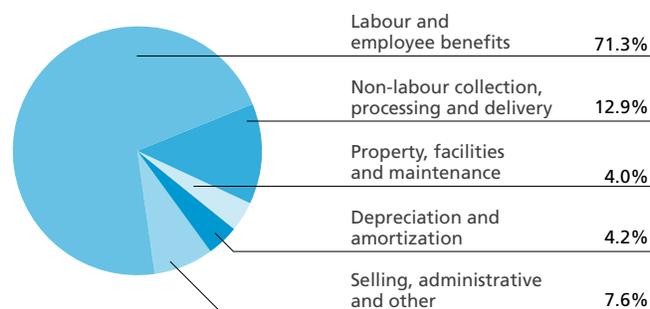
(in millions of dollars)	2013	2012 (restated) ¹	Change	%
Labour	3,128	3,174	(46)	(1.5)%
Employee benefits ²	1,257	1,075	182	16.9 %
Total labour and employee benefits	4,385	4,249	136	3.2 %
Non-labour collection, processing and delivery	794	812	(18)	(2.3)%
Property, facilities and maintenance	248	228	20	8.9 %
Selling, administrative and other	467	483	(16)	(3.3)%
Total other operating costs	1,509	1,523	(14)	(0.9)%
Depreciation and amortization	258	251	7	3.1 %
Total	6,152	6,023	129	2.1 %

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Includes plan amendment and curtailment gains in 2012.

The chart below shows the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 71.3% of the total cost of operations, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2013



Cost of operations	2011	2012	2013
Labour and employee benefits	70.7 %	70.6 %	71.3 %
Non-labour collection, processing and delivery	13.2 %	13.4 %	12.9 %
Property, facilities and maintenance	3.8 %	3.8 %	4.0 %
Depreciation and amortization	3.8 %	4.2 %	4.2 %
Selling, administrative and other	8.5 %	8.0 %	7.6 %

Labour

Labour costs decreased by \$46 million or 1.5% when compared to 2012. The decrease was primarily due to productivity improvements, primarily through implementation of Postal Transformation, partially offset by regular annual wage increases.

Employee benefits

(in millions of dollars)	2013	2012 (restated) ¹	Change	%
Pension expense	588	528	60	11.3%
Post-employment health benefits	163	47	116	246.5%
Other post-employment and other long-term benefits	93	72	21	30.0%
Interest on segregated assets	(21)	(21)	0	0.2%
Total post-employment and other long-term benefits	823	626	197	31.4%
Active employee benefits	427	443	(16)	(3.6)%
Other	7	6	1	15.5%
Employee benefits²	1,257	1,075	182	16.9%

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Includes plan amendment and curtailment gains in 2012.

Employee benefits increased by \$182 million or 16.9% when compared to 2012, as detailed below:

- Non-cash pension expense increased by \$60 million or 11.3% in 2013 due to the decrease in the discount rate from 5.3% to 4.4%, partially offset by strong returns on plan assets experienced in 2012.
- The non-cash post-employment health benefits expense increased by \$116 million or 246.5%, mainly due to the 2012 non-recurring accounting gain for past service credits resulting from a change to the plan arrangement. There was no such gain in 2013.
- Other post-employment and other long-term benefit expenses increased by \$21 million or 30% due to 2012 non-recurring accounting gains resulting from plan curtailment and experience adjustments.
- The benefits expense for active employees decreased by \$16 million or 3.6% in 2013, when compared to the prior year, primarily due to a reduction in headcount.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs decreased by \$18 million or 2.3% in 2013 when compared to the prior year, primarily due to lower transportation, employee conveyance and international settlement expenses.

Property, facilities and maintenance

The cost of facilities increased by \$20 million or 8.9% in 2013 compared to 2012, mainly due to utilities and rent increases.

Selling, administrative and other

Selling, administrative and other expenses dropped by \$16 million or 3.3% for 2013 when compared to 2012. This drop was largely driven by savings in travel costs, other administration expenses and one-time investment project expenses, partially offset by higher advertising costs.

Depreciation and amortization

The depreciation and amortization expense increased by \$7 million to \$258 million, a 3.1% increase compared to 2012. This increase was mainly due to higher capital asset acquisitions relating to Postal Transformation and replenishment of the existing asset base.

Investing and financing income (expense), net

Net investing and financing income improved by \$123 million in 2013 compared to the prior year. Improvements were primarily due to higher gains on disposal of real-estate assets, including a \$109 million gain on the sale of the Vancouver Mail Processing Plant in the first quarter of 2013.

8.5 Purolator segment

The Purolator segment contributed \$66 million to 2013 consolidated profit before tax, an increase of \$30 million when compared to 2012.

Purolator summary

(in millions of dollars)	2013	2012 (restated) ¹	Change	%
Revenue from operations	1,623	1,632	(9)	(0.5)%
Cost of operations	1,558	1,593	(35)	(2.2)%
Profit from operations	65	39	26	68.3 %
Investing and financing income (expense), net	1	(3)	4	–
Profit before tax	66	36	30	85.2 %

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Revenue from operations

Revenue from operations decreased by \$9 million or 0.5% in 2013 compared to 2012, mostly driven by reduced volumes due to severe competition in the courier market.

Cost of operations

The costs of operations decreased by \$35 million or 2.2% when compared to 2012, mostly due to reduced volumes and organizational restructuring.

8.6 Logistics segment

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

Logistics summary

(in millions of dollars)	2013	2012 (restated) ¹	Change	%
Revenue from operations	179	162	17	9.7%
Cost of operations	169	155	14	8.8%
Profit from operations	10	7	3	27.9%
Investing and financing income (expense), net	2	0	2	–
Profit before tax	12	7	5	55.2%

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

SCI Group

SCI's financial performance improved in 2013, with profit before tax of \$12 million, an increase of \$5 million when compared to 2012.

Revenue from operations increased by \$17 million compared to 2012. The revenue increase was due to the annualization of revenue related to the acquisition of White Glove Transportation Systems in May 2012 as well as volume growth from current clients and acquisition of new clients.

The cost of operations increased by \$14 million in 2013 when compared to 2012. This increase in cost was due to the annualization of the acquisition of White Glove Transportation Systems and additional customer growth in 2013.

8.7 Innovapost segment

Innovapost provides virtually all of its services to the Group of Companies. It reported revenue of \$249 million (\$221 million for the year ending December 31, 2012), which was eliminated against the other segments' cost of operations upon consolidation.

Innovapost summary

(in millions of dollars)	2013	2012 (restated) ¹	Change	%
Revenue from operations	249	221	28	13%
Cost of operations	249	216	33	15%
Profit from operations	0	5	(5)	–
Investing and financing income (expense), net	0	0	0	–
Profit before tax	0	5	(5)	–

1. The amounts for 2012 were restated as a result of the adoption of new or revised accounting standards. For more details, see Note 4 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Profit before tax decreased by \$5 million in 2013 compared to 2012. 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, Adoption of New Accounting Standards and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2013 and future years

9.1 Critical accounting estimates

Our significant accounting policies are described in Note 2 to the consolidated financial statements on page 85. 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 statements on pages 85 and 91, 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 85. 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 110.

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 consolidated 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 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 112 and 114.

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 the majority of its employees. The Group of Companies believes the accounting estimates below, used to measure its employee defined benefits plans, are critical accounting estimates because (1) the amounts are based on complex actuarial calculations using several assumptions and (2) given the magnitude of these estimates, differences in actual results or changes in assumptions could materially affect the consolidated financial statements.

Assumptions

Due to the long-term nature of these defined benefit plans, the calculation of defined benefit expenses and defined benefit 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 by the Canada Post Group of Companies' actuaries. Below are descriptions of the significant assumptions used:

- **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 obligations at the end of the year and the defined benefit expense 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 defined benefit plans as they become due. The actuaries calculate the discount rates 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 actuaries determine the future benefit

payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.

- **Medical costs** – The medical costs assumptions are used in the measurement of certain non-pension defined 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.
- **Mortality assumptions** – The mortality rates used to determine the defined benefit obligations are based on the Canadian Institute of Actuaries Report on Canadian Pensioners Mortality (CPM), more specifically the 2014 RPP Public Sector Mortality Tables with the CPM improvement scale, adjusted for experience, if applicable. Mortality tables represent the probability of death within a year for plan members of various ages.
- **Consumer price index** – The consumer price index assumption is used in the measurement of the defined benefit obligations 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. The consumer price index also has an impact on the long-term rates of compensation increase.

As a result of applying these actuarial assumptions, remeasurement gains or losses on the defined benefit plans arise from the difference between actual and expected experience and changes in the actuarial assumptions. For pension and other post-employment benefit plans, remeasurement 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. For the other long-term benefit plans, the actuarial gains or losses are recognized in net profit or loss.

Notes 10 (e) and (f) to the consolidated financial statements include the remeasurement and actuarial gains or losses components recognized in the statement of comprehensive income.

Sensitivity to assumptions – Canada Post segment

The defined benefit obligation and associated defined benefit expense are sensitive to actuarial assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status.

Sensitivity to changes in significant assumptions for the Corporation's principal pension plan follows:

(in millions of dollars)	Annual pension expense	Defined pension obligation
Discount rate sensitivity		
0.5% increase in discount rates	(120)	(1,462)
0.5% decrease in discount rates	117	1,583
Consumer price index sensitivity		
0.25% increase in consumer price index	65	651
0.25% decrease in consumer price index	(61)	(620)
Mortality tables sensitivity		
10% increase in mortality tables	(33)	(319)
10% decrease in mortality tables	36	348

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

(in millions of dollars)	Annual health care expense	Defined health care obligation
Discount rate sensitivity		
0.5% increase in discount rates	(6)	(179)
0.5% decrease in discount rates	7	203
Health care cost trend rates sensitivity		
1% increase in health care cost trend rates	39	443
1% decrease in health care cost trend rates	(30)	(349)
Mortality tables sensitivity		
10% increase in mortality tables	(6)	(63)
10% decrease in mortality tables	7	70

For complete details on the pension, other post-employment and other long-term benefit plans for the Group of Companies, see Note 10 to the consolidated financial statements beginning on page 102.

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 composed of temporary differences between the carrying values and the 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 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 11 to the consolidated financial statements on page 108.

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 neither result in an immediate cash outflow nor affect the Group of Companies' immediate liquidity.

9.2 Adoption of new accounting standards

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretation Committee that are mandatory for accounting periods beginning on or after January 1, 2013. The following new standards, amendments and interpretations were adopted by the Group of Companies on January 1, 2013, and the impact of the adoption is described below:

- (a) Amendments to IAS 19 “Employee Benefits” (IAS 19)** • The amendments to IAS 19 change the accounting for post-employment defined benefit plans and termination benefits. The most significant change and impact for the Group of Companies was the requirement for interest income on plan assets to be computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period, as opposed to applying management’s best estimate of the expected long-term rate of return on plan assets. The amendments to IAS 19 also require that, for post-employment benefit plans, the unvested portion of past service costs and credits, resulting from plan amendments, be recognized in net profit and loss at the time the plan amendments occur. Finally, the cost of managing plan assets is to be recorded against the actual return on assets and, consequently, in other comprehensive income or loss; other pension plan administrative costs are to be recorded in net profit or loss. These amendments were applied retrospectively to the consolidated financial statements. For further details, refer to notes 4 and 10 in the consolidated financial statements.
- (b) IFRS 13 “Fair Value Measurement” (IFRS 13)** • IFRS 13 defines fair value, sets out in a single IFRS a framework to measure fair value, and requires disclosures about fair value measurements. This standard was applied prospectively beginning January 1, 2013. Upon adoption of IFRS 13, the fair value measurement basis of certain pension plan assets changed from bid prices to close-of-market prices, the former being the current required fair value basis for an asset under IAS 39 “Financial Instruments: Recognition and Measurement” (IAS 39). As a result of the adoption of IFRS 13, the pension, other post-employment and other long-term benefit liabilities and other comprehensive income were adjusted prospectively.
- (c) Annual Improvements to IFRS – 2009-2011 Cycle** • The IASB issued these 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 “Presentation of Financial Statements” 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 “Offsetting Financial Assets

and Financial Liabilities” 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. These annual improvements were applied retrospectively and had no material impact on the Corporation’s consolidated financial statements.

- (d) 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)** • 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 was applied retrospectively and had no impact on the consolidated financial statements.

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 in the current year, the Corporation had one such arrangement, Innovapost, for part of the comparative year. Upon adoption of IFRS 11 in 2013, the comparative period of 2012 was also required to be accounted for in accordance with IFRS 11. Under the new standard, Innovapost was 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 did not result in any significant changes to the consolidated financial statements for the comparative period. IFRS 11 was applied retrospectively and had no other impact on the consolidated financial statements.

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 Corporation’s interests in other entities are disclosed in Note 22 to the 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 was applied retrospectively and had no impact on the consolidated financial statements, as the Corporation does not issue 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 was applied retrospectively and had no impact on the consolidated financial statements.

(e) Amendments to IFRS 10, IFRS 11 and IFRS 12 – “Consolidated Financial Statements,” “Joint Arrangements” and “Disclosure of Interests in Other Entities”: **Transition Guidance** • 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 remove the requirement to present comparative information for periods before the first annual period for which IFRS 12 is applied. The amendments are applied retrospectively and did not result in any significant changes to the consolidated financial statements.

(f) Amendments to IFRS 7 – “Disclosures” – Offsetting Financial Assets and Financial Liabilities • The amendments to IFRS 7 require disclosure 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 were applied retrospectively. Due to the early adoption of amendments to IAS 32 effective January 1, 2013, there was no material impact on the Corporation’s consolidated financial statements upon the adoption of the amendments to IFRS 7.

For the annual period beginning January 1, 2013, the Group of Companies elected to early adopt the amendments to IAS 32 titled “Offsetting Financial Assets and Financial Liabilities” and the amendments to IAS 36 titled “Recoverable Amount Disclosures for Non-Financial Assets” retrospectively, in advance of the effective date, which is annual periods beginning on or after January 1, 2014.

The amendments to IAS 32 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. As a result, certain foreign postal administration settlement balances that were offset on the consolidated statement of financial position no longer meet the revised legally enforceable right to offset criteria, and trade and other receivables and trade and other payables were restated accordingly.

