What's in the truck?

ANNUAL
REPORT
2015

CANADA POST
POSTES CANADA

By the numbers

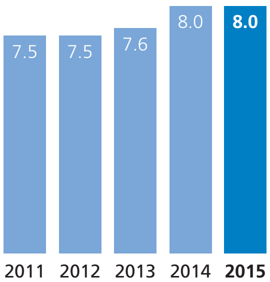
Canada Post Group of Companies

(in millions of dollars)	2015	2014	% Change
Operations			
Revenue from operations	8,006	7,982	0.3 %
Profit from operations	169	299	(43.4)%
Operating margin (%)	2.1 %	3.7 %	
Investing and financing income (expense)[1]	(33)	(30)	11.4 %
Profit before tax	136	269	(49.4)%
Net profit	99	198	(50.2)%
Cash provided by operating activities	595	591	0.5 %
Cash used in capital expenditures	(352)	(264)	(33.1)%
Financial position			
Cash and cash equivalents	775	677	14.6 %
Total assets	7,720	7,584	1.8 %
Loans and borrowings	1,135	1,134	0.2 %
Equity of Canada	(1,151)	(2,035)	43.5 %
Volume			
Total volume – Consolidated (in millions)	8,903	9,129	(2.5)%
Domestic Parcels growth (Canada Post segment)	13.5 %	9.2 %	
Parcels growth (Canada Post segment)	9.7 %	4.6 %	
Direct Marketing (Canada Post segment)	0.2 %	(2.2)%	
Domestic Lettermail erosion (Canada Post segment)	(5.2)%	(5.4)%	
Transaction Mail erosion (Canada Post segment)	(6.1)%	(5.2)%	
Transaction Mail volume decline per address	(6.8)%	(6.1)%	
Canada Post Corporation Registered Pension Plan			
Pension assets – Fair market value	21,968	20,917	5.0 %
Going-concern surplus – To be funded[2]	1,230	500	145.9 %
Solvency deficit – To be funded[2]	(6,199)	(6,801)	8.8 %
Employer contributions – Current	243	251	(3.0)%
Employer contributions – Special	35	37	(4.3)%

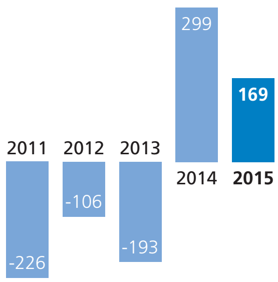
1. Includes gain on sale of capital assets and assets held for sale.
2. Number for 2015 is an estimate. Actuarial valuations for the Plan will be filed by June 30, 2016. For more details, refer to Section 6.5 of the Management's Discussion and Analysis on page 70.

Canada Post Group of Companies

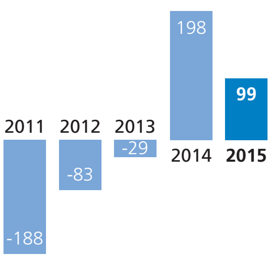
Revenue from operations
(in billions of dollars)



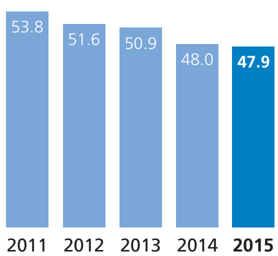
Profit (loss) from operations*
(in millions of dollars)



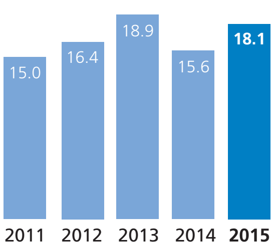
Net profit (loss)*
(in millions of dollars)



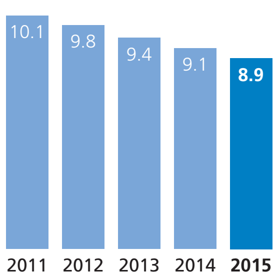
Labour costs
(percentage of revenue from operations)



Employee benefit costs*
(percentage of revenue from operations)



Volume
(in billions of pieces)



* 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).

References in the Annual Report to 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 subsidiaries, which are Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc.

Contents

The postal needs of Canadians are changing.

We're changing to meet them.

Nothing shapes the postal service like the people who use it – Canadians themselves. Their preferences, choices, behaviours and even the devices they use: these drive the postal system.

How they communicate and shop and how we respond effectively to their needs: these determine what Canada Post delivers.

This annual report shares our progress in transforming our business to meet the changing needs of Canadians.

How Canadians used Canada Post in 2015

The needs of Canadians for postal service keep changing. Roughly eight in 10 Canadians shop online, and Canada Post delivers nearly two of every three parcels they order. Volumes climbed at an impressive rate in 2015. As for marketing, thousands of businesses still send offers, promotions and messages by mail because it works. Timely, targeted offers are especially crucial for small businesses that rely on them to bring customers in the door. As a result, marketing mail volumes remain steady.

Parcels

Direct Marketing

Transaction Mail

Volumes of letters, bills and statements peaked in 2006. Since then, they have declined every year as people use digital alternatives. While the annual rate of decline is in the single digits, it is relentless and ongoing.

Convenience, price and product selection are among the reasons consumers are shopping online more often.

Parcels volumes grew by

9.7%

We delivered 16 million more parcels in 2015 than the year before. That growth was propelled by online shopping and our focus on service, which made merchants and consumers choose us.

Direct Marketing volumes grew by

0.2%

Marketers are rediscovering a proven performer in the cluttered environment competing for consumers' attention.

Transaction Mail volumes decreased by

6.1%

In raw numbers, the volume decline was 239 million pieces – or nearly a quarter of a billion. Canadians mailed 1.6 billion fewer pieces in 2015 than they did in 2006.

The above figures are for the Canada Post segment.

What drove our financial results

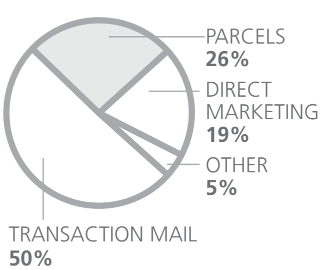
Profit before tax
CANADA POST SEGMENT
$63M

Our revenue comes from the sale of our goods and services, so naturally, what Canadians asked us to deliver was the major driver of our financial results. Our results were also an outcome of the strategies we adopted in response to Canadians' changing needs. Our results also reflected external factors, such as interest rates. 2015 was the second consecutive year that the Canada Post segment achieved a profit before tax, following three years of reported losses. Still, the $63 million profit before tax is modest in relation to the segment's $6.3 billion in revenue.

Key drivers in 2015

Canada Post segment

2015 revenue by line of business, Canada Post segment



In 2006, Parcels generated only 20 per cent of the segment's revenue, and Transaction Mail generated 55 per cent. The past decade has seen a remarkable shift.

+ IMPACT

Parcels growth
$137M

Strategic initiatives
$390M (Approx.)

– IMPACT

Transaction Mail erosion
$207M (Approx.)

Employee benefit expenses
$189M

A **$137-million increase** in revenue in 2015 speaks to the growth in online shopping and to Canada Post's success in earning – in a competitive space – more business from existing and new customers, both large and small.

Earnings include approximately $390 million due to major initiatives taken in response to Canadians' changing use of postal services. A strategic pricing adjustment in 2014, more efficient delivery and improved productivity all continued to contribute in 2015.

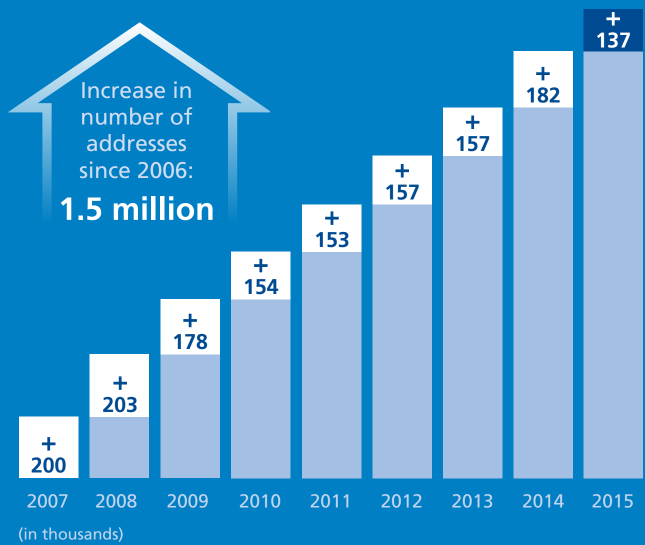
Transaction Mail volumes decreased by more than 6 per cent compared to 2014. **This represents a revenue shortfall of $207M** based on the average revenue per piece in 2015.

These costs rose by $189 million compared to 2014 as a result of market conditions, namely the decrease in discount rates used to calculate employee benefit costs.

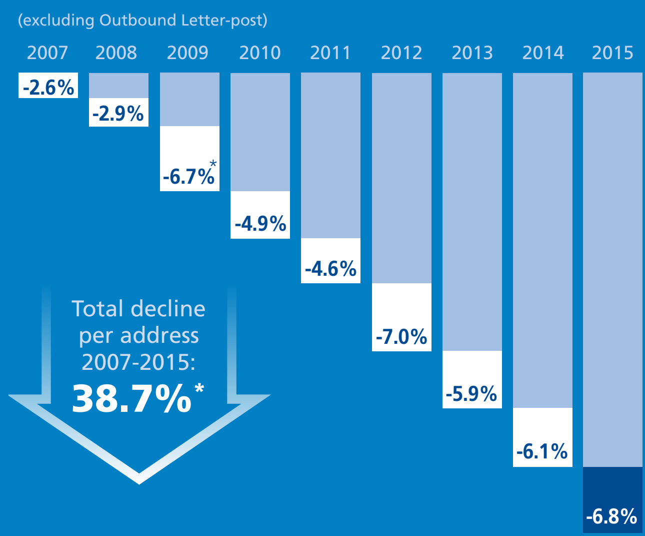
Less mail, more addresses – the trend continues

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.



* 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 nine-year decline would have been 37.7%.

President's message

As the world's largest postal administrations grapple with dramatic drops in mail volumes, Canada Post has emerged as an early leader in setting a transformational path. It is reinventing Canada's postal system to meet the changing needs of Canadians.

Ubiquitous and always connected smart devices have rendered old-fashioned paper-based mail, and Canada Post's exclusive privilege to deliver it, far less meaningful. While these seismic changes are leaving many industries in the dust, Canada Post has embraced the digital economy and pivoted its business to fulfill the fast-growing need to deliver online shopping.

Our strategy to focus on growing revenues in the Parcels and Direct Marketing businesses, while realigning costs for our legacy business, is yielding results. After three consecutive years of reported losses, we posted our first profit in 2014 and are pleased to be continuing that trend in 2015. This change has been difficult but necessary to ensure that we keep the 253-year-old postal system relevant for the next generation of Canadians.

Creating the next-generation growth platform

E-commerce is changing retail and the country – and Canada Post is at the centre of it all. We are Canada's leading parcel delivery company. Our Parcels revenue has grown by $429 million since 2011. We earned every dollar, customer by customer, by competing successfully against global couriers who were also eager to reap the benefits of more online shopping.

Canada Post is an e-commerce leader in more than just delivery. We are an active ingredient at work throughout the entire e-commerce eco-system, making it stronger. We help e-commerce entrepreneurs start up. We integrate our digital technology with merchants' websites. We work closely with retailers that have physical stores to implement efficient Ship From Store solutions. We created the Canada Post E-commerce Innovation Awards™ to celebrate retailers' successes. We create innovations that give busy Canadians more convenience, such as our FlexDelivery™ service and parcel lockers in apartments and condominiums. We are a vital ingredient in the success of thousands of retailers, large and small, local and global.

One of Canada's most trusted brands

Our business is built on the trust our customers place in us. In 2015, the University of Victoria's Gustavson Brand Trust Index named Canada Post one of the country's top 10 trusted brands. We were the only public sector institution in the top 10. The Index was based on an independent survey with more than 3,000 respondents and it included 249 leading brands. The result is a credit to our dedicated employees, who earn Canadians' trust item by item.

Canada Post was in distinguished company among these top 10 trusted brands.

We have a future not only in e-commerce but also in marketing. 2015 was a big year for strengthening our rebranded Smartmail Marketing™ business. We unveiled ground-breaking research into how and why physical mail engages the consumers' senses and emotions, triggering action. Physical marketing mail has an effective role to play in the digital era, with its combination of physicality, unique targeting and timely delivery. We successfully introduced Neighbourhood Mail™ and Personalized Mail™ to enable more targeting and more personalization in designing a customer communication campaign.

Building tomorrow's postal network

When mail volumes were growing in the 1960s and 1970s, we had to reinvent our network to handle the explosive growth. We introduced postal codes and automated mail sorting – innovations that replaced sorting mail by hand. Our plants, routes, delivery depots and the entire infrastructure was built to process and deliver mail. But over the past decade, Domestic Lettermail volumes have declined by 32 per cent from their peak. Therefore we must now transform our legacy network and the way we serve Canadians to reflect the new realities of e-commerce and a digital economy that is generating a lot more parcels than mail. The transformation we embarked on in 2013 contributed about $390 million in 2015 toward our journey to financial self-sustainability.

This historic transformation is being led by a re-energized workforce that is embracing our mission of Delivering the online world™ and meeting demanding customer expectations in a competitive landscape. It is a credit to them that in 2015 Canadians named us one of the country's most trusted brands.

While serious challenges persist in our business, we remain committed to finding solutions that best meet the changing needs of Canadians while being financially responsible.

Deepak Chopra
President and Chief Executive Officer

Parcels

How consumers shop is creating a new normal

In 2005, less than a third of Canadians shopped online. It was 2009 before more than half did. Now, about eight out of 10 Canadians shop online. Once they start to, most do so more frequently. For example, during Cyber Week in 2014, 15 per cent of households that shopped online received their first e-commerce parcel delivery. In 2015, about half of them shopped online again. Nearly 20 per cent of Canadians shopped online between seven and 24 times in 2015 and 3 per cent – a group we call hyper-shoppers – did so more than 25 times.

Canadians find online shopping convenient. They can do it whenever they want. They want precise, prompt, affordable shipping rates and delivery times at the online checkout. Canada Post needs the flexibility to meet the growing 24/7 consumer demand.

Canada Post's modern Pacific Processing Centre at the Vancouver International Airport opened in 2014. It boasts some 30,000 linear feet of conveyor belts.

MON

2

in 2012

16

in 2015

On million-parcel Mondays, we delivered one million or more parcels. Mondays' volumes are highest because people shop in store and online seven days a week – and we typically deliver on only five days.

Nearly 2 out of 3 parcels that Canadians order online are delivered by Canada Post

About 8 out of 10 Canadians shop online. In 2005 it was less than one in three.

2.2 MILLION

Parcels delivered over 8 weekends during the holiday season to keep up with demand

More than 30%

Growth in Parcels revenue from our top 25 e-commerce customers in 2015

Parcels

The new normal: e-commerce is far more than holiday shopping

In 2015, online shoppers filled their carts throughout the year to a degree retailers hadn't seen before. The weeks before Christmas Day were still the peak, but purchases jumped at other times, driving up parcel deliveries. First, there was no summer lull: on some days, volumes were nearly 20 per cent higher than the previous year. It wasn't until 2012 that Canada Post delivered one million parcels on a single day, but in 2015, we delivered around 900,000 on some days in the normally quiet summer. Then back-to-school parcel volumes spiked like never before. In November, savvy online shoppers were clearly primed to take advantage of promotions to kick off the holiday season. The short-lived Cyber Monday peak of a couple of years ago became a Cyber Week shopping and shipping spree. It lasted for days, generating phenomenal growth in orders. E-commerce also extended the peak holiday season well into the New Year for Canada Post: we delivered one million or more parcels on every Monday of January 2016.

Delivering parcels a key part of our heritage

In 1884, 25 years after the introduction of the parcel post service, the Eaton Company issued its first mail-order catalogue. That catalogue, and the power of the growing rail and postal network, suddenly gave all Canadians "across the great Dominion" access to items that improved their lives. Mail-order quickly grew, making parcels much of what we delivered for our first 100 years. We're always proud to deliver Canada's parcels – whether ordered from a catalogue or online.

Solutions that drive success in e-commerce

Merchants need partners with a suite of solutions that solve their challenges. Shoppers want to see the big picture before they buy online. Enter Canada Post. Our Web Services make it easy for merchants to show shoppers everything they need at the checkout, such as delivery rates, times and options, as well as returns and tracking. In 2015, thousands more merchants integrated our Web Services.

Price and speed matter in e-commerce. Our Ship From Store solutions let retailers fill online orders from the inventory in the physical store nearest that consumer. We pick up and deliver the item. It's quicker, efficient and cost-effective.

These are just two of the ways our solutions helped Canadian retailers succeed in 2015.

Left to right: Jaime Lepine (Head of E-commerce), Josh Fine (Vice President Brand and Distribution), Aron Slipacoff (Vice President Communications) and Waneek Horn-Miller (Brand Ambassador) at Manitobah Mukluks, Jacques Côté (Group President Physical Delivery Network [now interim Chief Commercial Officer], Canada Post) and Marc Hyman (Managing Director, Crownhill Packaging)

Leading the way in e-commerce

In September, leading and emerging retailers gathered for the fourth annual Canada Post E-commerce Innovation Awards. Industry experts, thought leaders and investors learned who would be chosen as the outstanding examples of e-commerce excellence in Canada. The winners were chosen by a prestigious panel of judges from Google Canada, Forrester Research, the Retail Council of Canada, Dx3 Canada and eComMTL.