The amendments to IAS 36 clarify existing guidance that was intended to require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal. Further, the amendments require additional information about these fair value measurements, including the fair value hierarchy level, and for measurements categorized within levels 2 and 3 of the fair value hierarchy, a description of the valuation techniques and key assumptions used by management in its determination of fair value less costs of disposal. There was no impact on the Corporation’s consolidated financial statements from the early adoption of the amendments to IAS 36.

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
IFRIC 21 “Levies”	January 1, 2014
Annual Improvements to IFRS – 2010-2012 Cycle	July 1, 2014
Annual Improvements to IFRS – 2011-2013 Cycle	July 1, 2014
Amendments to IAS 19 “Employee Benefits” – Defined Benefit Plans: Employee Contributions	July 1, 2014
IFRS 9 “Financial Instruments”	To be determined

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 2014, as new amended standards are issued by the IASB.

(a) IFRIC 21 "Levies" • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," as well as accounting for a levy whose timing and amount is uncertain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation, and excludes outflows of resources within the scope of other standards, including IAS 12 "Income Taxes," and fines or other penalties imposed for breaches of the legislation. This interpretation is to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted. The extent of the impact of the adoption of IFRIC 21 has not yet been determined.

(b) Annual Improvements to IFRS – 2010-2012 Cycle • In December 2013, the IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2012 cycle. The standards and topics covered by the amendments are as follows: IFRS 2 "Share-based Payment" addressing the definition of vesting condition, IFRS 3 "Business Combinations" providing additional guidance for accounting for contingent consideration in a business combination, IFRS 8 "Operating Segments" providing additional guidance on the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets, IFRS 13 "Fair Value Measurement" providing additional guidance on short-term receivables and payables, IAS 16 "Property, Plant and Equipment" addressing the revaluation method for proportionate restatement of accumulated depreciation, IAS 24 "Related Party Disclosures" providing guidance on key management personnel and IAS 38 "Intangible Assets" addressing the revaluation method for proportionate restatement of accumulated amortization. These annual improvements are to be applied for annual periods beginning on or after July 1, 2014, with the exception of the IFRS 3 amendment which is effective for business combinations with an acquisition date on or after July 1, 2014. Earlier application is permitted. The extent of the impact of the adoption of the annual improvements has not yet been determined.

(c) Annual Improvements to IFRS – 2011-2013 Cycle • In December 2013, the IASB issued these annual improvements in response to non-urgent issues addressed during the 2011-2013 cycle. The standards and topics covered by the amendments are as follows: IFRS 1

"First-time Adoption of International Financial Reporting Standards" addressing the meaning of effective IFRS, IFRS 3 "Business Combinations" addressing scope exceptions for joint ventures, IFRS 13 "Fair Value Measurement" providing additional guidance on the scope of portfolio exception and IAS 40 "Investment Property" providing clarification on classifying property as investment or owner-occupied property. These annual improvements are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The extent of the impact of the adoption of the annual improvements has not yet been determined.

(d) Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions • The amendments to IAS 19 provide additional guidance for employee contributions for defined benefit plans. The amendments clarify the requirements for contributions from employees or third parties that are linked to service. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required for the gross benefit. The amendments are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The extent of the impact of the adoption of the amendments to IAS 19 has not yet been determined.

(e) IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued IFRS 9 to replace IAS 39. IFRS 9 introduces new requirements for the classification and measurement of financial assets and additional changes relating to financial liabilities. 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. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The standard provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date; however, early application is permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

10 Outlook for 2014

Our prospects for 2014

10.1 Economic outlook

Global economic activity is beginning to show signs of growth after several difficult years. The U.S. economy is expected to accelerate in 2014, which should stimulate Canadian and Mexican economies in particular. Europe appears to be finally emerging from recession, and Chinese growth, while lower than in the past few years, is expected to be strong; the growth in China will be augmented by its economic ties to other quickly growing economies in Asia and Latin America.

Canadian economic growth finished at 2% in 2013, and is expected to continue a pattern of modest growth, largely on the strength of a recovering U.S. economy and the gradual ending of the European recession. Increased demand for Canadian exports will be aided by a Canadian dollar that is expected to average below US\$0.95 over the next two years. This will offset a more restrained growth in domestic expenditures as consumer-debt levels have

plateaued, but remain high. Inflation finished the year at just under 1% and will only slowly approach the 2% target of the Bank of Canada over the next two years. Intense competition in the retail sector is a factor in keeping price increases low. The slow pace of economic recovery will continue to have an impact on the rate of mail volume erosion, while retail competitiveness will have a significant influence on the growth of the parcel shipping business. With e-commerce expanding as a retail option in Canada, it will be even more vital to offer cost-effective, customer-focused shipping options to remain competitive.

In 2013, the number of Canadian households increased by 1%. Housing starts will continue to add an average 175,000 addresses to the delivery network each year, increasing the cost pressure on the network as mail volumes continue to erode.

	2013	2014	2015	2016	2017
Economic (% change)					
Real gross domestic product (GDP)	2.0%	2.4%	2.5%	2.4%	2.2%
Inflation (consumer price index [CPI])	0.9%	1.4%	1.9%	2.0%	2.0%
Demographic (% change)					
Total population growth	1.2%	1.2%	1.1%	1.1%	1.1%
Households growth	1.0%	1.2%	1.1%	1.1%	1.1%

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, the 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

For Canada Post, 2014 will be a very important year as it continues to transform its business. This transformation will start with the execution of the Five-point Action Plan, unveiled in December 2013, and investments in retail initiatives, delivery and operations networks, and community mailboxes. Canada Post will begin converting addresses from door-to-door to community mailbox delivery in 2014. Transformation will also include the continued investment in Postal Transformation, the \$2-billion multi-year program that began in 2008. These investments will build the foundation of a new postal system that is designed to serve Canadians' emerging postal needs and critical to the success of the Corporation.

The rise in digital communications has created a dramatic shift in the way that Canadians, both individuals and businesses, communicate – moving away from the tradition of Lettermail™ and adopting mainly electronic alternatives. This trend is expected to continue in 2014 with lower Domestic Lettermail volumes. The pace of decline is

uncertain and represents a significant risk to the Group of Companies. As a result, the Canada Post Group of Companies anticipates another year of losses in 2014 due to the challenges in the Canada Post segment.

The loss will be reduced due to the beneficial impacts of higher pension asset returns in 2013 and an increase in the discount rate. This highlights the volatility related to employee benefits and clearly demonstrates that Canada Post must continue its focus on fundamental changes to ensure a sustainable financial performance.

However, the shift to electronic delivery will also create opportunities for Canada Post and its subsidiaries, especially in parcels, as Canadians increase their spending online and become more reliant on parcel delivery. The rise in demand for e-commerce is expected to increase parcel revenue and volumes, especially in the business-to-consumer market. Therefore, continuing to succeed in the parcel business will be crucial to the success of the Canada Post Group of Companies.

Another important area for Canada Post will be growing the Direct Marketing business, which represents a significant part of the revenues for Canada Post and the Group of Companies. The Corporation believes that there are opportunities for growth in Direct Marketing, as it provides businesses with a very good rate of return on their marketing investments. It also offers many benefits, such as information that is tangible (recipients can hold and keep it), targetable (to a specific audience based on a number of criteria), and highly read. Canada Post believes that Direct Marketing will continue to be very competitive in the marketing segment in 2014.

Addressing the sustainability of the Canada Post Corporation Registered Pension Plan will be of major importance going forward, given the magnitude of pension obligations compared to the financial position and income of the Corporation, and the volatility caused by investment returns, discount rates and changes in other assumptions. In February 2014, the Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This will provide time for Canada Post to work with its unions and other representatives of pension plan members to restructure the pension plan.

Purolator

In 2014, 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 2014, SCI will continue to focus on growing revenue and profit. This improvement will come from the annualization of revenue from new clients obtained in 2013, growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives. As well, SCI is working with Canada Post and Purolator on several initiatives that would capitalize on existing capabilities within the Group of Companies, and open up revenue opportunities from Purolator's client base.

Innovapost

Innovapost will continue to provide IS/IT services to the Group of Companies and will be an important part of a strategy to strengthen synergies and reduce cost in the Group of Companies. During 2014, the company expects to sign a number of significant contracts with suppliers in pursuit of this strategy.

HISTORICAL FINANCIAL INFORMATION

(unaudited, in millions of Canadian dollars)	Based on IFRS				Based on previous Canadian GAAP ²
	2013	2012	2011	2010	2009
OPERATIONS					
Revenue from operations	7,563	7,529	7,484	7,453	7,312
Cost of operations ¹	7,756	7,635	7,710	7,311	6,955
Profit (loss) from operations ¹	(193)	(106)	(226)	142	357
Percentage of revenue from operations ¹	(2.6) %	(1.4) %	(3.0) %	1.9 %	4.9 %
Investing and financing income (expense), net	135	(4)	(27)	(8)	22
Profit (loss) before tax ¹	(58)	(110)	(253)	134	379
Tax expense (income) ¹	(29)	(27)	(65)	(180)	95
Net profit before non-controlling interests ³	N/A	N/A	N/A	N/A	284
Non-controlling interests in net profit of subsidiaries	N/A	N/A	N/A	N/A	3
Net profit (loss) ¹	(29)	(83)	(188)	314	281
Other comprehensive income (loss) ¹	2,279	(906)	(1,148)	(1,457)	(1)
Comprehensive income (loss) ¹	2,250	(989)	(1,336)	(1,143)	280
Net profit (loss) attributable to Government of Canada ¹	(32)	(85)	(191)	310	N/A
Non-controlling interests ^{1,3}	3	2	3	4	N/A
	(29)	(83)	(188)	314	N/A
Comprehensive income (loss) attributable to Government of Canada ¹	2,242	(985)	(1,334)	(1,146)	N/A
Non-controlling interests ³	8	(4)	(2)	3	N/A
	2,250	(989)	(1,336)	(1,143)	N/A
Return on (adjusted book) equity of Canada ⁴	(1.8) %	(4.6) %	(9.7) %	16.2 %	17.0 %
STATEMENT OF FINANCIAL POSITION					
Assets					
Current ¹	1,915	1,704	1,946	2,303	1,497
Segregated securities	510	560	553	499	654
Capital assets	2,836	2,798	2,544	2,288	2,216
Pension benefit assets	177	83	93	112	1,335
Deferred tax assets ¹	1,093	1,808	1,472	1,054	179
Other assets	136	141	136	136	148
Total assets ¹	6,667	7,094	6,744	6,392	6,029
Liabilities and equity					
Current ¹	1,521	1,554	1,522	1,295	1,179
Pension, other post-employment and other long-term benefit liabilities ¹	4,382	7,007	5,719	4,255	2,835
Other liabilities	1,129	1,147	1,134	1,136	199
Non-controlling interests ¹	26	19	24	27	29
Equity of Canada ¹	(391)	(2,633)	(1,655)	(321)	1,787
Total liabilities and equity ¹	6,667	7,094	6,744	6,392	6,029
ACQUISITION OF CAPITAL ASSETS					
Land and building	61	102	105	122	65
Other capital assets	312	510	470	313	347
	373	612	575	435	412

1. The 2012 comparative figures were restated as a result of the adoption of new or revised International Financial Reporting Standards (IFRS) in 2013, as issued by the International Accounting Standards Board (IASB).

2. On January 1, 2011, Canada Post adopted 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).

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

4. 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

	2013	% Change	2012	% Change	2011	% Change	2010	% Change	2009 ³
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS									
(unaudited, in millions of Canadian dollars / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail™	2,688	(0.7) %	2,707	(4.2) %	2,813	(0.6) %	2,843	1.3 %	2,805
Outbound Letter-post (to other postal administrations)	157	(12.4) %	179	6.7 %	167	(5.5) %	177	(3.7) %	184
Inbound Letter-post (from other postal administrations)	120	(4.8) %	126	1.5 %	124	5.0 %	118	(4.5) %	124
Canada Post segment ¹	2,965	(1.6) %	3,012	(3.3) %	3,104	(0.7) %	3,138	0.8 %	3,113
Elimination of intersegment	(3)		(3)		(4)		(4)		(4)
Canada Post Group of Companies ¹	2,962	(1.6) %	3,009	(3.3) %	3,100	(0.7) %	3,134	0.8 %	3,109
Direct Marketing									
Addressed Admail™,2	586	(2.7) %	602	0.0 %	600	0.4 %	599	5.3 %	569
Unaddressed Admail™	398	(1.7) %	405	0.9 %	400	0.8 %	399	4.9 %	380
Publications Mail™	231	(4.1) %	241	(4.2) %	251	(1.0) %	254	(1.8) %	259
Business Reply Mail™ and Other mail	25	(8.2) %	28	(6.8) %	29	(4.4) %	31	(4.5) %	32
Total mail ²	1,240	(2.8) %	1,276	(0.7) %	1,280	0.1 %	1,283	3.4 %	1,240
Other	1	7.8 %	1	(17.4) %	1	37.3 %	1	(62.5) %	2
Canada Post segment ^{1,2} / Group of Companies ^{1,2}	1,241	(2.8) %	1,277	(0.7) %	1,281	0.2 %	1,284	3.3 %	1,242
Parcels									
Domestic Parcels	969	7.5 %	901	6.3 %	844	(5.7) %	899	1.2 %	888
Outbound Parcels (to other postal administrations)	209	3.2 %	203	4.6 %	193	(1.2) %	196	1.6 %	193
Inbound Parcels (from other postal administrations)	193	11.5 %	173	12.7 %	153	11.3 %	138	(1.6) %	140
Total mail	1,371	7.4 %	1,277	6.9 %	1,190	(3.1) %	1,233	0.9 %	1,221
Other	18	(6.4) %	19	(29.4) %	27	(9.2) %	29	(16.1) %	35
Canada Post segment ¹	1,389	7.2 %	1,296	6.1 %	1,217	(3.2) %	1,262	0.5 %	1,256
Purolator segment	1,623	(0.6) %	1,632	0.6 %	1,615	8.6 %	1,493	4.1 %	1,433
Logistics segment	179	9.7 %	162	17.7 %	138	(7.2) %	149	(1.1) %	151
Elimination of intersegment	(117)		(127)		(126)		(113)		(108)
Canada Post Group of Companies ¹	3,074	3.7 %	2,963	3.8 %	2,844	2.3 %	2,791	2.2 %	2,732
Other revenue									
Canada Post segment ^{1,2}	288	2.5 %	281	7.9 %	259	6.0 %	245	7.0 %	229
Purolator segment	0	-	(0)	77.9 %	(0)	93.9 %	(1)	(82.2) %	(0)
Innovapost segment	249	12.9 %	221	43.4 %	153	3.9 %	148	(11.9) %	168
Elimination of intersegment	(251)		(222)		(153)		(148)		(168)
Canada Post Group of Companies ^{1,2}	286	2.6 %	280	7.5 %	259	6.3 %	244	6.9 %	229
Revenue from operations									
Canada Post segment	5,883	0.3 %	5,866	(0.3) %	5,861	(0.8) %	5,929	1.5 %	5,840
Purolator segment	1,623	(0.5) %	1,632	0.6 %	1,615	8.7 %	1,492	4.1 %	1,433
Logistics segment	179	9.7 %	162	17.7 %	138	(7.2) %	149	(1.1) %	151
Innovapost segment	249	12.9 %	221	43.4 %	153	3.9 %	148	(11.9) %	168
Elimination of intersegment	(371)		(352)		(283)		(265)		(280)
Canada Post Group of Companies	7,563	0.4 %	7,529	0.2 %	7,484	0.8 %	7,453	1.9 %	7,312