Canada Post President and CEO Deepak Chopra presented the Canada Post E-commerce Innovator's Award to Shopify for its game-changing role in supporting small business with its easy-to-use platform. From global Aboriginal success story Manitobah Mukluks to high-tech wunderkind Thalmic Labs, inventors of the gestures-activated wireless Myo armband, the stars of e-commerce shone.

2015 AWARD WINNERS

FRANK & OAK
RUE ST-VIATEUR

Best Online Shopping Experience, Large

nerd BLOCK

Best Customer Engagement

MANITOBAH MUKLUKS

Community Impact Award

> **“We have an amazing partnership with Canada Post. It allows us to cover 80 per cent of Canada with two-day free shipping.”**
>
> *— Thierry Hay-Sabourin, Vice-President of e-Commerce, Best Buy Canada*

POPPY BARLEY

Best Omni-Channel Retailer, Small

BEST BUY

Best Omni-Channel Retailer, Large

Poppy Barley: the Alberta-based company with the eclectic name has cobbled together a clever, customized way to provide customers with made-to-measure footwear (relying on not one but five indicators of size – and risk-free returns). Justine Barber (above left) and her sister Kendall Barber (right), who co-founded the company, offer stylish luxury and Old World craftsmanship. The online store and magazine connect shoppers with the company's collaborators in León, Mexico – shoe capital of the world. Customers find the shoe and the price points fit perfectly. “When your business is two years old, this kind of prize makes a tremendous difference,” Justine said of the $90,000 in prizes.

“Total Retail” – that's what Best Buy Canada calls the flawlessly executed strategy that makes the company a best-in-class champion of innovation. BestBuy.ca boasts dozens of brand stores, hundreds of product videos and countless buying guides. Plus, for every product available in store, nine more are available online and through Best Buy's multichannel point of sale system, so customers have easy and convenient access to the entire assortment and inventory. No wonder its customer forums attract more than 350,000 members. “We have an amazing partnership with Canada Post,” says Thierry Hay-Sabourin, Senior Vice-President of e-Commerce. “It allows us to cover 80 per cent of Canada with two-day free shipping.”

shopify	Kayokoko SWIMWEAR	Well.ca Wellness Delivered	THALMICLABS™
Canada Post E-commerce Innovator's Award	Best Online Shopping Experience, Small	Consumer Champion Award	Most Exciting Start-up

Fashion house comes of age with our help

DYNAMITE
GARAGE

Whether it's trendy denims or chic dresses, Groupe Dynamite's fashion-forward apparel has young women covered. With two brands – Garage and Dynamite – the Montréal-based fashion house has grown to about 380 stores in nine countries.

As Groupe Dynamite's only domestic carrier for online orders, "Canada Post is one of our most valuable partners," says Chief Marketing Officer Nicolas Gaudreau. "Canada Post thinks about the customer experience in totality."

Flexibility, innovations and end-to-end support are among the reasons Groupe Dynamite is sold on Canada Post. Around Black Friday, parcel pickups on evenings, Sundays and several times a day helped them move about 70,000 items in a week.

"Virtually every single shipment was in the mail within a day of being purchased," says Sergio Barile, director of distribution. "We were at it 24/7, and Canada Post was right there with us."

Emily and Stephen Lycopolus, owners of Olive the Senses

Authenticity attracts customers

When they opened their fresh olive oil and balsamic vinegar tasting room in Victoria, B.C., four years ago, Emily Lycopolus and husband, Stephen, wanted people who walked in "to feel like they're getting a hug," she says. Shoppers responded.

With a growing customer base, the duo launched an online channel last fall. Demand soared. During the December rush, the store began shipping up to 200 packages daily and had to switch delivery companies.

"We got in touch with Canada Post, and they jumped through hoops for us," Lycopolus says. "They helped us install new software and made sure everything was streamlined."

It's the details that have made the difference: During a rain storm, Canada Post's pickup driver protected her packages from store to truck, something they previously had to do themselves.

"They've been wonderful to deal with."

"We got in touch with Canada Post, and they jumped through hoops for us."

Superior operations key to growth

altitude sports

Altitude Sports, a Montréal-based online retailer of high quality outerwear, has been growing fast. In just two years, it has almost quadrupled its workforce to 130 employees and has grown the number of brands it sells from 35 to 300. What does co-CEO Alexandre Guimond credit the company's growth to?

"We treat operations like marketing."

For instance, employees fulfill orders within 24 hours, while over the busy winter season Canada Post picks up twice daily from their warehouse to enable the fastest possible delivery. "Our customers have always appreciated that."

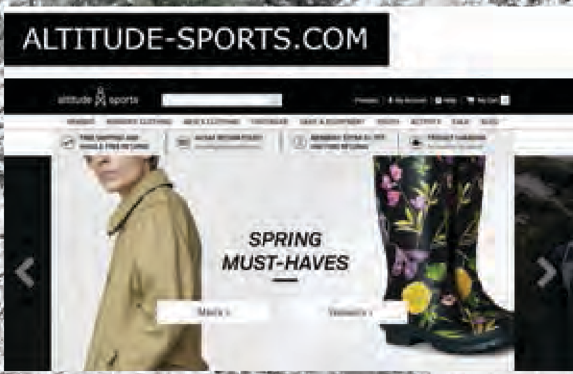
Easy returns is another key element. The company provides a return label with each order along with reusable packaging, and completes the returns process within three business days.

Now it's integrating Canada Post's Web Services, including Deliver to Post Office, and testing Delivered Tonight in Montréal.

"Our goal is to make every step of the online experience easy. It makes our customers more likely to return to our website."

"Our goal is to make every step of the online experience easy."

Co-CEOs Maxime Dubois (left) and Alexandre Guimond credit their focus on operations as a key driver of Altitude Sports' growth and success.



Last year, Altitude Sports added print media to its marketing mix. The magazine-style catalogue was a hit with customers.

Direct mail drives sales

Like any retailer, Altitude Sports is constantly looking for better ways to connect with its customers. Last year, the company tried something new.

"Ten years ago we decided to focus solely on online marketing," says co-CEO Alexandre Guimond. But when Canada Post showed them how to use direct mail to strengthen their marketing, they decided to give it a try.

The company produced two magazines targeting shoppers who buy technical outerwear and those who are active online buyers, and tracked the campaigns using promo codes.

"We had our doubts – but after seeing the results, we have completely changed our minds. [The data tools] made the traditional marketing work."

"After seeing the results, we have completely changed our minds. [The data tools] made the traditional marketing work."

An e-commerce delivery gives rise to marketing data. The data fuels a personalized offer, which offer spurs a follow-up order for delivery. This cycle of e-commerce success is powered by Canada Post.

Direct Marketing

Triggering customers to action

Digital media have fundamentally changed advertising. Marketers face a major challenge: digital platforms drive customer interaction, but they under-deliver customer action. Yet that's what businesses need – action that drives sales. In 2015, we reframed our direct mail portfolio to be relevant in today's marketplace, rebranding it as Canada Post Smartmail Marketing™ – The Science of Activation™. Smartmail Marketing™ combines three powerful attributes:

Ph Physicality **Physicality** – Its physical format makes it a powerful trigger for memory, emotion and action;

Da Data **Data** – Its targeting is unique because it enables both broad reach (access to every Canadian address) and targeting precision (allowing marketers to zero in on their best prospects);

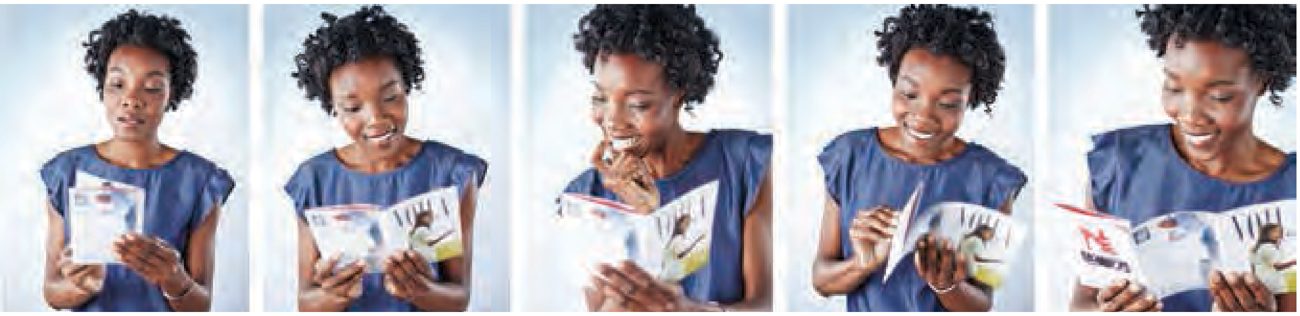
Ct Connectivity **Connectivity** – The personal, portable format makes it effective at connecting consumers with offers across channels, in store and online.