1. Revenues and volumes have been restated to reflect realignments made in 2012 between lines of business.

2. Revenues and volumes have been restated to reflect realignments made in 2013 between lines of business.

3. In 2010, a methodology change was implemented and 2009 was restated for comparability.

HISTORICAL FINANCIAL INFORMATION

	2013	% Change	2012	% Change	2011	% Change	2010	% Change	2009 ³
LINE OF BUSINESS DIMENSIONS									
VOLUME (unaudited, in millions of pieces / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail	3,824	(4.8) %	4,015	(6.4) %	4,270	(3.6) %	4,449	(4.5) %	4,657
Outbound Letter-post (to other postal administrations)	92	(18.1) %	112	0.4 %	111	(12.1) %	127	(5.3) %	134
Inbound Letter-post (from other postal administrations)	228	(7.5) %	247	(1.0) %	249	(4.5) %	261	6.2 %	246
Canada Post segment	4,144	(5.3) %	4,374	(5.9) %	4,630	(3.9) %	4,837	(4.0) %	5,037
Elimination of intersegment	(4)		(5)		(4)		(5)		(5)
Canada Post Group of Companies	4,140	(5.2) %	4,369	(5.9) %	4,626	(3.9) %	4,832	(4.0) %	5,032
Direct Marketing									
Addressed Admail ²	1,174	(6.3) %	1,252	(2.4) %	1,278	(3.3) %	1,327	2.0 %	1,301
Unaddressed Admail	3,439	0.9 %	3,408	(1.7) %	3,453	(5.0) %	3,652	0.3 %	3,640
Publications Mail	382	(6.3) %	409	(5.6) %	431	(2.9) %	445	(5.5) %	471
Business Reply Mail and Other mail	24	(11.6) %	27	(10.6) %	30	(6.8) %	33	(11.0) %	37
Canada Post segment ^{1,2} / Group of Companies ^{1,2}	5,019	(1.5) %	5,096	(2.2) %	5,192	(4.5) %	5,457	0.1 %	5,449
Parcels									
Domestic Parcels	107	6.9 %	100	6.0 %	94	(2.4) %	97	(4.7) %	102
Outbound Parcels (to other postal administrations)	11	(2.8) %	11	2.6 %	11	(7.8) %	12	(6.9) %	13
Inbound Parcels (from other postal administrations)	40	(5.6) %	42	9.4 %	38	11.3 %	34	4.7 %	33
Canada Post segment	158	2.8 %	153	6.7 %	143	0.4 %	143	(2.8) %	148
Purolator segment	133	(3.6) %	139	(1.9) %	141	0.3 %	141	1.8 %	138
Elimination of intersegment	(2)		(2)		(1)		(1)		(2)
Canada Post Group of Companies	289	(0.3) %	290	2.2 %	283	0.3 %	283	(0.3) %	284
Total volume									
Canada Post segment	9,321	(3.1) %	9,623	(3.8) %	9,965	(4.1) %	10,437	(1.8) %	10,634
Purolator segment	133	(3.6) %	139	(1.9) %	141	0.3 %	141	1.8 %	138
Elimination of intersegment	(6)		(7)		(5)		(6)		(7)
Canada Post Group of Companies	9,448	(3.1) %	9,755	(3.8) %	10,101	(4.1) %	10,572	(1.8) %	10,765
EMPLOYMENT⁴									
Canada Post segment	52,433	(4.1) %	54,668	(2.7) %	56,212	(1.2) %	56,917	(3.0) %	58,665
Purolator segment	11,633	(2.9) %	11,986	0.2 %	11,962	9.0 %	10,979	0.1 %	10,970
Logistics segment ⁵	1,107	21.4 %	912	17.4 %	777	(3.6) %	806	(9.9) %	895
Innovapost segment ⁶	808	13.5 %	712		N/A		N/A		N/A
Canada Post Group of Companies ^{5, 6}	65,981	(3.4) %	68,278	(1.0) %	68,951	0.4 %	68,702	(2.6) %	70,530
MAIL NETWORK									
Post offices	6,317	(1.0) %	6,380	(1.2) %	6,460	(0.6) %	6,499	(0.5) %	6,532
Points of delivery (in thousands)	15,495	1.0 %	15,338	1.0 %	15,181	1.0 %	15,028	1.0 %	14,874
Pickup points (in thousands) ⁷	933	(1.3) %	946	(1.7) %	962	(1.5) %	976	(1.9) %	994

1. Revenues and volumes have been restated to reflect realignments made in 2012 between lines of business.

2. Revenues and volumes have been restated to reflect realignments made in 2013 between lines of business.

3. In 2010, a methodology change was implemented and 2009 was restated for comparability.

4. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.

5. In 2012, Logistics employee counts were restated to exclude casuals.

6. Innovapost segment employee count is 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 (see Note 17 to the consolidated financial statements on page 113). With the conversion to IFRS by all Canadian publicly accountable entities, a revised Financial Framework based on IFRS was approved as part of the Canada Post 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 four years from 2010 to 2013 under the revised Financial Framework:

Consolidated ratios (unaudited)	Financial Framework	2013	2012*	2011	2010
Profitability					
EBITDA margin ¹	5.0 - 7.5 %	3.8 %	3.2 %	0.9 %	5.7 %
Return on adjusted book equity ²	0 - 5 %	(1.8) %	(4.6) %	(9.7) %	16.2 %
Leverage					
Total debt to EBITDAR ³	2.5 - 4.0 x	5.0 x	5.7 x	9.6 x	3.9 x
Total debt to adjusted book capital ⁴	45 - 65 %	55.4 %	55.2 %	55.5 %	53.2 %
Liquidity					
(EBITDAR - capex) ÷ interest ⁵	1.0 - 2.5 x	3.3 x	1.3 x	(1.8)x	2.5 x
Dividend payout					
Dividend payout ratio ⁶	2010-2012	0 - 20 %		0.0 %	0.0 %
	2013-2014	15 - 20 %	0.0 %		

Based on IFRS

Ratio definitions

- Earnings before interest, taxes, depreciation and amortization ÷ revenue
- Net profit (loss) attributable to Government of Canada ÷ [(adjusted book equity_€ of Canada beginning of year + adjusted book equity_€ of Canada end of year) ÷ 2]
- (Total debt + long-term financial obligations_A) ÷ (earnings before interest, taxes, depreciation and amortization with adjustment for operating leases_B)
- (Total debt + long-term financial obligations_A) ÷ (total debt + long-term financial obligations_A + adjusted book equity_€ of Canada)
- (Earnings before interest, taxes, depreciation and amortization with adjustment for operating leases_B - capex_C) ÷ interest_D
- Dividend paid ÷ prior year net profit (loss)

Notes

- Long-term financial obligations include decommissioning obligations, obligation to repurchase shares (Purolator) and capitalization of operating leases.
- Operating leases are removed from earnings and capitalized using a factor of 7.0x.
- Capex refers to estimated maintenance capital, which includes all capital purchases and finance leases, but excludes approximately \$227 million (2012 – \$338 million; 2011 – \$127 million; 2010 – \$37 million) of capital purchases for Postal Transformation.
- Interest includes imputed interest on capitalized operating leases (calculated as 1/3 of lease expense).
- Adjusted book equity is reported equity with the impact of other comprehensive income (loss) non-reclassifying items removed.

* The 2012 comparative figures were restated as a result of the adoption of new or revised IFRS in 2013, as issued by the IASB.

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

Consolidated ratios* (unaudited)	Policy Framework	2009
Profitability		
Return on equity of Canada ¹	11.0 %	17.0 %
Operating profit margin ²		4.9 %
Productivity ³	97.0 %	95.1 %
Leverage		
Total debt to total capital ⁴	40.0 %	7.6 %
Cash flow to debt ⁵		90.3 %
Liquidity		
Current ratio ⁶		1.27
Gross interest coverage ⁷		55.65
Investment		
Cash flow to capital expenditures ⁸		32.1 %
Capital asset investment rate ⁹		7.2 %
Dividend payout		
Dividend payout ratio ¹⁰	25.0 %	0.0 %
Dividend payout ratio once return on equity of Canada \geq 11%	40.0 %	

Based on previous Canadian GAAP

1. Net income \div [(equity of Canada beginning of year + equity of Canada end of year) \div 2]
2. Income from operations \div revenue from operations
3. Cost of operations \div revenue from operations
4. (Total debt + long-term financial obligations) \div (total debt + long-term financial obligations + equity of Canada)
5. Cash flows from operating activities \div (total debt + long-term financial obligations)
6. Current assets \div current liabilities
7. Income from operations \div (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) \div [(cost of capital assets beginning of year + cost of capital assets end of year) \div 2]
10. Dividend \div net income

* Results in the table above for 2009 are presented according to previous Canadian GAAP under the old Policy Framework that had been in place since 1998.

AUDITOR'S REPORT ON ANNUAL COST STUDY CONTRIBUTION ANALYSIS

To the Board of Directors of Canada Post Corporation:

We have audited the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2013, 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, 2013. 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 the 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, 2013 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, 2013.

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 or 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.



Chartered Professional Accountants, Licensed Public Accountants

March 20, 2014
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, 2013

(in millions of Canadian dollars)

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

The following analysis is based on the assignment of 63% 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	\$ 3,250	\$ 2,354	\$ 23	\$ 256	\$ 5,883
Long-run incremental costs	(1,936)	(1,740)	(22)	(156)	(3,854)
Long-run incremental contribution to the fixed costs	\$ 1,314	\$ 614	\$ 1	\$ 100	\$ 2,029
	40 %	26 %	4 %	39 %	34 %
Unallocated fixed costs					\$ (2,298)
Contribution before the undernoted items					\$ (269)
Investment and other income					187
Finance costs and other expense					(43)
Loss before tax – Canada Post segment					\$ (125)

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, 2013

1. Basis of Preparation

The Annual Cost Study Contribution Analysis provides costing data that serve 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 Annual Cost Methodology, 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, 2013.

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 are used to determine revenue by services. Where operational data are not available, an appropriate proxy is used to make the attribution.
- (e) **Reconciliation with financial records** • Total revenues and costs considered in the Annual Cost Study Contribution Analysis are reconciled with 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. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and 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 regulations, by-laws of the Corporation, and Government of Canada directives. 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' Audit Committee acts on behalf of the Board in fulfilling its responsibilities, which are prescribed by Section 148 of the *Financial Administration Act*. The Audit Committee, consisting of five members who are independent in accordance with the Corporation's standards of independence, meets not less than four times a year, focusing on the areas of financial reporting, risk management and internal control. It is responsible for reviewing the consolidated financial statements and the Annual Report, and for meeting with management and internal and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues.

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, 2013, 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.



President and Chief Executive Officer

March 20, 2014



Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Minister of Transport

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, 2013, 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, 2013, 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, after giving retrospective effect to the change in the method of accounting for employee benefits as explained in Note 4 (a) to the consolidated financial statements, 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 directives issued pursuant to section 89 of the *Financial Administration Act*, described in Note 1 to the consolidated financial statements.



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

March 20, 2014
Ottawa, Canada



Chartered Professional Accountants
Licensed Public Accountants

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at		December 31, 2013	December 31, 2012	January 1, 2012
(in millions of Canadian dollars)	Notes		(Restated – Note 4)	(Restated – Note 4)
Assets				
Current assets				
Cash and cash equivalents	6	\$ 468	\$ 298	\$ 271
Marketable securities	6	570	570	842
Trade and other receivables	24	779	702	743
Income tax receivable		6	8	56
Prepaid expenses		82	79	93
Assets held for sale	8	10	47	22
Total current assets		1,915	1,704	2,027
Non-current assets				
Property, plant and equipment	8	2,707	2,655	2,379
Intangible assets	8	129	143	165
Segregated securities	6	510	560	553
Pension benefit assets	10	177	83	93
Deferred tax assets	11	1,093	1,808	1,469
Goodwill	13	130	130	125
Other assets		6	11	11
Total non-current assets		4,752	5,390	4,795
Total assets		\$ 6,667	\$ 7,094	\$ 6,822
Liabilities and equity				
Current liabilities				
Trade and other payables	14	\$ 620	\$ 540	\$ 563
Salaries and benefits payable and related provisions	16	580	699	732
Provisions	16	81	85	75
Income tax payable		1	1	2
Deferred revenue		145	137	129
Loans and borrowings	15	23	20	16
Other long-term benefit liabilities	10	71	72	86
Total current liabilities		1,521	1,554	1,603
Non-current liabilities				
Loans and borrowings	15	1,108	1,123	1,111
Pension, other post-employment and other long-term benefit liabilities	10	4,382	7,007	5,709
Deferred tax liabilities	11	3	2	–
Provisions	16	2	5	4
Other liabilities		16	17	19
Total non-current liabilities		5,511	8,154	6,843
Total liabilities		7,032	9,708	8,446
Equity				
Contributed capital		1,155	1,155	1,155
Accumulated other comprehensive income		18	52	45
Accumulated deficit		(1,564)	(3,840)	(2,847)
Equity of Canada		(391)	(2,633)	(1,647)
Non-controlling interests		26	19	23
Total equity		(365)	(2,614)	(1,624)
Total liabilities and equity		\$ 6,667	\$ 7,094	\$ 6,822
Contingent liabilities	18			
Commitments	19			

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

Approved on behalf of the Board of Directors:



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	2013	2012 (Restated – Note 4)
Revenue from operations		\$ 7,563	\$ 7,529
Cost of operations			
Labour		3,847	3,888
Employee benefits, including plan amendments and curtailment losses (gains)	9	1,428	1,233
		5,275	5,121
Other operating costs	20	2,166	2,200
Depreciation and amortization	8	315	314
Total cost of operations		7,756	7,635
Loss from operations		(193)	(106)
Investing and financing income (expense)			
Investment and other income	6, 21	182	50
Finance costs and other expense	15, 21	(47)	(54)
Investing and financing income (expense), net		135	(4)
Loss before tax		(58)	(110)
Tax expense (income)	11	(29)	(27)
Net loss		\$ (29)	\$ (83)
Other comprehensive income (loss)			
Items that will not be reclassified to net profit (loss)			
Remeasurements of defined benefit plans, net of tax	12	\$ 2,313	\$ (913)
Items that may be reclassified subsequently to net profit (loss)			
Unrealized (losses) gains on available-for-sale financial assets, net of tax	12	(34)	7
Other comprehensive income (loss)		2,279	(906)
Comprehensive income (loss)		\$ 2,250	\$ (989)
Net loss attributable to			
Government of Canada		\$ (32)	\$ (85)
Non-controlling interests		3	2
		\$ (29)	\$ (83)
Comprehensive income (loss) attributable to			
Government of Canada		\$ 2,242	\$ (985)
Non-controlling interests		8	(4)
		\$ 2,250	\$ (989)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
For the year ended December 31, 2013						
<i>(in millions of Canadian dollars)</i>						
Balance at December 31, 2012 (Restated – Note 4)	\$ 1,155	\$ 52	\$ (3,840)	\$ (2,633)	\$ 19	\$ (2,614)
Net profit (loss)	–	–	(32)	(32)	3	(29)
Other comprehensive income (loss)	–	(34)	2,308	2,274	5	2,279
Comprehensive income (loss)	–	(34)	2,276	2,242	8	2,250
Transactions with shareholders						
Dividend	–	–	–	–	(1)	(1)
Total transactions with shareholders	–	–	–	–	(1)	(1)
Balance at December 31, 2013	\$ 1,155	\$ 18	\$ (1,564)	\$ (391)	\$ 26	\$ (365)

	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
For the year ended December 31, 2012						
<i>(in millions of Canadian dollars)</i>						
<i>(Restated – Note 4)</i>						
Balance at December 31, 2011	\$ 1,155	\$ 45	\$ (2,855)	\$ (1,655)	\$ 24	\$ (1,631)
Effect of adoption of new and revised standards (Note 4)	–	–	8	8	(1)	7
Balance at January 1, 2012	\$ 1,155	\$ 45	\$ (2,847)	\$ (1,647)	\$ 23	\$ (1,624)
Net profit (loss)	–	–	(85)	(85)	2	(83)
Other comprehensive income (loss)	–	7	(907)	(900)	(6)	(906)
Comprehensive income (loss)	–	7	(992)	(985)	(4)	(989)
Transactions with Shareholders						
Non-controlling interests 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	\$ (3,840)	\$ (2,633)	\$ 19	\$ (2,614)

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	2013	2012 (Restated – Note 4)
Cash flows from operating activities			
Net loss		\$ (29)	\$ (83)
Adjustments to reconcile net loss to cash provided by operating activities:			
Depreciation and amortization	8	315	314
Pension, other post-employment and other long-term benefit expense	10	900	692
Pension, other post-employment and other long-term benefit payments	10	(535)	(615)
Gain on sale of capital assets and assets held for sale	21	(168)	(35)
Tax expense (income)	11	(29)	(27)
Net interest expense	21	30	34
Change in non-cash operating working capital:			
(Increase) decrease in trade and other receivables		(72)	64
Increase (decrease) in trade and other payables		81	(33)
Decrease in salaries and benefits payable and related provisions		(119)	(39)
(Decrease) increase in provisions		(10)	9
Net decrease in other non-cash operating working capital		12	26
Other income not affecting cash, net		(27)	(22)
Cash provided by operations before interest and taxes		349	285
Interest received		34	36
Interest paid		(51)	(51)
Tax (paid) received		(6)	40
Cash provided by operating activities		326	310
Cash flows from investing activities			
Business acquisitions, net of cash acquired		–	(21)
Acquisition of securities		(1,191)	(1,144)
Proceeds from sale of securities		1,195	1,414
Acquisition of capital assets		(357)	(575)
Proceeds from sale of capital assets		219	63
Cash used in investing activities		(134)	(263)
Cash flows from financing activities			
Payments on finance lease obligations		(21)	(17)
Dividend paid to non-controlling interests		(1)	(1)
Other financing activities, net		–	(2)
Cash used in financing activities		(22)	(20)
Net increase in cash and cash equivalents		170	27
Cash and cash equivalents, beginning of year		298	271
Cash and cash equivalents, end of year		\$ 468	\$ 298

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2013)

1	Incorporation, Business Activities and Directives.....	85
2	Basis of Presentation and Significant Accounting Policies.....	85
3	Critical Accounting Estimates and Judgments.....	91
4	Application of New and Revised International Financial Reporting Standards.....	94
5	Regulation of Customer Postage Rates.....	97
6	Cash and Cash Equivalents, Marketable Securities and Segregated Securities.....	98
7	Fair Value of Financial Instruments.....	99
8	Capital Assets.....	100
9	Employee Benefits.....	101
10	Pension, Other Post-employment and Other Long-term Benefit Plans.....	102
11	Income Taxes.....	108
12	Other Comprehensive Income.....	109
13	Goodwill.....	110
14	Trade and Other Payables.....	110
15	Loans and Borrowings.....	111
16	Provisions.....	112
17	Capital Management.....	113
18	Contingent Liabilities.....	114
19	Commitments.....	115
20	Other Operating Costs.....	115
21	Investing and Financing Income (Expense).....	116
22	Interests in Other Entities.....	116
23	Related Party Transactions.....	116
24	Nature and Extent of Risks From Financial Instruments.....	118
25	Segmented Information.....	122

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's assessment of the safety risks related to rural roadside mailboxes was completed at the end of 2013, and applicable corrective measures were implemented over the course of the assessment, as required.

In December 2013, the Corporation was also issued an order pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board's approval of its negotiating mandates with respect to collective agreements that expire in 2014 or later, and before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council.

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) issued and effective as at the reporting date, with the exception of the early adoption of the amendments to IAS 32 "Offsetting Financial Assets and Financial Liabilities" and the amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets," as explained in Note 4 (b).

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 20, 2014.

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 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 and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). In the current period, the results of all subsidiaries are consolidated for the full fiscal year, however, for the comparative period, the results of Innovapost are only consolidated commencing March 14, 2012, the date Innovapost became a subsidiary of the Corporation. Prior to this date, the investment in Innovapost qualified as a joint operation under IFRS 11 "Joint Arrangements" and was accounted for in accordance with IFRS 11, with the Corporation recognizing and measuring assets and liabilities (and related revenues and expenses) in relation to its interest in the arrangement, in accordance with applicable IFRS. 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 financial instruments, or designated by the Group of Companies as (i) financial assets at fair value through profit or loss, (ii) held to maturity investments, (iii) loans and receivables, or (iv) available-for-sale financial assets. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss, or (ii) other financial liabilities.

Financial instruments are initially recognized at fair value. Subsequent measurement depends on the classification of the financial instrument. Financial assets are derecognized when rights to receive cash flows from 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.

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

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 because they are managed on a fair value basis and their performance is actively monitored. Cash equivalents consist of investments with maturities of three months or less, while marketable securities consist of investments that have maturities of three to 12 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 because they are intended to be held for an indefinite period of time and consist of investments that may be sold in order to fund specific restricted benefit plans (Note 6 [a]). Interest income and realized gains and losses on sale of available-for-sale investments are included in employee benefit expense. Changes in fair value are included in other comprehensive income or loss 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 changes in fair value recorded in other comprehensive income or loss is reclassified to employee benefit costs recorded within net profit or loss. The cumulative loss that is removed from other comprehensive income or loss 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 and 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 and 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.

(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 measured at cost and are subsequently measured at cost, less accumulated depreciation or amortization and any accumulated impairment losses. 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.

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

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 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 Other	Declining balance Straight-line	Annual rate of 30% 3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 20 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer contracts	Straight-line	Term of contract plus period of renewal options, maximum of 5 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

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

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

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

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

(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 or group of assets. 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 cash-generating unit on a pro-rata basis.

(e) Borrowing costs • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Any borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare for their intended use, are capitalized as part of the cost of those assets until such time as they are substantially ready for use. The Group of Companies' qualifying assets primarily relate to the Corporation's Postal Transformation, 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.

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

- (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 expense 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 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** • 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.
- (i.2) Defined benefit pension and other post-employment plans** • Obligations for providing defined benefit pension and other post-employment benefits are recognized over the period of employee service. Defined benefit obligations and related estimated costs are determined annually on an actuarial basis using the projected unit credit method. Actuarial calculations include actuarial assumptions about demographic and financial variables, such as the discount rates, inflation rate, rates of compensation increase, retirement age, growth rates of health-care and dental costs, rates of employee disability and mortality tables.

Discount rates used to establish defined benefit obligations are determined by reference to market conditions at year-end using the yield curve approach, based on a theoretical portfolio of AA-rated corporate bonds with overall duration equal to the weighted-average duration of respective defined benefit obligations.

Components of defined benefit costs include service costs, net interest on the net defined benefit liability, and remeasurements of the net defined benefit liability.

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

The defined benefit expense is presented in employee benefits in net loss on the consolidated statement of comprehensive income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on plan assets, interest on the effect of the asset ceiling, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Interest income on plan assets, interest cost and interest on the effect of the asset ceiling are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

Remeasurements of defined benefit plans are presented in other comprehensive income or loss on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return (net of costs of managing plan assets) and interest income on plan assets, and the change in the effect of the asset ceiling (net of interest), if applicable. Remeasurements are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. The plans' significant assumptions are assessed and revised as appropriate.

When a funded plan gives rise to a pension benefit asset, a remeasurement for the effect of the asset ceiling 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 may create or increase a pension benefit liability. This assessment is made on a plan-by-plan basis.

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.

(i.3) Other long-term employee benefits • Other long-term employee benefits primarily include the top-up credit portion of the Short-Term Disability Program, workers' compensation benefits and the continuation of benefits for employees on long-term disability. The same methodology and assumptions as for post-employment 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 includes sick leave utilization experience as well as the experience and assumptions for provincial workers' compensation boards.
- Any actuarial gains and losses on defined benefit obligations are recognized in net loss in the period in which they arise.
- 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 result from a decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group of Companies recognizes termination benefits at the earliest of when it can no longer withdraw its termination offer or when restructuring costs are accrued if termination benefits are part of a restructuring plan.

(j) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between 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 • Items included in the consolidated financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operated (functional currency).

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

(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 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 lease 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 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 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.

(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 the Canada Post segment's 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 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 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.

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 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 amounts recognized in the consolidated financial statements.

3. Critical Accounting Estimates and Judgments (continued)

- (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 lease 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 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 12 months.
- (b.1) Capital assets** • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets, and are included in Note 2 (c.3). The appropriateness of useful lives of these assets is assessed annually. Changes to useful life estimates would affect future depreciation or amortization expenses and 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. Estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively.

3. Critical Accounting Estimates and Judgments (continued)

- (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. The significant actuarial assumptions in measuring the benefit obligations and benefit costs are the discount rates, mortality tables, health-care costs trend rates and inflation rate, which has an impact on the long-term rates of compensation increase. 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 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 calculates gains resulting from a projected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In addition, to establish asset limit adjustments, it is assumed that a contribution holiday is taken whenever possible and that the Corporation intends to use additional relief in special 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 asset limit adjustment requirements.

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

- (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.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of 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, 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 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. A description of the Group of Companies' provisions is included in Note 16.

- (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 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 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 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. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2013

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee (Interpretations Committee) that were mandatory for accounting periods beginning on or after January 1, 2013.

The following new standards, amendments and interpretations adopted by the Group of Companies on January 1, 2013, affected amounts reported in these consolidated financial statements, the presentation of balances or related disclosure.

Amendments to IAS 19 “Employee Benefits” (IAS 19) • The amendments to IAS 19 change the accounting for post-employment defined benefit plans and termination benefits. The most significant change and impact for the Group of Companies was the requirement for interest income on plan assets to be computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period, as opposed to applying management’s best estimate of the expected long-term rate of return on plan assets. The amendments to IAS 19 also require that the unvested portion of past service costs and credits, resulting from plan amendments, be recognized in net profit and loss at the time the plan amendments occur. Finally, the cost of managing plan assets is to be recorded against the actual return on assets and, consequently, in other comprehensive income or loss; other administrative costs of the pension plans are to be recorded in net profit or loss.

These amendments were applied retrospectively to these consolidated financial statements. As such, the comparative information presented as at, and for the year ended, December 31, 2012, has been restated and the comparative information presented as at January 1, 2012, has been derived from the consolidated financial statements as at, and for the year ended, December 31, 2011.