We turned to science to explore what makes direct mail so effective. A ground-breaking neuromarketing study – the largest of its kind – found that direct mail is easier to understand, more memorable and far more persuasive than digital advertising. A Canada-wide ethnographic study also found that direct mail remains deeply embedded in consumers' daily rituals. It is noticed, opened, read, shared, displayed and kept for extended periods in the home.

Canada Post released the findings on the neuroscience behind the response-driving power of direct mail in July 2015.

With Smartmail Marketing, we deliver solutions that help Canadian businesses succeed. It's no wonder that businesses – from large corporations to neighbourhood stores and restaurants – spent roughly $1 billion on Smartmail Marketing in 2015.

Smartmail Marketing
The Science of Activation
CANADA POST POSTES CANADA



New strategy. Record sales.

Fruits & Passion

With a newly relaunched website to better feature its scented bath, body and home decor products, Fruits & Passion was eager to capitalize on the holiday season. It decided to try a Smartmail Marketing approach by adding direct mail to its marketing mix.

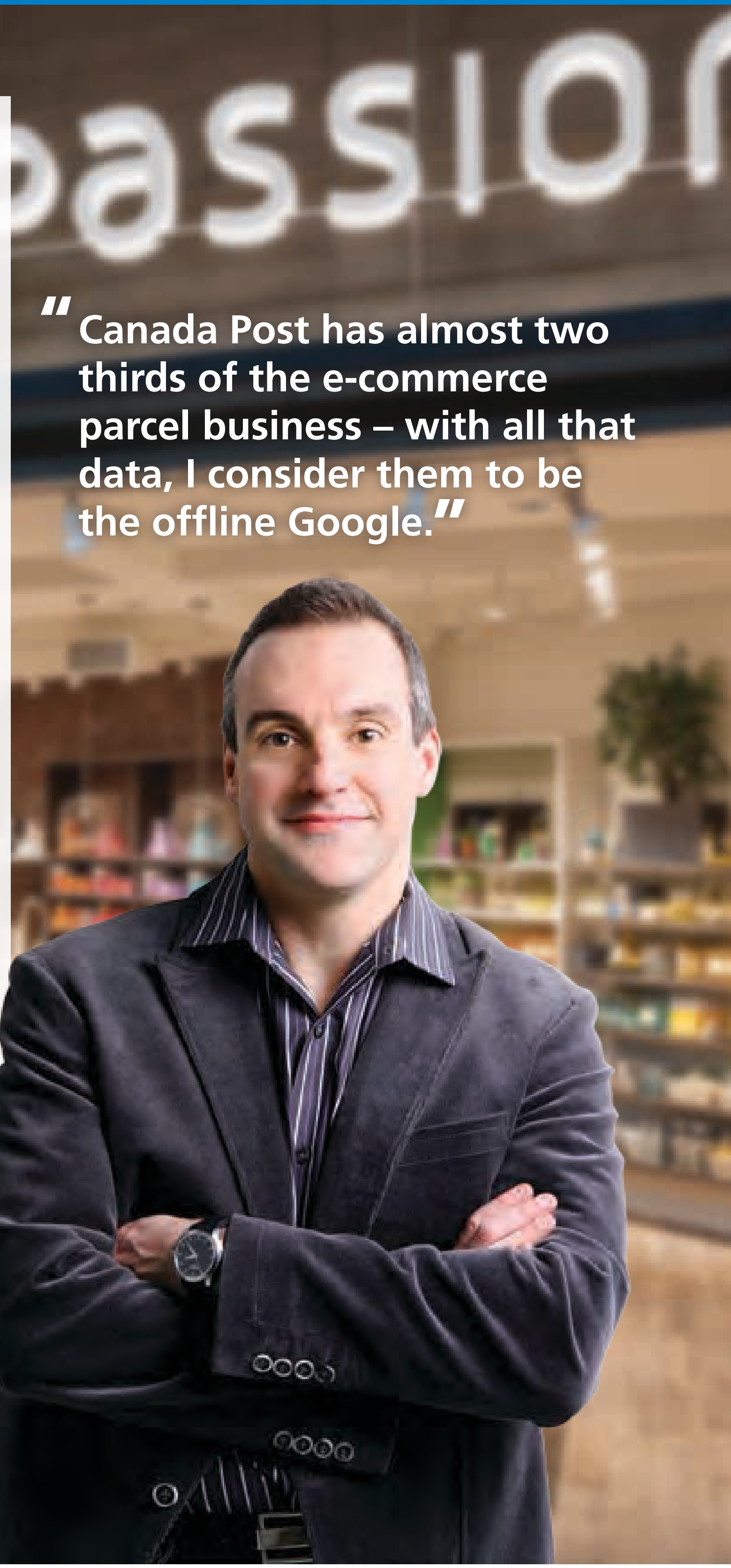
"Canada Post has almost two thirds of the e-commerce parcel business – with all that data, I consider them to be the offline Google," says Enrico Del Grande, Head of e-Commerce. "I wanted to tap into that business intelligence."

The company took a two-pronged approach. To acquire new customers it used the Canada Post Power Shoppers Health and Beauty list. To win back previous customers, it targeted residents close to where a retail store had closed.

The results? Black Friday launched five days of record online sales. "It was phenomenal."

"I'm a strong believer that one media cannot replace the other. You need both digital and traditional."

"Canada Post has almost two thirds of the e-commerce parcel business – with all that data, I consider them to be the offline Google."



Direct Marketing Our Customers

A balcony to behold

KANDY Outdoor Flooring

In 2011, savvy entrepreneur Kelly Niessen went looking for flooring for her condo balcony in Vancouver – and found nothing. She realized there was a growing, unmet market of condo owners who could transform unused balconies into new living space with high-quality flooring. Kelly and her husband Doug soon opened KANDY Outdoor Flooring, and from the start, Canada Post's marketing mail generated business.

Fast forward to 2015 and five franchises are up and running. The business thrives on personalized installation and the gorgeous floors made of exotic hardwoods, sophisticated granite and polymers.

The Snap Admail™ service "has been critical to the company's growth," Kelly says. She uses Canada Post's all-in-one online tool to create her own marketing mail pieces with before-and-after installation photos. "People in the neighbourhood say 'I can do that with my space?' Snap Admail gives us the biggest bang for our buck."

"People in the neighbourhood say 'I can do that with my space?' Snap Admail gives us the biggest bang for our buck."

Doug and Kelly Niessen, owners of KANDY Outdoor Flooring

Kim Gans, owner of Sweet Flour Bake Shop, uses Smartmail Marketing campaigns to boost business every holiday season and at back-to-school time.

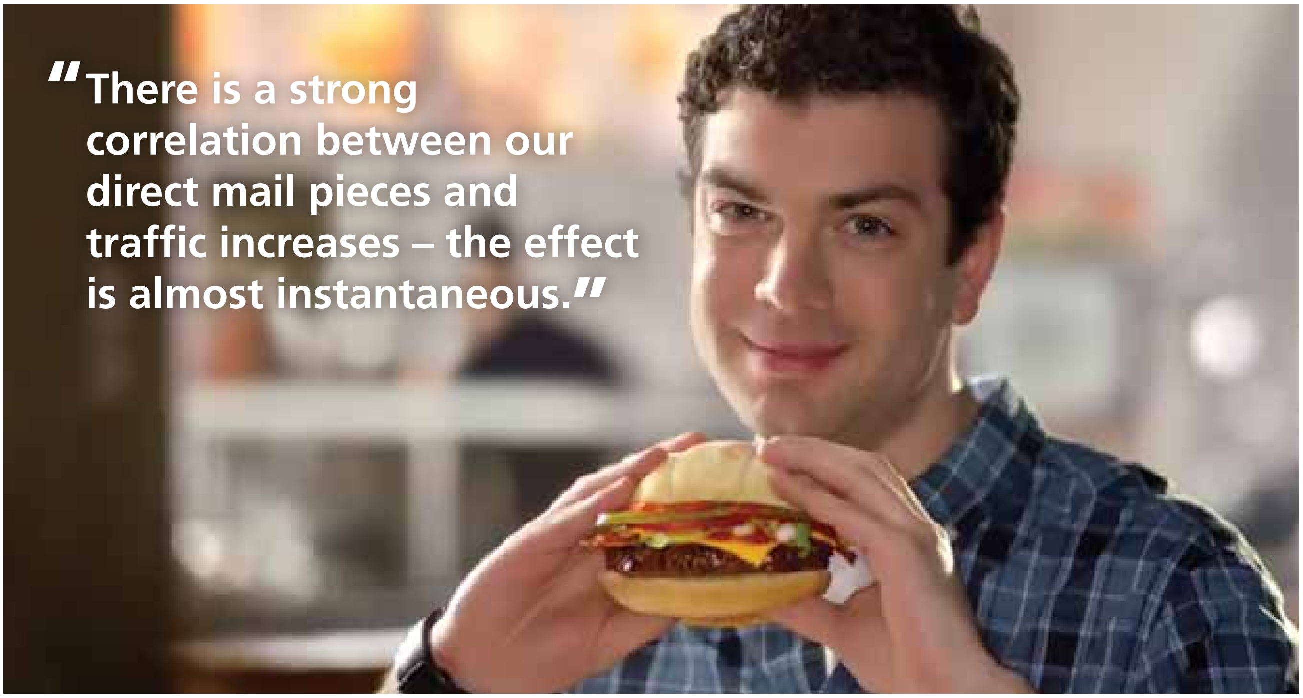
Cookies just like Mom made them

Kim Gans' life as an entrepreneur began when she read *Willy Wonka and the Chocolate Factory* at age 12. She always dreamed of owning a sweets factory, and that fantasy came true in 2009 when she opened Sweet Flour Bake Shop in Toronto.

Sweet Flour makes melt-in-your-mouth gourmet cookies and icing-filled cupcakes that tempt corporate, wholesale and individual customers across the country. To deliver their delicious fresh baked goods, Kim counts on Canada Post for next-day deliveries. Customers can also get their fix at Sweet Flour's kitchen, pop-up stores and gourmet grocers.

"Canada Post's Precision Targeter™ puts a laser-like focus on our Smartmail," says Kim. "The online tool lets us narrow in on exactly the customer we're looking for – families with kids located close to our kitchen. Our latest piece increased traffic 30 per cent. Smartmail Marketing is crucial for our business."

Direct Marketing Our Customers



Grilled burgers, great data: a fresh combo

High-quality beef and a real grill like the best backyard barbecues – Harvey's has the ingredients to succeed in the crowded burger business. But the chain, which has more than 270 locations, also has to be very selective about the advertising it relies on to entice customers in the doors.

It uses data-driven Canada Post Neighbourhood Mail™ to target mailings.

"We are constantly leveraging smart geo-targeting," says Ally Tosello, Harvey's Director of Marketing. It works. In fact, Harvey's, one of Cara Operations Limited's ten brands, can tell when a flyer has landed in homes.

"There is a strong correlation between our direct mail pieces and traffic increases – the effect is almost instantaneous."

Harvey's has increased its use of direct mail over the past five years – and why not? It sees results that sizzle.

Transaction Mail

Paper: a channel of choice and need

Canadians lead increasingly digital lives every year, which is reducing mail volumes rapidly. Still, the paper era has not yet ended. Nearly 3.7 billion pieces of Transaction Mail were mailed in 2015. That generated $3.2 billion in revenue for Canada Post.

Many of the most sophisticated organizations in Canada mail paper to their clients, customers or citizens – even as they promote digital alternatives. The largest users of Transaction Mail are financial institutions, telecommunications companies, utilities and governments. For example, businesses mail paper bills to customers who prefer paper over digital. Many small and medium-sized businesses rely heavily on Canada Post to help them maintain a steady cash flow, because they send invoices and receive payments by mail.

Beyond bills and statements, there's evidence mail. This includes credit and loyalty cards, and government-issued identification such as birth certificates and health cards. Organizations offer individuals time-saving, easy online services and transactions to a greater extent every year, such as licence plate sticker renewals. That digital transaction needs quality physical fulfillment. For evidence documentation, Canada Post's physical mail is a secure, affordable and effective fulfillment channel – offering value in the digital age.

Physical mail: a secure, affordable and effective fulfillment channel

Innovations

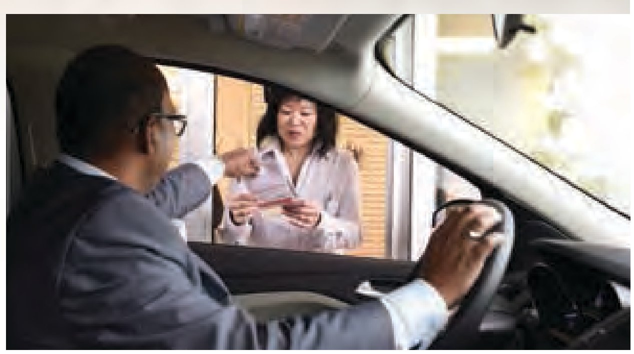
Fresh approaches to answer customers' needs

Canadians lead busy lives. Time is precious, and they want to save it. They demand convenience and choice so they can receive their items when, where and how they want. They're transacting on their mobiles – even tracking their item in transit up to 15 times. It's all part of the new normal, which has compelled Canada Post to introduce innovations.

We focus intensely on consumer preferences – which are evolving rapidly, especially in e-commerce. We share our insights and expertise with retailers, large and small, so their businesses can benefit from understanding the latest trends in consumer behaviour and what consumers expect in their online shopping and delivery experience. In 2015, we continued to lead the market by introducing innovations that meet consumers' needs.

Drive-thru Parcel Centre

A new concept store in Richmond Hill, Ontario, offers North America's first drive-thru devoted to parcel pickup. A 24-hour self-serve shipping and drop-off station for parcels offers convenience to small business owners who work long hours. As well, an online shopper can try on a new outfit right away in the centre's fitting room.

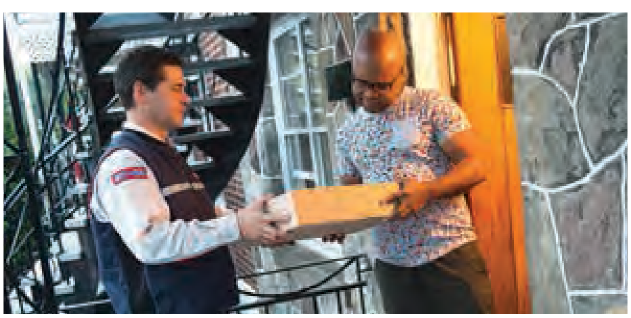


FlexDelivery

This free service allows consumers to direct their online purchases to a post office of their choice. Many households have nobody at home when we attempt delivery at the door, but the FlexDelivery™ service can mean no more missed deliveries.

Parcel lockers

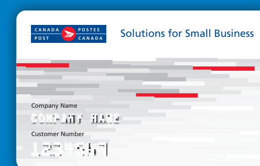
With online shopping growing, we installed more than 1,700 parcel lockers in the lobby of condos and apartment buildings in 2015. They allow parcels to be delivered securely and promptly even when the customer isn't home.



Delivered Tonight

In 2015, Montréal became the third major city – after the Greater Toronto Area in 2013 and Vancouver in 2014 – in which Canada Post launched same-day delivery of online orders from selected merchants.

Enabling Canada's small businesses



Canadian entrepreneurs are incredibly busy and hard-working. They need solutions that save time and money and help them succeed. We asked how we could help and we introduced in 2015 Canada Post Solutions for Small Business™, a full suite of products and services tailored for Canada's 1.2 million small businesses.

Solutions for Small Business provides deep savings, easy access to shipping and direct mail services, and incentives that reward customers for their loyalty. It takes perseverance and determination to succeed as an entrepreneur. Solutions for Small Business provides powerful ways to operate more productively and profitably. No wonder 60,000 new customers signed up in 2015.

Our employees

The people who serve all of Canada

While the kind of items we deliver are changing, our employees' pride in keeping our promises to customers has not. 2015's parcel volumes are a telling example of how employees rose to the challenge again and again.

The Gateway parcels plant in Mississauga, Ontario, is our busiest. It processed record volumes at Easter, for Mother's Day, and even mid-summer – as well as Christmas.

During the holidays, delivery employees worked evenings and weekends to ensure that, despite the huge volumes, gifts arrived on time.

All year, across the country, in fair weather and foul, our employees are focused on safely serving their fellow Canadians.

"Retail shopping happens seven days a week. People tell me they're happy to see Canada Post delivering on Sundays."

— Esther Lyttle, right, a delivery agent in St. Albert, Alberta, who delivered parcels on weekends in the 2015 holiday season

Lost-time injury frequency is down 17% year over year.

Making strides in safety

A renewed company-wide focus on safety continues to pay off for hard-working employees.

In 2015, we reduced lost-time injury frequency by 17 per cent, compared to 2014. In the last four years, we have reduced lost-time injury frequency by more than 44 per cent.