The following tables summarize the impact of these amendments on the consolidated financial statements for the comparative period:

Consolidated statement of financial position

As at January 1, 2012	Balance as at December 31, 2011	Amended IAS 19 effects	Restated
Deferred tax assets	\$ 1,472	\$ (3)	\$ 1,469
Pension, other post-employment and other long-term benefit liabilities	\$ 5,719	\$ (10)	\$ 5,709
Accumulated deficit	\$ (2,855)	\$ 8	\$ (2,847)
Non-controlling interests	\$ 24	\$ (1)	\$ 23

Consolidated statement of financial position

As at December 31, 2012	As previously reported	Amended IAS 19 effects	Restated
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

Consolidated statement of comprehensive income

For the year ended December 31, 2012	As previously reported	Amended IAS 19 effects	Restated
Employee benefits, including plan amendments and curtailment losses (gains)	\$ 996	\$ 237	\$ 1,233
Tax expense (income)	33	(60)	(27)
Net profit (loss)	\$ 94	\$ (177)	\$ (83)
Remeasurements of defined benefit plans	\$ (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)	\$ 27	\$ (989)

4. Application of New and Revised International Financial Reporting Standards (continued)

The following tables summarize the impact of these amendments on the consolidated financial statements for the current period:

Consolidated statement of financial position

As at December 31, 2013	IAS 19	Impact	Amended IAS 19
Deferred tax assets	\$ 1,101	\$ (8)	\$ 1,093
Pension, other post-employment and other long-term benefit liabilities	\$ 4,412	\$ (30)	\$ 4,382
Accumulated deficit	\$ (1,587)	\$ 23	\$ (1,564)
Non-controlling interests	\$ 27	\$ (1)	\$ 26

Consolidated statement of comprehensive income

For the year ended December 31, 2013	IAS 19	Impact	Amended IAS 19
Employee benefits, including plan amendments and curtailment losses (gains)	\$ 961	\$ 467	\$ 1,428
Tax expense (income)	88	(117)	(29)
Net profit (loss)	\$ 321	\$ (350)	\$ (29)
Remeasurements of defined benefit plans	\$ 2,633	\$ 452	\$ 3,085
Income tax relating to items that will not be reclassified	(659)	(113)	(772)
Other comprehensive income	\$ 1,940	\$ 339	\$ 2,279
Comprehensive income	\$ 2,261	\$ (11)	\$ 2,250

IFRS 13 "Fair Value Measurement" (IFRS 13) • IFRS 13 defines fair value, sets out in a single IFRS a framework to measure fair value and requires disclosures about fair value measurements. This standard was applied prospectively beginning January 1, 2013. Upon adoption of IFRS 13, the fair value measurement basis of certain pension plan assets changed from bid prices to close-of-market prices, the former being the current required fair value basis for an asset under IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). As a result of the adoption of IFRS 13, the pension, other post-employment and other long-term benefit liabilities decreased by \$11 million and other comprehensive income increased by \$11 million as at and for the year ended December 31, 2013. The fair value basis of other assets and liabilities was not affected by the adoption of IFRS 13.

The following new standards and amendments were also determined to be relevant for the Group of Companies. However, their mandatory adoption did not have a significant impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS – 2009-2011 Cycle • The IASB issued these 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 "Presentation of Financial Statements" 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. These annual improvements were applied retrospectively and had no material impact on the Corporation's consolidated financial statements.

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) • 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 was applied retrospectively and had no impact on the consolidated financial statements.

4. Application of New and Revised International Financial Reporting Standards (continued)

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 in the current year, the Corporation had one such arrangement, Innovapost, for part of the comparative year. Upon adoption of IFRS 11 in 2013, the comparative period of 2012 was also required to be accounted for in accordance with IFRS 11. Under the new standard, Innovapost was 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 did not result in any significant changes to the consolidated financial statements for the comparative period. IFRS 11 was applied retrospectively and had no other impact on the consolidated financial statements.

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 Corporation's interests in other entities are disclosed in Note 22.

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 was applied retrospectively and had no impact on the consolidated financial statements, as the Corporation does not issue 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 was applied retrospectively and had no impact on the consolidated financial statements.

Amendments to IFRS 10, IFRS 11 and IFRS 12 – Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance • 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 remove the requirement to present comparative information for periods before the first annual period for which IFRS 12 is applied. The amendments are applied retrospectively and did not result in any significant changes to the consolidated financial statements.

Amendments to IFRS 7 – Disclosures – Offsetting Financial Assets and Financial Liabilities • The amendments to IFRS 7 require disclosure 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 were applied retrospectively. Due to the early adoption of amendments to IAS 32 effective January 1, 2013 (see [b] below), there was no material impact on the Corporation's consolidated financial statements upon the adoption of the amendments to IFRS 7.

(b) Early adoption of new accounting standards, amendments and interpretations

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities • The amendments to IAS 32 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. The Group of Companies early adopted these amendments for the annual period beginning January 1, 2013. As a result, certain foreign postal administration settlement balances that were offset on the consolidated statement of financial position no longer meet the revised legally enforceable right to offset criteria. As a result, trade and other receivables, and trade and other payables each increased by \$104 million as at December 31, 2013 (December 31, 2012 – \$87 million; January 1, 2012 – \$81 million).

Amendments to IAS 36 – Recoverable Amount Disclosures for Non-Financial Assets • The amendments to IAS 36 clarify existing guidance that was intended to require disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal and, if so, disclose information regarding the fair value measurement. The amendments are to be applied retrospectively for annual periods beginning on or after January 1, 2014. The Group of Companies early adopted these amendments for the annual period beginning January 1, 2013. There was no impact on the Corporation's consolidated financial statements from the early adoption of the amendments to IAS 36.

(c) Standards, amendments and interpretations not yet in effect

The following amendments and interpretations issued by the IASB and the Interpretations Committee have been assessed as having a possible effect on the Group of Companies in the future. The Group of Companies is determining the impact, if any, of the amendments on its consolidated financial statements.

4. Application of New and Revised International Financial Reporting Standards (continued)

IFRS 9 “Financial Instruments” (IFRS 9) • The IASB issued IFRS 9 to replace IAS 39. IFRS 9 introduces new requirements for the classification and measurement of financial assets and additional changes relating to financial liabilities. Initial measurement will be at fair value; 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. The IASB has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting. The standard provides relief from the requirement to restate comparative financial statements for the effect of applying IFRS 9. The amendments made to IFRS 9 in November 2013 remove the mandatory effective date; however, early application is permitted.

IFRIC 21 “Levies” • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets,” as well as accounting for a levy whose timing and amount is uncertain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation and excludes outflows of resources within the scope of other standards, including IAS 12 “Income Taxes,” and fines or other penalties imposed for breaches of the legislation. This interpretation is to be applied retrospectively for annual periods beginning on or after January 1, 2014. Earlier application is permitted.

Annual Improvements to IFRS – 2010-2012 Cycle • In December 2013, the IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2012 cycle. The standards and topics covered by the amendments are as follows: IFRS 2 “Share-based Payment” addressing the definition of vesting condition, IFRS 3 “Business Combinations” providing additional guidance on accounting for contingent consideration in a business combination, IFRS 8 “Operating Segments” providing additional guidance on the aggregation of operating segments and reconciliation of the total of the reportable segments’ assets to the entity’s assets, IFRS 13 “Fair Value Measurement” providing additional guidance on short-term receivables and payables, IAS 16 “Property, Plant and Equipment” addressing the revaluation method for proportionate restatement of accumulated depreciation, IAS 24 “Related Party Disclosures” providing guidance on key management personnel and IAS 38 “Intangible Assets” addressing the revaluation method for proportionate restatement of accumulated amortization. These annual improvements are to be applied for annual periods beginning on or after July 1, 2014, with the exception of the IFRS 3 amendment that is effective for business combinations with an acquisition date on or after July 1, 2014. Earlier application is permitted.

Annual Improvements to IFRS – 2011-2013 Cycle • In December 2013, the IASB issued these annual improvements in response to non-urgent issues addressed during the 2011-2013 cycle. The standards and topics covered by the amendments are as follows: IFRS 1 “First-time Adoption of International Financial Reporting Standards” addressing the meaning of effective IFRS, IFRS 3 “Business Combinations” addressing scope exceptions for joint ventures, IFRS 13 “Fair Value Measurement” providing additional guidance on the scope of portfolio exception and IAS 40 “Investment Property” providing clarification on classifying property as investment or owner-occupied property. These annual improvements are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions • The amendments to IAS 19 provide additional guidance for employee contributions to defined benefit plans. The amendments clarify the requirements for contributions from employees or third parties that are linked to service. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required for the gross benefit. The amendments are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

5. Regulation of Customer Postage Rates

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

5. Regulation of Customer Postage Rates (continued)

In October 2009, the Government of Canada approved regulations that set the domestic basic letter rate (BLR) for five years, beginning in 2010. Under this pricing plan the BLR rose to \$0.63 in January 2013. A new rate structure will take effect on March 31, 2014, under which stamps for letters weighing 0 to 30 grams that are sold in booklets or coils will cost less than stamps sold individually (\$0.85 versus \$1). Approval from the Government of Canada is also sought on a yearly basis for increases to the remaining regulated Domestic Lettermail products and U.S. and International Letter-post items. New rates for these items will also take effect on March 31, 2014. Approval for all rate increases was received March 6, 2014.

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 [a]).

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% (2012 – 28%) of the Canada Post segment revenue (Note 25 [c]).

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

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

As at December 31	2013		2012	
Cash and cash equivalents				
Cash	\$ 324	69 %	\$ 243	82 %
Money market instruments issued by				
Government of Canada	8	2 %	–	– %
Provincial governments	14	3 %	–	– %
Financial institutions	30	6 %	16	5 %
Corporations	92	20 %	39	13 %
Total cash and cash equivalents	\$ 468	100 %	\$ 298	100 %
Marketable securities				
Money market instruments issued by				
Government of Canada	\$ 99	17 %	\$ 90	16 %
Provincial governments	193	34 %	116	20 %
Financial institutions	134	24 %	195	34 %
Corporations	144	25 %	169	30 %
Total marketable securities	\$ 570	100 %	\$ 570	100 %
Segregated securities				
Cash	\$ 9	2 %	\$ 9	2 %
Bonds issued by				
Government of Canada	103	20 %	120	21 %
Provincial governments	193	38 %	214	38 %
Corporations	205	40 %	217	39 %
Total segregated securities	\$ 510	100 %	\$ 560	100 %

The remaining term to maturity at December 31, 2013 is 12 months or less with the exception of segregated bond securities that, if held to maturity, have terms expiring over a 29-year period.

All money market instruments and bonds held as at December 31, 2013 were issued by Canadian entities at fixed interest rates. The weighted average effective interest rate as at December 31, 2013 was 1.2% for money market instruments (2012 – 1.2%) and 3.6% for bonds (2012 – 3.0%).

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; therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments. Transitional support ended in 2010.

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

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to \$10 million (2012 – \$10 million). Interest income and gains and losses on segregated securities amounted to \$21 million (2012 – \$21 million).

7. Fair Value of Financial Instruments

(a) Financial Instruments carried at fair value

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

As at December 31, 2013

	Level 1 ¹	Level 2 ²	Level 3 ³	Total
Cash and cash equivalents	\$ 324	\$ 144	\$ –	\$ 468
Marketable securities	\$ –	\$ 570	\$ –	\$ 570
Segregated securities	\$ –	\$ 510	\$ –	\$ 510

As at December 31, 2012

	Level 1 ¹	Level 2 ²	Level 3 ³	Total
Cash and cash equivalents	\$ 243	\$ 55	\$ –	\$ 298
Marketable securities	\$ –	\$ 570	\$ –	\$ 570
Segregated securities	\$ –	\$ 560	\$ –	\$ 560

Cash equivalents, marketable securities and segregated securities previously disclosed as level 1 are now disclosed as level 2 in the fair value hierarchy. Comparative figures reflect this assessment. The credit rating of these securities remains in compliance with the Corporation's investment policy, which requires Dominion Bond Rating Service ratings of R-1 (middle) for short-term investments and A for long-term investments.

1. Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
2. Level 2: Fair value is based on valuation techniques using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active. Financial assets and liabilities are measured by discounting future cash flows, making maximum use of directly or indirectly observable market data such as yield curves and forward market prices from interest rates and credit spreads of identical or similar instruments.
3. Level 3: Fair value is based on valuation techniques 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.

At December 31, 2013, fair values of loans and borrowings amounted to \$1,232 million (December 31, 2012 – \$1,366 million) compared to a carrying value of \$1,131 million (December 31, 2012 – \$1,143 million). The fair values of loans and borrowings are disclosed based on level 2 in the fair value hierarchy above and are measured based on observable market data and calculated by discounting the future cash flows using interest rates with similar terms and characteristics at the close of business on the reporting date.

8. 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, 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 8 [b])	-	46	2	8	-	-	-	(61)	(5)
December 31, 2012	\$ 309	\$ 1,726	\$ 266	\$ 1,278	\$ 403	\$ 430	\$ 888	\$ 175	\$ 5,475
Additions	11	50	6	111	35	15	29	76	333
Reclassified as held for sale	(11)	(20)	-	-	-	-	-	-	(31)
Retirements	-	(10)	(6)	(93)	(5)	(7)	(25)	-	(146)
Transfers (nets to nil with Note 8 [b])	-	39	3	4	-	2	-	(49)	(1)
December 31, 2013	\$ 309	\$ 1,785	\$ 269	\$ 1,300	\$ 433	\$ 440	\$ 892	\$ 202	\$ 5,630
Accumulated depreciation									
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
Depreciation	-	61	18	69	38	37	37	-	260
Reclassified as held for sale	-	(15)	-	-	-	-	-	-	(15)
Retirements	-	(8)	(6)	(92)	(4)	(7)	(25)	-	(142)
Transfers	-	(1)	1	-	-	-	-	-	-
December 31, 2013	\$ -	\$ 910	\$ 195	\$ 681	\$ 225	\$ 337	\$ 575	\$ -	\$ 2,923
Carrying amounts									
December 31, 2012	\$ 309	\$ 853	\$ 84	\$ 574	\$ 212	\$ 123	\$ 325	\$ 175	\$ 2,655
December 31, 2013	\$ 309	\$ 875	\$ 74	\$ 619	\$ 208	\$ 103	\$ 317	\$ 202	\$ 2,707

As at December 31, 2013, the Group of Companies held assets under finance leases in three asset classes: sales counters, office furniture and equipment with net book value of \$5 million (2012 – \$6 million); vehicles with net book value of \$62 million (2012 – \$71 million); and plant equipment with net book value of \$13 million (2012 – \$16 million).

During 2013, capitalized borrowing costs related to Postal Transformation amounted to \$10 million (2012 – \$5 million), with a capitalization rate of 4.3% (2012 – 4.3%).