Better communication between frontline managers and employees has contributed to a lower injury rate. Both groups have worked to identify hazards and make smart decisions. Together, they've put the safety of employees at the forefront of the workplace conversation.

Delivering service performance

Canadians measure us by how we did with the items they ordered or mailed. Did the package or marketing mail arrive on time? Is it in good condition? We measure and monitor countless metrics to help us achieve our goals in service performance.

In the fastest-growing part of our business – parcels – we matched 2014's service performance despite record volumes through much of the year.

Parcels delivery scanning performance increased year over year.

We set a new record for International Inbound Parcels on-time delivery performance, exceeding our targets for 2015.

We exceeded our combined target for on-time delivery performance of our Personalized Mail™ and Neighbourhood Mail™ services.

Lettermail™ service performance reached 94.2 per cent.


Employees throughout the network – in processing, delivery, transportation and retail – all focus on improving the customer experience.

Oh, Canada!

Canada's incredible stories, painted on small canvases

Through its stamp program, Canada Post tells the stories of the country's heroes, artists, leaders, landscapes and milestones. Last year, it celebrated Nelson Mandela, who 15 years ago became the first living person to receive honorary Canadian citizenship.

The stamp was unveiled at a community event held inside the Nelson Mandela Park Public School in downtown Toronto. The school was renamed for Mandela after he visited it in 2001, during one of his three trips to Canada after his release from prison in South Africa. The stamp event was attended by school children, local residents and dignitaries.

During the ceremony, the audience was treated to a special performance of the school choir as well as moving student readings about how Mandela's example guides them in school and in life.

The Canada Post stamp program is a way of bringing Canadians together in celebration of this remarkable country and people.

Canada Post President and CEO Deepak Chopra enjoys the excited reaction of school children who were among the first Canadians to see our stamp design honouring Nelson Mandela.

Special printing effects brought the ferocious Tyrannosaurus rex *and four other extinct creatures found in Canada roaring back to life on stamps unveiled at the Royal Ontario Museum in Toronto April 9, 2015.*

Canadians Christine Sinclair and Kadeisha Buchanan kick off our stamp below marking the FIFA Women's World Cup™, hosted across the country.

We celebrated a milestone more than 63 years in the making as Her Majesty Queen Elizabeth II became Canada's longest reigning Sovereign.

With our first fabric stamp, we saluted the 50th anniversary of Canada's globetrotting, iconic maple leaf flag.

In collaboration with the Canadian Federation of Humane Societies, a set of stamps encouraged the best care for the pets we love.

From Left to right, Bernie Parent, Johnny Bower, Tony Esposito and Ken Dryden appeared at the launch of Great Canadian Goalies stamps at the Hockey Hall of Fame in Toronto, October 1, 2015. Martin Brodeur and the late Lorne "Gump" Worsley rounded out this issue worth saving.

Oh, Canada!

Enriching the lives of children

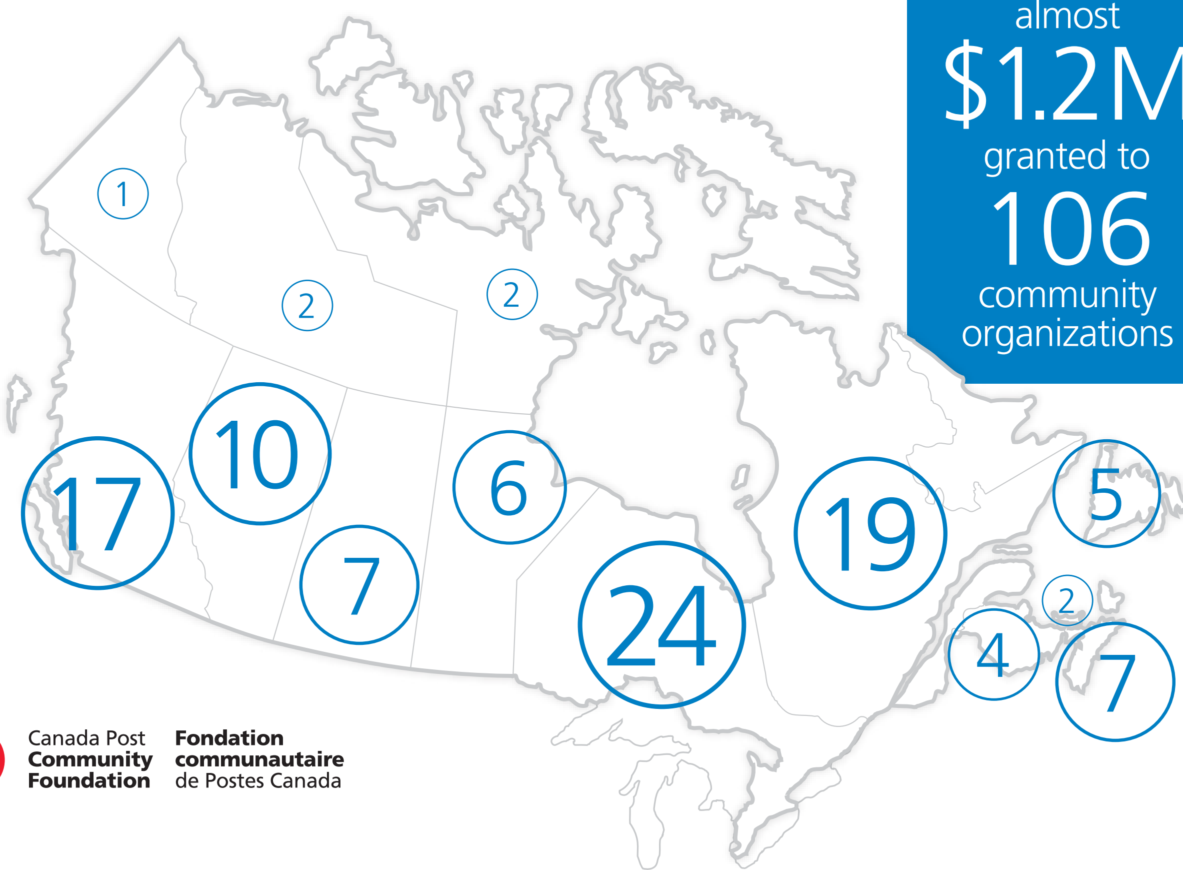
The Canada Post Community Foundation for Children is meeting its promise to deliver a brighter future for Canadian children and youth.

In 2015, the Foundation granted almost $1.2 million in vital support to 106 community organizations across Canada: breakfast programs, anti-bullying initiatives, camps for children living with serious illnesses, early literacy programs, crisis lines, health programs and more. It has granted approximately $4 million to more than 320 community projects in the last three years.

Funds are raised through an annual in-store campaign, sales of a special fundraising stamp and employee support. The grassroots campaign raised almost $1.2 million in 2015. Those funds will be granted in 2016.

Grant recipients by province and territory

In 2015, almost **$1.2M** granted to **106** community organizations



Canada Post **Community Foundation** **Fondation communautaire** de Postes Canada

Isabella Lamanna, 12, enjoys a moment with Santa at Toronto's Hospital for Sick Children on November 19 after helping to kick off the 2015 Canada Post Santa Letter-writing Program.

Giving Santa a helping hand

In this age of tweets and texts, there is a place for pens and pencils and crayons. Just ask Santa.

Every year, children from across Canada and around the world write to the jolly old elf. Their words and pictures speak volumes about the wonder of Santa's appeal.

The Canada Post Santa Letter-writing Program makes this possible. For almost three and a half decades, legions of employees and Canada Post retirees have volunteered as postal elves to help Santa answer every letter.

In 2015, our elves spent more than 250,000 hours helping Santa reply to more than 1.5 million letters. In the last five years, the Program has sent a reply to approximately 7 million people. We like to think each one is its own gift.

Accountability Chairperson's message

The Board of Directors focuses on ensuring that Canada Post meets the changing needs of Canadians while fulfilling its mandate to remain financially self-sustaining.

Canadians' postal needs are changing. The steady decline of bills and letters is a well-accepted fact with obvious implications for Canada Post's finances and operations. The Board has worked with the leadership team to put in place strategies to meet this challenge and better serve Canadians. The positive financial results for 2015 speak to the foresight of those strategies, and their impacts.

Dramatic as it is, the decline of mail is not the end of our story. Rather, the shift in Canadians' needs is driving us to build a new Canada Post. Every year, consumers need us less for mail and need us more for parcels. Likewise, businesses need us less to send bills and receive payment, and need us more to deliver online orders. Canadian consumers and businesses both need parcel delivery that is timely, reliable, affordable and easy to use. The shifts in demand for our services anchored our approach in 2015. Strategic choices around operational productivity were a response to mail's decline. Our e-commerce growth strategy is successfully building on the opportunity created by online shopping. With Smartmail Marketing, introduced in 2015, businesses are rediscovering how and why direct mail really works.

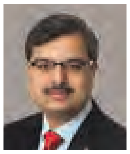
A decade ago, e-commerce in Canada was in its infancy. By 2015, eight in 10 Canadians were shopping online. This represents a seismic change in the industry and an enormous opportunity for Canada Post. It drives the innovations we bring to market. It sharpens our focus on providing the high-quality service Canadians deserve. Canada Post's leadership in e-commerce emphasizes its crucial role in the economy.

I am extremely proud of the excellent service our thousands of employees provide. We look forward to hearing more from Canadians in the coming year about how we can best serve them going forward. Canadians decide what is in the mail. It is then up to us to ensure that mail is delivered securely, affordably and self-sustainably. The Board and I are confident that Canada Post has the right leadership in place to make that happen.

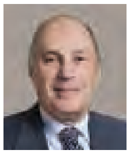
Siân M. Matthews
Chairperson of the Board of Directors

Board of Directors

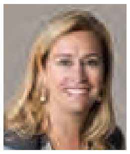
Siân M. Matthews ✲●▲★
De Winton, Alberta
Chairperson of the
Board of Directors
Canada Post Corporation



Deepak Chopra
Ottawa, Ontario
President and
Chief Executive Officer
Canada Post Corporation



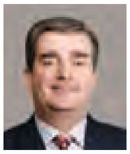
Thomas Cryer ■★
FCPA, FCA
Rosseau, Ontario



Michèle Desjardins ✿✲
Montréal, Quebec

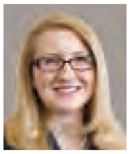
A. Michel Lavigne ◗▲
FCPA, FCA
Montréal, Quebec

Andrew B. Paterson ▲●
Winnipeg, Manitoba



Alain Sans Cartier ♦★
L'Ancienne-Lorette, Quebec

William H. Sheffield ●★
Toronto, Ontario



Sharon Sparkes ▲★
CPA, CA
St. John's, Newfoundland and Labrador

Donald Woodley ✲●
Mono, Ontario

■ Chairperson of the Audit Committee
♦ Chairperson of the Corporate Governance and Nominating Committee
✿ Chairperson of the Human Resources and Compensation Committee
◗ Chairperson of the Pension Committee
▲ Member of the Audit Committee
✲ Member of the Corporate Governance and Nominating Committee
● Member of the Human Resources and Compensation Committee
★ Member of the Pension Committee

One seat is currently vacant.

As of March 24, 2016

Officers of the Corporation

Deepak Chopra
President and Chief Executive Officer

Jacques Côté
Interim Chief Commercial Officer

Senior vice-presidents

Wayne Cheeseman
Chief Financial Officer

Scott G. McDonald
Chief Human Resources Officer

Mary Traversy
Chief Operating Officer

André Turgeon
Chief Information Technology Officer

René Desmarais
Parcels

Douglas Jones
Delivery and Customer Experience

Vice-presidents

Bill Davidson
Engineering

Manon Fortin
Operations Integration

Graeme Gordon
Digital Channel

Douglas Greaves
Pension Fund and Chief Investment Officer

William (Bill) Gunton
Marketing and Commercial Products

Ann Therese MacEachern
Human Resources

Barbara MacKenzie
Finance and Comptroller

Susan Margles
Government Relations and Policy

Serge Pitre
Sales

Jo-Anne Polak
Communications and Public Affairs

John B. West
Interim General Counsel and Corporate Secretary

Brian Wilson
Operations

Kaval Pannu Corporate Auditor
Steven Galezowski Corporate Treasurer

Vacant: Senior vice-president,
Strategy and Corporate Marketing

As of March 24, 2016

Accountability Corporate governance

The Board's role is supported by Canada Post's statutory framework, bylaws and Board Charter. The Board provides oversight and guidance on behalf of Canada Post's shareholder, the Government of Canada, on the strategies, business plans and related affairs of Canada Post.

In carrying out its oversight role, the Board of directors holds management accountable for its business performance and strategic objectives. To fulfill these responsibilities the Board exercises due diligence over

- strategic initiatives and corporate plans
- service and operational performance
- internal control and financial reporting
- major contracts and investments
- recruitment of senior officers
- health and safety, labour and compensation management
- effective reporting to the shareholder.

The Board of Directors is composed of 11 members, including the President and Chief Executive Officer, all of whom are Governor-in-Council appointees. As of March 24, 2016, one seat is temporarily vacant. As overseer of an $8 billion commercial enterprise, the Board brings strong business judgment and expertise to the stewardship of Canada Post.

To provide oversight for such a large and complex organization, directors devote 25 to 30 days a year to Board work. In 2015, the Board met seven times and its committees met a total of 20 times.

Gender diversity on the Board

Canada Post recognizes the relationship between gender diversity and corporate performance. Working with the shareholder, the Board ensures that highly qualified female candidates are identified for any vacant positions. It works closely with the office of the Minister of Public Services and Procurement to recommend potential candidates who will provide the skills needed by the Board and also address its commitment to diversity. The Board currently has a female membership of 30 per cent, including the Chairperson. It is focused on growing this number as it identifies new candidates in 2016.

Employee diversity is a business imperative in today's world. The Board has established an Equality in Employment policy for the Corporation and regularly reviews its performance in this area.

Independence of the Board

The positions of the Chairperson and of the President and Chief Executive Officer are separate. The Board holds its regular meetings with the President and Chief Executive Officer as a member and with the Chief Financial Officer as an invitee. Otherwise, the Board meets without the presence of management, unless required for presentations or reports. The Board holds in-camera sessions with outside directors only. The Audit Committee meets in camera with external and internal auditors. The Board engages independent counsel and advisers as it deems necessary.

Committees of the Board

Oversight is accomplished under the auspices of the Audit Committee, the Corporate Governance and Nominating Committee, the Human Resources and Compensation Committee and the Pension Committee.

Board effectiveness

The Board regularly assesses its effectiveness through a self-assessment survey. It has set criteria for desired skills and attributes used in identifying potential candidates recommended to the Government of Canada. Board remuneration complies with guidelines issued by the Privy Council Office.

Subsidiaries

Alignment and oversight of Canada Post's subsidiaries ensures consistent governance practices in companies in which Canada Post holds a majority interest.

Governance in principle

Canada Post holds the view that effective organizations require governance practices that are comprehensive but dynamic. Good governance is an essential component in ensuring that the Corporation continues to serve Canadians in an effective and sustainable manner.

More information can be found under Corporate Governance at **canadapost.ca.**

Ombudsman's report

The Office of the Ombudsman ensures Canadians have access to one more avenue if they feel Canada Post has not lived up to its service commitments. The Office is independent of Canada Post staff and management and reports directly to the Chairperson of the Board of Directors.

By investigating customer complaints and recommending fair and equitable solutions, the Office helps maintain customer trust in the postal service.

In 2015, the Office received 6,092 appeals, compared to 4,885 in 2014. Of the 2,847 cases we investigated, 48 per cent resulted in some form of corrective action to resolve issues. In the remaining cases, our investigation supported Canada Post's actions. In comparison, corrective action was needed in 58 per cent of the 2,708 cases we investigated in 2014 and 60 per cent of the cases we investigated in 2013.

Almost half the appeals did not result in an investigation because customers reached out to the Office before giving Canada Post time to complete its review.

The number of appeals related to the *Canadian Postal Service Charter* rose by 400. They occurred against the backdrop of Canada Post delivering 16 million more parcels in 2015 than in 2014, nearly all of which were e-commerce orders. This growth made secure delivery an area of focus for customers and the Corporation.

The Office of the Ombudsman's Annual Report will be made available at **canadapost.ca/ombudsman**.

Ombudsman
CANADA POST • POSTES CANADA

Accountability Canadian Postal Service Charter

The *Canadian Postal Service Charter* ensures that postal services remain universal, affordable, reliable, convenient, secure and responsive to Canada Post's customers.

Our compliance to the Charter for 2015 is presented in blue italics after each clause.

Preamble

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

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

Universal service

1. Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.

All 15.8 million Canadian residential and business addresses were served, and international inbound and outbound services were provided to 192 countries.

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

More than 7,500 rural and suburban delivery routes served approximately 4.6 million addresses.

Approximately 3,700 postal outlets served rural customers.

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.

The postage rates charged for letters of similar size and weight to Canadian addresses were uniform, regardless of distance.

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.

Canada Post's basic letter rate of $0.85 provides excellent value for a reasonable price to consumers and small business.

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.