8. Capital Assets (continued)

(b) Intangible assets

Intangible assets consisted of the following items:

	Software	Software under development	Customer contracts and relationships	Total
Cost				
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 8 [a])	46	(41)	–	5
December 31, 2012	\$ 610	\$ 22	\$ 30	\$ 662
Additions	6	34	–	40
Transfers (nets to nil with Note 8 [a])	24	(23)	–	1
December 31, 2013	\$ 640	\$ 33	\$ 30	\$ 703
Accumulated amortization				
December 31, 2011	\$ 467	\$ –	\$ 24	\$ 491
Amortization	65	–	1	66
Retirements	(38)	–	–	(38)
December 31, 2012	\$ 494	\$ –	\$ 25	\$ 519
Amortization	53	1	1	55
December 31, 2013	\$ 547	\$ 1	\$ 26	\$ 574
Carrying amounts				
December 31, 2012	\$ 116	\$ 22	\$ 5	\$ 143
December 31, 2013	\$ 93	\$ 32	\$ 4	\$ 129

(c) Assets held for sale

The Group of Companies had several properties classified as held for sale at the end of 2013, the majority of them from the Purolator segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

9. Employee Benefits

The employee benefits expense recognized in net loss consisted of the following items:

For the year ended December 31	2013	2012 (Restated – Note 4)
Active and other employee benefits	\$ 549	\$ 562
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	879	671
Employee benefits, including plan amendments and curtailment losses (gains)	\$ 1,428	\$ 1,233

10. Pension, Other Post-employment and Other Long-term Benefit Plans

(a) Characteristics of benefit plans

The Group of companies has a number of funded and unfunded benefit plans that provide defined benefit pension plans, other post-employment and other long-term benefits for the majority of its employees, and also provides pension benefits to eligible employees through defined contribution plans. Certain new employees must join the defined contribution plans and are not able to join the defined benefit pension plans. The pension benefit plans are funded through contributions made to external trusts, and the other post-employment and other long-term benefit plans are unfunded. Unfunded plans are plans where benefits are paid directly by the employer. With funded plans, which are individually sponsored by each legal entity of the Group of Companies, funds are transferred to external trusts and the benefits are paid directly from these trusts.

Benefits provided under the most significant defined benefit pension plans are calculated based on length of pensionable service, pensionable salary and retirement age, or for certain employees, on negotiated benefit rates. These plans provide for retirement pension, survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plans and the retirement compensation arrangements, for benefits in excess of statutory limits as defined under the *Income Tax Act*. For the salaried plans, pension benefits in pay are indexed annually.

Both the employers' and, where applicable, the employees' contributions to the external trusts are made in accordance with the provisions of the plans. The contributions to the defined benefit plans 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. Each entity in the Group of Companies has a pension governance structure in place, which is overseen by the Board of Directors. The governance structure includes committees that provide expertise and support management in areas such as investments, administration and compensation. Committees are composed of elected, appointed and retired employees.

The most significant post-employment defined benefit plans, other than pension, include unfunded health care, dental and life and death insurance plans. The benefit costs covered by the employer and the costs assumed by retirees, if any, are determined in accordance with the rules of each plan and the provisions of labour contracts.

Other long-term benefit plans primarily include the top-up credit portion of the Short-Term Disability Program, workers' compensation benefits and health and dental coverage for employees receiving long-term disability benefits. The benefit costs covered by the employer and the costs assumed by employees, if any, are determined in accordance with the rules of each plan, the provisions of labour contracts and respective provincial worker's compensation legislation.

By the end of 2012, the Corporation's sick leave plan was curtailed and replaced by a Short-Term Disability Program. Under this program, employees can use their unused balances from the former sick leave plan as top-up credits to supplement eligible employees' salary in the event of an illness, accident or hospitalization.

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.

(b) Risks associated with defined benefit plans

Funding risk

One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension funding obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. In February 2014, the Corporation received approval to reduce special contributions from 2014 to 2017. Additional details and risks associated with the funding relief are disclosed in Note 10 (j).

The most significant contributors to funding risk are the declines in solvency discount rates, investments failing to achieve expected returns, and non-economic factors like changes in member demographics. Changes to member demographics, such as an increase in life expectancies of plan members, also contribute to increasing the funding obligations, adding to the funding risk faced by plan sponsors.

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

The Group of Companies manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with individual investment policies and procedures and applicable legislation. Investment policies and procedures are designed to provide the pension plans with a long-term rate of return sufficient to assist the plans in meeting funding objectives and the ongoing growth of the pension funding obligations. A Statement of Investment Policies and Procedures (SIPP), addressing the manner in which the pension plan assets will be invested, is reviewed at least annually for significant plans. Investment principles and beliefs are revisited periodically to ensure that changes to investment policies may be made if warranted. The investment portfolio with an appropriate asset allocation can over the long term achieve the investment objective of ensuring that sufficient assets will be available to meet the obligations of the pension plans 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. For the most significant plans, asset-liability studies are conducted periodically to ensure that the pension plans' investment strategy remains appropriate in challenging economic environments. The investment strategy also incorporates a mix of return-generating and liability-matching investments. The portion of plan assets invested in liability-matching investments has characteristics that offset a portion of variation in the pension funding requirements.

Other risks

Plan assets are also subject to a variety of financial risks as a result of investment activities. These risks include credit risk, market risk (interest rate, currency and price risk) and liquidity risk arising from financial instruments. In addition, defined benefit obligations are subject to measurement uncertainty due to the use of significant actuarial assumptions (Note 10 [g]). The impact of these factors on the remeasurement of the pension benefit asset, and pension, other post-employment and other long-term benefit obligations can be significant and volatile at times (Note 10 [h]).

(c) Obligations and assets

A reconciliation of the net defined benefit liability of the defined benefit plans follows, including the present value of defined benefit plan obligations and the fair value of plan assets:

As at December 31	2013		2012 (Restated – Note 4)	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	\$ 20,995	\$ 3,571	\$ 18,499	\$ 3,296
Current service cost	471	121	425	138
Interest cost	921	159	978	177
Employee contributions	211	–	197	–
Benefits paid	(832)	(146)	(725)	(159)
Actuarial (gains) losses (Note 10 [f])	(635)	(342)	1,607	288
Plan amendments losses (gains)	1	–	–	(120)
Curtailement gain	–	–	–	(49)
Business combination	–	–	14	–
Balance, end of year	\$ 21,132	\$ 3,363	\$ 20,995	\$ 3,571
Fair value of plan assets				
Fair value, beginning of year	17,570	–	16,093	–
Interest income on plan assets	771	–	854	–
Return on plan assets, excluding interest income on plan assets	2,131	–	704	–
Employer regular contributions	306	–	349	–
Employer special contributions	74	–	97	–
Employee contributions	211	–	197	–
Other administration costs	(12)	–	(13)	–
Benefits paid	(832)	–	(725)	–
Business combination	–	–	14	–
Fair value, end of year	\$ 20,219	\$ –	\$ 17,570	\$ –
Net defined benefit liability	\$ 913	\$ 3,363	\$ 3,425	\$ 3,571

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

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no decrease in the pension benefit assets and no increase in the pension benefit liabilities required as at December 31, 2013 and December 31, 2012.

A reconciliation of the net defined benefit liability follows:

As at December 31	2013		2012 (Restated – Note 4)	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	\$ 3,425	\$ 3,571	\$ 2,406	\$ 3,296
Remeasurements of defined benefit plans (Note 10 [e])	(2,766)	(319)	903	314
Benefits paid directly to beneficiaries	–	(146)	–	(159)
Employer regular contributions paid	(306)	–	(349)	–
Employer special contributions paid	(74)	–	(97)	–
Defined benefit expense (Note 10 [e])	634	257	562	120
Net defined benefit liability, end of the year	\$ 913	\$ 3,363	\$ 3,425	\$ 3,571

The amounts recognized and presented in the consolidated statement of financial position were as follows:

As at December 31	2013	2012 (Restated – Note 4)
Pension benefit assets	\$ 177	\$ 83
Pension benefit liabilities	\$ 1,090	\$ 3,508
Other post-employment and other long-term benefit liabilities	3,363	3,571
Total pension, other post-employment and other long-term benefit liabilities	\$ 4,453	\$ 7,079
Current other long-term benefit liabilities	\$ 71	\$ 72
Non-current pension, other post-employment and other long-term benefit liabilities	\$ 4,382	\$ 7,007

(d) Fair value measurement of plan assets

The fair value measurement of plan assets disaggregated by asset class and the fair value hierarchy described in Note 7 (a) for the Group of companies follows:

As at December 31, 2013

	Level 1		Level 2		Level 3		Total		
Cash and short-term securities	\$ 210	1 %	\$ 430	2 %	\$ –	– %	\$ 640	3 %	
Fixed income	105	1 %	5,632	28 %	–	– %	5,737	29 %	
Equities	11,614	58 %	136	1 %	–	– %	11,750	59 %	
Real estate	–	– %	–	– %	1,374	7 %	1,374	7 %	
Private equity	–	– %	–	– %	251	1 %	251	1 %	
Infrastructure	–	– %	–	– %	275	1 %	275	1 %	
Derivatives	1	– %	1	– %	2	– %	4	– %	
Total investment assets	\$ 11,930	60 %	\$ 6,199	31 %	\$ 1,902	9 %	\$ 20,031	100 %	
Non-investment assets less liabilities							\$ 188		
Fair value of plan assets							\$ 20,219		

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

As at December 31, 2012

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	\$ 155	1 %	\$ 128	1 %	\$ –	– %	\$ 283	2 %
Fixed income	102	– %	5,574	32 %	–	– %	5,676	32 %
Equities	9,792	57 %	117	– %	–	– %	9,909	57 %
Real estate	–	– %	–	– %	1,207	7 %	1,207	7 %
Private equity	–	– %	–	– %	164	1 %	164	1 %
Infrastructure	–	– %	–	– %	139	1 %	139	1 %
Derivatives	–	– %	(12)	– %	1	– %	(11)	– %
Total investment assets	\$ 10,049	58 %	\$ 5,807	33 %	\$ 1,511	9 %	\$ 17,367	100 %
Non-investment assets less liabilities							\$ 203	
Fair value of plan assets							\$ 17,570	

Total plan assets include \$1,540 million (2012 – \$1,868 million; January 1, 2012 – \$2,345 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and \$136 million (2012 – \$130 million, January 1, 2012 – \$127 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the non-investment assets less liabilities, which includes the refundable taxes, approximates the carrying value.

The Group of Companies' pension plans do not own financial instruments or any other assets of the Group of Companies.

(e) Defined benefit and defined contribution costs

The defined benefit and defined contribution costs components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31	2013			2012		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
Current service cost	\$ 471	\$ 121	\$ 592	\$ 425	\$ 138	\$ 563
Interest cost	921	159	1,080	978	177	1,155
Interest income on plan assets	(771)	–	(771)	(854)	–	(854)
Actuarial gains (Note 10 [f]) ¹	–	(23)	(23)	–	(26)	(26)
Other administration costs	12	–	12	13	–	13
Plan amendments losses (gains)	1	–	1	–	(120)	(120)
Curtailment gain	–	–	–	–	(49)	(49)
Defined benefit expense (Note 10 [c])	634	257	891	562	120	682
Defined contribution expense	9	–	9	10	–	10
Total expense	643	257	900	572	120	692
Return on segregated securities	–	(21)	(21)	–	(21)	(21)
Component included in employee benefits expense (Note 9)	\$ 643	\$ 236	\$ 879	\$ 572	\$ 99	\$ 671
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	\$ (2,131)	\$ –	\$ (2,131)	\$ (704)	\$ –	\$ (704)
Actuarial (gains) losses (Note 10 [f])	(635)	(319)	(954)	1,607	314	1,921
Component included in other comprehensive income (loss) (Note 10 [c])	\$ (2,766)	\$ (319)	\$ (3,085)	\$ 903	\$ 314	\$ 1,217

1. Remeasurements for other long-term benefit plans are recognized in net profit or loss in the period in which they arise.

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

(f) Actuarial (gains) losses

The actuarial (gains) losses components recognized in the statement of comprehensive income were as follows:

For the year ended December 31	2013			2012		
	Pension benefit plans	Other benefit plans	Total	Pension benefit plans	Other benefit plans	Total
(Restated – Note 4)						
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial gains arising from changes in demographic assumptions	\$ –	\$ (1)	\$ (1)	\$ –	\$ (16)	\$ (16)
Actuarial (gains) losses arising from changes in financial assumptions	–	(21)	(21)	–	7	7
Actuarial gains arising from experience adjustments	–	(1)	(1)	–	(17)	(17)
Actuarial gains included in net loss (Note 10 [e])	\$ –	\$ (23)	\$ (23)	\$ –	\$ (26)	\$ (26)
Actuarial (gains) losses on defined benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	\$ 1,775	\$ 287	\$ 2,062	\$ 109	\$ (5)	\$ 104
Actuarial (gains) losses arising from changes in financial assumptions	(2,368)	(610)	(2,978)	1,554	307	1,861
Actuarial (gains) losses arising from experience adjustments	(42)	4	(38)	(56)	12	(44)
Actuarial (gains) losses included in other comprehensive income (loss) (Note 10 [e])	\$ (635)	\$ (319)	\$ (954)	\$ 1,607	\$ 314	\$ 1,921
Total actuarial (gains) losses (Note 10 [c])	\$ (635)	\$ (342)	\$ (977)	\$ 1,607	\$ 288	\$ 1,895

(g) Significant actuarial assumptions

The weighted-average actuarial assumptions used in measuring the Group of Companies' significant defined benefit plans were as follows:

As at December 31	2013		2012	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	5.0 %	5.1 %	4.4 %	4.5 %
Consumer price index	2.25 %	2.25 %	2.25 %	2.25 %
Defined benefit expense:				
Discount rate	4.4 %	4.5 %	5.3 %	5.5 %
Consumer price index	2.25 %	2.25 %	2.5 %	2.5 %
Health care cost trend rate ¹	N/A	7.3 %	N/A	7.5 %

1. For 2013, the health care cost trend rate was 7.3% decreasing progressively to a rate of 4.9% by 2029. For 2012, the health care cost trend rate was 7.5% decreasing progressively to a rate of 4.9% by 2029.

In addition to the significant actuarial assumptions above, the mortality tables were updated in 2013 based on the Canadian Institute of Actuaries Report on Canadian Pensioners Mortality (CPM), more specifically the 2014 RPP Public Sector Mortality Tables with the CPM improvement scale, adjusted for experience. The mortality assumptions used in 2012 were based on the 2003 Public Service Superannuation Act Mortality Tables, adjusted for experience. Mortality tables represent the probability of death within a year for plan members of various ages. The updated tables, combined with the CPM improvement scale, increased the defined benefit obligations significantly due to an increase in life expectancies of plan members, both during and after employment.

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

The average life expectancies based on the mortality tables and improvement scale used in the measurement of the defined benefit obligations for the significant plans were as follows:

As at December 31	2013	2012
Life expectancy at age 60 at December 31, 2013 and 2012 (in years):		
Males	27	23
Females	29	26
Life expectancy at age 60 at December 31, 2033 and 2032 (in years):		
Males	28	24
Females	30	27

(h) Sensitivity analysis

The sensitivity analysis of the significant actuarial assumptions on the Group of Companies' defined benefit obligations were as follows:

As at December 31, 2013

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	\$ (1,532)	\$ (248)	\$ (1,780)
0.5% decrease in discount rates	\$ 1,663	\$ 280	\$ 1,943
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	\$ 654	\$ 30	\$ 684
0.25% decrease in CPI	\$ (623)	\$ (28)	\$ (651)
Mortality tables sensitivity:			
10% increase in mortality tables	\$ (332)	\$ (53)	\$ (385)
10% decrease in mortality tables	\$ 362	\$ 61	\$ 423
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	\$ 446	\$ 446
1% decrease in health care trend rates	N/A	\$ (351)	\$ (351)

The above sensitivity analysis is 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 sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods and assumptions used in determining the above sensitivity are consistent with methods and assumptions used to determine the pension and other benefit plan obligations and with the methods and assumptions used in 2012, with the exception of the mortality tables in Note 10 (g).

The mortality tables sensitivity demonstrates the impact of an increase or decrease in the probability of death within a year for plan members of various ages.

The weighted-average duration of the pension plans, other post-employment plans and other long term employee benefit plan obligations for the Group of Companies ranges from 11 to 23, 15 to 19, and 5 to 8 years, respectively.

(i) Total cash payments

Total cash payments for pension, other post-employment and other long-term benefits for the Group of Companies were as follows:

For the year ended December 31	2013	2012
Benefits paid directly to beneficiaries for other benefit plans	\$ 146	\$ 159
Employer regular contributions to pension benefit plans	306	349
Employer special contributions to pension benefit plans	74	97
Cash payments for defined benefit plans	526	605
Contributions to defined contribution plans	9	10
Total cash payments	\$ 535	\$ 615

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

Over the past few years, low solvency discount rates increased the pension plans' solvency obligations and deficits significantly. Changes to pension legislation were implemented by the Government of Canada providing Crown corporations with funding relief on special solvency contributions if certain conditions are met. Under these regulations, the aggregate amount of the relief was limited to 15% of the fair value of plan assets. As per the legislation, the Corporation received approvals from the Minister of Finance and the Minister of Transport to reduce its special solvency contributions from January 1, 2011 to June 30, 2014. Without this relief, an additional \$1.2 billion in special solvency contributions would have been required in 2013. As at December 2013, the aggregate amount of the funding relief was \$2.4 billion. The Corporation expected to reach the 15% limit in early 2014.

(j) Future expected contributions and funding relief

In 2014, the Group of Companies' total contributions to defined benefit pension plans are estimated to be \$326 million, including the Canada Post Corporation Registered Pension Plan regular contributions estimated at \$250 million.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation will be exempt from making special payments into its registered pension plan from 2014 to 2017. This temporary measure recognizes the operational challenges encountered by the Corporation and will provide immediate relief on its liquidities in 2014. During the relief period, the Corporation will continue to restructure its operations and will start addressing the pension plan in order to ensure its long-term sustainability. The Corporation expects to resume special payments in 2018 at the end of the temporary relief period.

Without pension relief, the Corporation would be required to make special contributions of approximately \$1.3 billion in 2014.

11. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*. The Corporation's subsidiaries are subject to federal and provincial income taxes.

The sources of the temporary differences giving rise to net deferred tax assets (liabilities), affecting net loss and other comprehensive income or loss (OCI), were as follows:

	December 31, 2012 (Restated – Note 4)	Recognized in net loss	Recognized in OCI	December 31, 2013
Net deferred tax assets (liabilities)				
Capital assets	\$ (25)	\$ (22)	\$ –	\$ (47)
Salaries and benefits payable and related provisions	82	2	–	84
Pension, other post-employment and other long-term benefit liabilities	1,707	94	(772)	1,029
Other	42	(30)	12	24
Net deferred tax assets	\$ 1,806	\$ 44	\$ (760)	\$ 1,090

	December 31, 2011	Amended IAS 19 effects (Note 4)	Recognized in net loss (Restated – Note 4)	Recognized in OCI (Restated – Note 4)	December 31, 2012 (Restated – Note 4)
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	(3)	26	304	1,707
Other	11	–	33	(2)	42
Net deferred tax assets	\$ 1,472	\$ (3)	\$ 35	\$ 302	\$ 1,806

As presented in the consolidated statement of financial position:

As at December 31	2013	2012 (Restated – Note 4)
Deferred tax assets	\$ 1,093	\$ 1,808
Deferred tax liabilities	3	2
	\$ 1,090	\$ 1,806

11. Income Taxes (continued)

As at December 31, 2013, the Corporation has recognized a deferred tax asset of \$1,071 million on its deductible temporary differences. 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, 2013 was \$219 million (restated 2012 – \$116 million).

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

For the year ended December 31	2013	2012 (Restated – Note 4)
Current tax expense (income) relating to		
Current tax expense	\$ 12	\$ 14
Adjustments for prior years	3	(6)
	15	8
Deferred tax expense (income) relating to		
Origination and reversal of temporary differences	(43)	(38)
Adjustments for prior years	(1)	3
	(44)	(35)
Tax expense (income)	\$ (29)	\$ (27)

The tax expense differs from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2012 – 25%) to loss before tax. The reasons for the differences are as follows:

For the year ended December 31	2013	2012 (Restated – Note 4)
Loss before tax	\$ (58)	\$ (110)
Federal tax at Corporation's statutory rate	(15)	(27)
Subsidiaries' provincial tax less federal tax abatement	1	–
Effect of statutory tax rate changes on deferred taxes	–	(1)
Effect of non-taxable portion of gain on sale of capital assets	(14)	(1)
Other	(1)	2
Tax expense (income)	\$ (29)	\$ (27)

The federal statutory tax rate remained at 25% for the years 2012 and 2013, which is the applicable long-term federal statutory tax rate.

12. Other Comprehensive Income

Amounts recognized in other comprehensive income (loss) were as follows:

	Items that may be reclassified subsequently to net profit (loss)	Items that will not be reclassified to net profit (loss)	Other comprehensive income (loss)
	Unrealized gains (losses) on available-for-sale financial assets	Remeasurements of defined benefit plans	
For the year ended December 31, 2013			
Amount arising during year	\$ (46)	\$ 3,085	\$ 3,039
Income taxes	12	(772)	(760)
Net	\$ (34)	\$ 2,313	\$ 2,279
For the year ended December 31, 2012			
Amount arising during year	\$ 9	\$ (1,217)	\$ (1,208)
Income taxes	(2)	304	302
Net	\$ 7	\$ (913)	\$ (906)

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	2013			2012
	Purolator segment	Logistics segment	Total	Total
Balance, beginning of the year	\$ 121	\$ 9	\$ 130	\$ 125
Goodwill acquired during the year	–	–	–	5
Balance, end of the year	\$ 121	\$ 9	\$ 130	\$ 130

Goodwill impairment testing

Impairment testing for goodwill is carried out annually at the end of the third quarter for both the Purolator and Logistics segments. 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% (2012 – 2.5%), 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% (2012 – 16%), 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	2013	2012
		(Restated – Note 4)
Trade payables	\$ 145	\$ 119
Accruals and other payables	255	216
Payables to foreign postal administrations	123	114
Outstanding money orders	30	34
Taxes payable	67	57
Total	\$ 620	\$ 540

Market, credit and liquidity risks relating to trade and other payables are disclosed in Note 24.

15. Loans and Borrowings

Loans and borrowings consisted of the following items:

As at December 31	2013		2012	
	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}	\$ 554	\$ 498	\$ 622	\$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16 ^{1,3}	533	498	582	498
Non-redeemable bonds maturing March 2016, interest at 10.35%, payable semi-annually on March 15 and September 15 ^{2,3}	65	55	70	55
Finance lease obligations, maturing on various dates from 2014 to 2016, net of implicit interest at rates varying from 5.7% to 7.5% ⁴	6	6	7	7
Finance lease obligations, maturing in 2019, net of implicit interest at rates varying from 3.3% to 5.5% ⁵	74	74	85	85
Total loans and borrowings	\$ 1,232	\$ 1,131	\$ 1,366	\$ 1,143
Current loans and borrowings	\$ 23	\$ 23	\$ 20	\$ 20
Non-current loans and borrowings	\$ 1,209	\$ 1,108	\$ 1,346	\$ 1,123

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 has an unsecured three-year term revolving line of credit to borrow a maximum of \$75 million. Effective December 17, 2013, the facility was renegotiated to allow for maximum borrowings of \$50 million on a committed basis and an additional \$25 million on an uncommitted basis. There was no amount drawn under this facility as at December 31, 2013, or December 31, 2012. 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, 2013.

Interest expense on loans and borrowings amounted to \$41 million (2012 – \$46 million).

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

As at December 31	2013	2012
2016	\$ 55	\$ 55
2025	500	500
2040	500	500
	\$ 1,055	\$ 1,055

Finance lease obligations at December 31, 2013 were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	\$ 25	\$ 2	\$ 23
Later than one year and not later than five years	57	4	53
Later than five years	4	–	4
Finance lease obligations	\$ 86	\$ 6	\$ 80
Current finance lease obligations	\$ 25	\$ 2	\$ 23
Non-current finance lease obligations	\$ 61	\$ 4	\$ 57

15. Loans and Borrowings (continued)

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

16. Provisions

The following table presents the movement in provisions for the year ended December 31, 2013:

	Claims	Other	Total
Balance at December 31, 2012	\$ 55	\$ 35	\$ 90
Additional provisions recognized	17	30	47
Provisions used during the year	(15)	(33)	(48)
Reduction from remeasurement of provisions	(5)	(1)	(6)
Balance at December 31, 2013	\$ 52	\$ 31	\$ 83
Current provisions	\$ 51	\$ 30	\$ 81
Non-current provisions	\$ 1	\$ 1	\$ 2

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, 2013 and 2012 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 year. The estimated cash outflows have been discounted at a risk-free interest rate between 0.9% and 1.1% (2012 – between 0.9% and 1.1%). The Corporation estimates that the undiscounted cash outflows required to transfer its recognized decommissioning obligations approximate \$2 million (2012 – \$4 million), the present value of which was \$2 million at December 31, 2013 (2012 – \$4 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, 2013 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 eight 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. Disclosures regarding contingent liabilities for these items can be found in Note 18.

16. Provisions (continued)

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.

On June 25, 2013, a memorandum of agreement was reached between PSAC and the Corporation regarding the implementation of the Tribunal’s 2005 order, including the methodology to be used for the wage gap calculation, eligibility criteria and the payment process. Payments under this agreement commenced August 1, 2013, and on August 6, 2013, the Tribunal issued an order enforcing the agreement.

The provision included in salaries and benefits payable and related provisions reflects management’s best estimate of the remaining cost to comply with the agreement. Detailed information is not provided as it could be prejudicial to the Corporation.

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 \$1,131 million at December 31, 2013, compared to \$1,143 million at December 31, 2012. The decrease of \$12 million in 2013 was due to a decrease in finance lease obligations. Other liabilities (non-current) remained essentially unchanged from prior comparative periods. The increase in the equity of Canada was primarily attributable to the remeasurements of defined 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 \$391 million at December 31, 2013, compared to a deficit position of \$2,633 million (restated, Note 4) at December 31, 2012.

The Corporation’s objectives in managing capital are as follows:

- Provide sufficient liquidity to support and repay its financial obligations and support its operating and strategic plans.
- 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 first year of the Corporation’s 2013-2017 Corporate Plan and 2014-2018 Corporate Plan were approved by the Governor in Council on December 12, 2013.

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 the 2013-2017 Corporate Plan its intention not to pay a dividend in 2013.

In total, \$271 million in dividends were paid to the Government of Canada from 2004 to 2008. No dividend was paid to the Shareholder from 2009 to 2013. 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 arising from financial instruments 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.

17. Capital Management (continued)

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 \$100 million (2012 – \$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 had 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 in January 2011. In response to rotating strikes across the country by CUPW and the lockout of employees by the Corporation, back-to-work legislation tabled by the Government of Canada received royal assent in June 2011. In October 2011 CUPW filed an application contesting the constitutionality of the legislation. Thereafter, new agreements were ratified and signed in December 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 2013, individual members of the Rural and Suburban Mail Carriers unit of CUPW (CUPW-RSMC) filed complaints (2013 complaints) with the Canadian Human Rights Commission (Commission) alleging, among other things, discrimination by the Corporation concerning work of equal value. The Commission had previously declined jurisdiction in respect of similar complaints filed in 2012 (2012 complaints). Consistent with the process already in place for the 2012 complaints, the Corporation requested that the Commission use its jurisdiction to decline to hear the 2013 complaints on the basis of procedural errors and that the non-litigated internal dispute process should first be exhausted.

After the Commission declined jurisdiction in respect of the 2012 complaints to the Commission, further claims were filed against the Corporation on behalf of individual members by CUPW-RSMC in various locations. These claims contend, among other things, that the Corporation is in violation of the *Canadian Human Rights Act* by denying pay equity between the RSMC unit and external employees in the Corporation's postal operations unit.

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

- (d) In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies provides indemnification to its respective directors, officers and certain employees, either through corporate by-laws or indemnity 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.

- (e) 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).

18. Contingent Liabilities (continued)

- (f) 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 asbestos-containing materials.

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.

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	2013	2012
Not later than one year	\$ 152	\$ 152
Later than one year and not later than five years	355	380
Later than five years	427	353
Total	\$ 934	\$ 885

Included in the above numbers are lease payments to be made with related parties, in the normal course of business, in the amount of \$34 million for premises used in postal operations and transportation services (2012 – \$52 million).

The Group of Companies leases a number of properties, including industrial buildings, retail stores, offices and land, as well as operating equipment under operating leases. Leases generally run for a period of one to 20 years, with the average lease term being five years. Where renewal options exist, exercise is at the discretion of the Group of Companies. Some of the Corporation's property leases include the right of first refusal to purchase the building.

During the year ended December 31, 2013, \$151 million was recognized as an expense in net loss in respect of operating leases (2012 – \$148 million). This amount is net of lease revenues of \$10 million (2012 – \$10 million).

- (b) As at March 20, 2014, the Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating \$992 million that extend to 2022. Included in this amount are contracts related to the purchase of capital assets, estimated at \$48 million.
- (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.

20. Other Operating Costs

Other operating costs consisted of the following:

For the year ended December 31	2013	2012
Non-labour collection, processing and delivery	\$ 1,318	\$ 1,336
Property, facilities and maintenance	349	324
Selling, administrative and other	499	540
Other operating costs	\$ 2,166	\$ 2,200

21. Investing and Financing Income (Expense)

Investing and financing income and expense consisted of the following:

For the year ended December 31	2013	2012
Interest revenue	\$ 11	\$ 12
Gain on sale of capital assets and assets held for sale ¹	168	35
Other income	3	3
Investment and other income	\$ 182	\$ 50
Interest expense	\$ (41)	\$ (46)
Other expense	(6)	(8)
Finance costs and other expense	\$ (47)	\$ (54)
Investing and financing income (expense), net	\$ 135	\$ (4)

1. Gain is primarily due to the disposal of two significant properties sold during the current year that were classified as held for sale at December 31, 2012.

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, 2013	December 31, 2012
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 %	98 %

From the beginning of the previous 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. Additional information about the basis of consolidation is disclosed in Note 2 (a).

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	2013	2012
Related party revenue	\$ 268	\$ 271
Compensation payments for programs		
Government mail and mailing of materials for the blind	\$ 22	\$ 22
Payments from related parties for premises leased from the Corporation	\$ 7	\$ 7
Related party expenditures	\$ 33	\$ 29

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 5).

23. Related Party Transactions (continued)

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

As at December 31	2013	2012
Due to/from related parties		
Included in trade and other receivables	\$ 20	\$ 19
Included in trade and other payables	\$ 16	\$ 10
Deferred revenue from related parties	\$ 3	\$ 7

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

As at December 31	2013	2012
Not later than one year	\$ 7	\$ 6
Later than one year and not later than five years	24	25
Later than five years	6	12
Total	\$ 37	\$ 43

(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	2013	2012
Short-term employee benefits	\$ 9	\$ 8
Post-employment benefits	2	2
Total (excluding termination benefits)	\$ 11	\$ 10

The 2013 KMP Group of Companies' compensation relating to the Boards of Directors included in the table directly above was \$0.3 million (2012 – \$0.3 million).

In 2013, no KMP remuneration relating to one-time termination benefits was incurred (2012 – \$2 million). There have been no transactions with KMP other than compensation.

(c) Transactions with entities in which KMP of the Canada Post Group of Companies have control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by KMP of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2013 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 Purolator in the amount of \$110 million (2012 – \$111 million). As at December 31, 2013, \$4 million is due to the company from Purolator (2012 – \$5 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 Purolator.

(d) Transactions with the Corporation's pension plans

During the year the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of \$9 million (2012 – \$8 million). As at December 31, 2013, \$4 million (2012 – \$1 million) relating to transactions with the Registered Pension Plan is outstanding and included in trade and other receivables.

Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 10 (i).

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; 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 12 years as at December 31, 2013 (2012 – 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 income or loss by \$58 million at December 31, 2013 (2012 – \$70 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\$.

During the year, the Group of Companies continued its economic hedge program to mitigate its exposure to foreign exchange balances and 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, 2013

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity range	Type	Fair value
U.S. dollar	US\$35	\$ 37	\$1.07/US\$	January 16, 2014	Sell forward	\$ –
Euro	€17	25	\$1.45/€	January 17, 2014	Sell forward	–
British pound	£3.5	6	\$1.75/£	January 17, 2014	Sell forward	–
Yen	¥450	5	\$0.010/¥	January 17, 2014	Sell forward	–
Total		\$ 73				\$ –

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

As at December 31, 2012

Currency	Notional 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				\$ –

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

For the year ended December 31	2013			2012		
	Foreign exchange gains	Derivative losses	Total	Foreign exchange gains (losses)	Derivative gains (losses)	Total
Unrealized	\$ 2	\$ –	\$ 2	\$ 2	\$ (1)	\$ 1
Realized	5	(8)	(3)	(2)	6	4
Total	\$ 7	\$ (8)	\$ (1)	\$ –	\$ 5	\$ 5

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2013, all other variables held constant, would have been an increase or decrease in net loss for the year by \$4 million (2012 – \$5 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 that it is subject to any significant concentration of credit risk.

Credit risk arising from investments is mitigated by investing with issuers who meet specific criteria and 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 (2012 – 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 the 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 the day's sales outstanding has indicated no significant change in the trend of the aging of receivables.

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

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service (USPS), is generally mitigated by corresponding 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	2013	2012 (Restated – Note 4)
Trade receivables:		
Current	\$ 426	\$ 396
1-15 days past due	57	66
16-30 days past due	19	19
Over 30 days past due	26	25
Allowance for doubtful accounts	(8)	(8)
Trade receivables – net	520	498
Trade receivables from foreign postal administrations	214	172
Other receivables	45	32
Trade and other receivables	\$ 779	\$ 702

Impairment losses on trade and other receivables recognized during the year were \$3 million (2012 – \$2 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.

In February 2014, the Corporation received relief from making special payments into its registered pension plan from 2014 to 2017 (Note 10 [j]). In addition, the Corporation will start implementing the initiatives included in the Five-point Action Plan to address long-term operational sustainability and help ensure future profitability. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months having obtained relief and with the implementation of the Five-point Action Plan.

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.

As part of the total authorized borrowing limit, a maximum of \$100 million (2012 – \$250 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2013. The Corporation's loans and borrowings amounted to \$1,057 million (2012 – \$1,058 million), and letters of credit of \$13 million (2012 – \$13 million) were issued at December 31, 2013. No amounts have been drawn on the short-term borrowing facilities as of December 31, 2013. In order to access further funds from its borrowing capacity, the Corporation must indicate its intention to borrow money in its annual Corporate Plan, or amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Governor in Council. The first year of each of the Corporation's 2013-2017 and 2014-2018 Corporate Plans was approved by the Governor in Council on December 12, 2013. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

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

As at December 31, 2013, the Corporation's subsidiaries had access to financing facilities totalling \$205 million (2012 – \$205 million), of which \$74 million (2012 – \$85 million) was drawn at year-end. The subsidiaries also had letters of credit issued in the amount of \$7 million (2012 – \$6 million). Additional information is disclosed in Note 15.

The following table details the Group of Companies' remaining contractual maturities for its financial liabilities. The amounts represent 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, 2013

	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	\$ 727	\$ 1	\$ –	\$ 728
Bonds, Series 1	4.39 %	22	87	980	1,089
Bonds, Series 2	4.12 %	20	82	643	745
Non-redeemable bonds	10.6 %	6	63	–	69
Finance lease obligations	3.3% – 7.5%	25	57	4	86
		\$ 800	\$ 290	\$ 1,627	\$ 2,717

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 (Restated – Note 4)
Non-interest bearing ¹	N/A	\$ 740	\$ 1	\$ –	\$ 741
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
		\$ 811	\$ 307	\$ 1,674	\$ 2,792

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

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

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 [m]).

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 March 14, 2012. 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, 2013

	Canada Post	Purolator	Logistics	Innovapost	Intersegment and consolidation	Total
Revenue from external customers	\$ 5,859	\$ 1,538	\$ 166	\$ –	\$ –	\$ 7,563
Intersegment revenue	24	85	13	249	(371)	–
Revenue from operations	\$ 5,883	\$ 1,623	\$ 179	\$ 249	\$ (371)	\$ 7,563
Labour and employee benefits	\$ 4,385	\$ 728	\$ 75	\$ 87	\$ –	\$ 5,275
Other operating costs	1,509	775	89	160	(367)	2,166
Depreciation and amortization	258	55	5	2	(5)	315
Cost of operations	\$ 6,152	\$ 1,558	\$ 169	\$ 249	\$ (372)	\$ 7,756
Profit (loss) from operations	\$ (269)	\$ 65	\$ 10	\$ –	\$ 1	\$ (193)
Investment and other income	\$ 187	\$ 4	\$ 2	\$ –	\$ (11)	\$ 182
Finance costs and other expense	(43)	(3)	–	–	(1)	(47)
Profit (loss) before tax	\$ (125)	\$ 66	\$ 12	\$ –	\$ (11)	\$ (58)
Tax expense (income)	(50)	18	3	–	–	(29)
Net profit (loss)	\$ (75)	\$ 48	\$ 9	\$ –	\$ (11)	\$ (29)
Total assets	\$ 6,121	\$ 774	\$ 91	\$ 121	\$ (440)	\$ 6,667
Acquisition of capital assets	\$ 339	\$ 30	\$ 7	\$ 2	\$ (5)	\$ 373
Total liabilities	\$ 6,719	\$ 295	\$ 48	\$ 70	\$ (100)	\$ 7,032

For the year ended and as at December 31, 2012 (Restated – Note 4)

	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	\$ 4,249	\$ 728	\$ 68	\$ 76	\$ –	\$ 5,121
Other operating costs	1,523	804	82	138	(347)	2,200
Depreciation and amortization	251	61	5	2	(5)	314
Cost of operations	\$ 6,023	\$ 1,593	\$ 155	\$ 216	\$ (352)	\$ 7,635
Profit (loss) from operations	\$ (157)	\$ 39	\$ 7	\$ 5	\$ –	\$ (106)
Investment and other income	\$ 68	\$ –	\$ –	\$ –	\$ (18)	\$ 50
Finance costs and other expense	(47)	(3)	–	–	(4)	(54)
Profit (loss) before tax	\$ (136)	\$ 36	\$ 7	\$ 5	\$ (22)	\$ (110)
Tax expense (income)	(40)	9	3	1	–	(27)
Net profit (loss)	\$ (96)	\$ 27	\$ 4	\$ 4	\$ (22)	\$ (83)
Total assets	\$ 6,548	\$ 792	\$ 97	\$ 98	\$ (441)	\$ 7,094
Acquisition of capital assets	\$ 547	\$ 62	\$ 6	\$ 2	\$ (5)	\$ 612
Total liabilities	\$ 9,281	\$ 414	\$ 63	\$ 50	\$ (100)	\$ 9,708

25. Segmented Information (continued)

(b) Geographic area revenue information

For the year ended December 31	2013	2012
Canada	\$ 7,074	\$ 7,081
United States	383	353
Rest of world	106	95
Total revenue	\$ 7,563	\$ 7,529

(c) Products and services revenue information

As at December 31, 2013

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	\$ 1,810	\$ (3)	\$ 1,807
Direct Marketing	1,241	–	1,241
Parcels	3,200	(117)	3,083
Other	505	(251)	254
	\$ 6,756	\$ (371)	\$ 6,385
Unattributed revenue			
Stamp postage	\$ 516	\$ –	\$ 516
Meter postage	662	–	662
	\$ 1,178	\$ –	\$ 1,178
Total	\$ 7,934	\$ (371)	\$ 7,563

As at 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	1,277	–	1,277
Parcels	3,096	(126)	2,970
Other	470	(223)	247
	\$ 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

The 2012 comparative amounts have been reclassified to conform to the current year presentation. Due to a realignment of products and services between lines of business, an amount of \$6 million was reclassified to Direct Marketing from the Other category.

Our size and scope

EMPLOYEES



66,000

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

FLEET



Nearly
11,000
Canada Post-owned vehicles
79 million
kilometres travelled in 2013

ADDRESSES SERVED



15.5 million

RETAIL POST OFFICES AND STREET LETTER BOXES



More than
6,300 retail post offices across Canada
28,000 street letter boxes

MODE OF DELIVERY (addresses)



Centralized, community / group mailbox or other

9.7 million
Door-to-door
5.1 million
Rural mailbox
0.7 million

PLANTS AND DEPOTS



21 mail processing plants
500 letter carrier depots

MOBILE APP



1.2 million
downloads of Canada Post mobile app since launch (approximate figure as of December 31, 2013)

CANADAPOST.CA



More than
150 million
visits to canadapost.ca in 2013

EPOST™ DIGITAL MAILBOXES



Almost
9.1 million
users registered since launch (as of December 31, 2013)

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.

AddressComplete, Addressed Admail, Admail, Business Reply Mail, Canada Complete, Canada Post E-commerce Innovation Awards, Delivered Tonight, Delivering the online world, epost, epost Connect, Expedited Parcel, Lettermail, Picture Postage, Precision Targeter, Publications Mail, Registered Mail, Tracked Packet, Unaddressed Admail, Vault, Xpresspost and the shopping cart logo in a circle with the arrow are trademarks of Canada Post Corporation. Innovapost and design are trademarks of Canada Post Corporation used under licence.

PostNet is a trademark of Canada Post Corporation used under licence.

Apple, the Apple logo, iPad and iPhone are trademarks of Apple Inc., registered in the U.S. and other countries.

PuroPost is a trademark of Purolator International Inc. registered in the U.S.

Air Miles and design are trademarks of Air Miles International Holdings N.V.

Build.ca and design are trademarks of Build.com Inc.

comScore and Media Metrix are trademarks of comScore, Inc.

Garnet Hill design is a trademark of Garnet Hill, Inc.

Jewrl and design are trademarks of Jewlr.com.

LEED is a trademark of U.S. Green Building Council.

Lowe's and design and Never Stop Improving are trademarks of LF, LLC.

Markham Stouffville Hospital and design are trademarks of Markham Stouffville Hospital Corporation.

NailPolishCanada.com design is a trademark of NailPolishCanada.com.

Purolator and design are trademarks of Purolator Inc.

SCI and design are trademarks of SCI Logistics Ltd.

Snakes and Lattes and design are trademarks of Snakes & Lattes, Inc.

TenTree design is a trademark of TenTree International Inc.

Transit Connect is a trademark of Ford Motor Company.

Well.ca and design are trademarks of Well.ca Inc.



THINK RECYCLING!



PENSEZ À RECYCLER!



The cover of this publication is printed on FSC® Mix certified ChorusArt Silk Cover stock with a recycled content of 50%.

The inside text pages are printed on Rolland Enviro100 Print which contains 100% post-consumer fibre, 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.

canadapost.ca