Proposed changes to regulated postage rates for 2016 were published in the **Canada Gazette** ***for public consultation in July 2015. In light of the Government's proposed review, Canada Post deferred its plans for price changes in 2016.***

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.

Letter carriers and rural and suburban mail carriers provided scheduled five-day-a-week delivery to 99.9% of the addresses they serve.

7. Canada Post will deliver to every address in Canada. This may be delivery to the door, a community mailbox, group mailbox, a rural mailbox, a postal box, general delivery at the post office or delivery to a central point in apartment/office buildings.

Canada Post delivered to every address in Canada. A breakdown of delivery methods is in the chart on page 39.

8. Canada Post will deliver letter mail:

– Within a community within two business days;

– Within a province within three business days; and

– Between provinces within four business days.

In 2015, the on-time service performance for Domestic Lettermail delivery was 94.2 per cent.

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.

In addition to more than 6,200 full service postal outlets and thousands of places to buy stamps, Canada Post offered 24/7 access to canadapost.ca for online services, such as tracking a package, registering a change of address and purchasing postage.

Canada Post also provided approximately 220,000 collection points where postal items can be deposited (and almost 709,000 rural mailboxes, which are also collection points).

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.

In 2015, 98.8 per cent of Canadians lived within 15 km of a postal outlet, 90.6 per cent within 5 km, and 79.2 per cent within 2.5 km.

(Continued on page 38)

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.

There were 156 events potentially affecting ongoing operation of rural post offices. In 68 per cent of cases, retail services were maintained within the same community without disruption. Eleven per cent of cases involved a temporary suspension of retail services. The remaining cases were resolved through retail service provision in a nearby community. In all cases, delivery services for the community were maintained without disruption.

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.

The Security and Investigation Services group conducts its operations in accordance with the **Canada Post Corporation Act** ***and other regulatory and legislative authorities. Canada Post Corporation is subject to the*** **Privacy Act.**

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.

In all instances, Canada Post provided advance notice and extensive consultation with affected households before implementing any changes.

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.

In 2015, five urban corporate post offices came under review. Affected customers and communities were notified and consulted at least one month in advance of any proposed change.

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.

Canada Post held its 10th Annual Public Meeting May 21, 2015, in Ottawa at Canada Post Place.

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.

While Canada Post receives and addresses questions or complaints through various channels, Canadians increasingly prefer electronic inquiries: online service tickets, emails and fax volumes increased by 11.5 per cent in 2015. Customer Service also received 3.7 million customer calls during the year, more than half of which were questions or requests.

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.

The Ombudsman is the final appeal authority in complaints resolution at Canada Post. More information can be found on the Ombudsman's website at canadapost.ca/ombudsman.

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*.

Delivery method	Number of addresses*	% of total addresses	Average annual cost per address
Door to door	4,255,742	27%	$286
Centralized point (e.g. apt. lobby lockbox)	4,033,516	26%	$121
Group mailbox, community mailbox, kiosk	5,060,871	32%	$127
Delivery facility (postal box, general delivery)	1,754,973	11%	$72
Rural mailbox	708,909	4%	$196
All methods	15,814,011	100%	$170

* As at December 31, 2015

19. In addition, Canada Post will present in its Annual Report an overview of the delivery methods it uses, indicating the number of addresses served with each delivery method and the financial costs associated with each method of delivery.

See the table above.

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.

Other public policy programs

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. MPs can also send up to four flyer mailings a year free of charge to their constituents.

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, send talking books and other materials free of charge across Canada and around the world.

Canada Post received a government appropriation of $22 million in 2015 to help offset the financial impact of these programs on the Corporation.

Library materials

The Library Materials service is available 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. Canada Post receives no appropriation or compensation of any kind from the government to offset the reduced postage rate.

Environment policy

Canada Post is committed to environmental protection in its operations. Canada Post has determined in accordance with sections 66 and 67 of the *Canadian Environmental Assessment Act, 2012* that, to the best of its knowledge, during 2015 its projects were not likely to cause significant adverse environmental effects.

Financial Performance

CONTENTS

Management's Discussion and Analysis

Supplementary Information

Consolidated Financial Statements

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, 2015, 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, 2015, which were 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 24, 2016, unless otherwise noted.

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

Materiality

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

Forward-looking statements

This Annual Report, including this MD&A, contains forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends" and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management page 64 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 24, 2016, 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 2015 financial results

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies is one of Canada's largest employers providing jobs to close to 64,000 people. During 2015, employees delivered almost nine billion pieces of mail, parcels and messages to 15.8 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,200 retail post offices in the country. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement 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 Canadians. 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 revenue, 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 people who are blind. Public and academic libraries can 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 does not hold much value in a digital world.

Around the world, with advances in technology and more and more people using the internet and smart mobile devices, posts continue to experience a structural decline in lettermail volumes as customers shift their communications from physical letters to digital alternatives. To address this challenge, posts have done a number of things including raising rates, restructuring operations, modernizing processing and delivery networks, reducing their workforces and the number of owned postal outlets, 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.

Things are no different here in Canada. Canada Post is facing a pivotal period in its history. With the trend toward online communication increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in our Lettermail volumes. In fact, in 2015, we delivered 3.4 billion pieces of Domestic Lettermail, 1.6 billion (or 32%) less than we did in the peak year of 2006. While our largest line of business (Transaction Mail) is not expected to rebound, the internet is creating the largest opportunity for us to deliver more packages as Canadians are buying more and more items online. To help us prepare for further Lettermail erosion and compete in a highly contested parcel market, in 2015, we continued to work toward building a new, flexible cost structure, through our Five-point Action Plan. The Action Plan, which was introduced in 2013, was expected to contribute an estimated $700 to $900 million per year to the Corporation's bottom line once fully implemented. The Action Plan was the foundation of our strategy for 2014 and 2015, and centred around five transformational initiatives:

1. converting the one third of Canadian households, representing approximately five million addresses in 2013 that received their mail at the door, to community mailbox (CMB) delivery;
2. introducing a tiered pricing structure for Lettermail to better reflect the cost of serving various customer segments;
3. expanding access and convenience to postal services through franchises;
4. streamlining internal operations;
5. addressing the cost of labour.

Progress of the Action Plan initiatives at the end of 2015 was as follows.

Installing community mailboxes

By the end of 2015, we had completed community mailbox conversions for approximately 830,000 addresses across Canada. It is expected that these conversions will contribute an estimated $80 million in annualized cost savings to Canada Post.

Maintaining the new approach to Lettermail pricing

A tiered pricing structure for domestic and international letters has been in place since March 31, 2014. Under this structure, customers who purchase a single domestic stamp pay full price. Discounts are available for customers who buy stamps in booklets, coils and panes, for businesses that use postage meters or indicia, and for incentive Lettermail customers who meet volume and preparation requirements. In 2015, pricing for stamps did not change, though there was a small change in discounts for businesses that use postage meters or indicia.

Expanding convenience through postal franchises

In retail initiatives, Canada Post continued its focus on optimizing the network of corporate post offices based on customer traffic patterns and changing hours of operation. Dealer-managed (franchise) outlets provide added convenience to customers and we continue to adjust hours and add new dealers.

Streamlining operations

In response to a shift in the business – more parcels and lower Lettermail volumes – Canada Post continued to make changes in mail processing and logistics to improve efficiency. With Lettermail erosion, the Corporation is looking to streamline operations and improve operational efficiencies by consolidating or transferring mail operations to major urban centres.

Addressing the cost of labour

To adapt to the changing postal needs of Canadians, Canada Post has made significant progress in addressing labour costs over the past number of years through agreements reached with its various unions. This includes lower wages for new hires, changes to sick leave and health plans, job security provisions, and pension plan benefits. Currently, Canada Post is in negotiations with its largest union, the Canadian Union of Postal Workers (Urban Postal Operations and Rural and Suburban Mail Carriers), as well as the Canadian Postmasters and Assistants Association. These negotiations will be important to ensure that our future labour costs reflect changes in our business and allow us to be as cost-competitive and operationally flexible as possible.

We also continue to benefit from relief provided by the Government of Canada since February 2014, which excludes us from making special payments to the Canada Post Corporation Registered Pension Plan (RPP) from 2014 to 2017, and gives us time to address the RPP's sustainability. During the relief period, we are working with our unions and other representatives of RPP members to evaluate all options, including plan design changes, to make the RPP financially sustainable. We expect to resume special payments in 2018, at the end of the temporary relief period.

These transformational initiatives were part of a strategy to help Canada Post return to profitability and ensure that the Corporation continues to meet its mandate of being financially sustainable. Based on achieved progress to date, at steady state these initiatives are projected to contribute an estimated $450 million per year to the Corporation's bottom line. However, with Lettermail volumes eroding and the number of delivery points increasing, Canada Post will need to continue to transform its business. The Government of Canada has indicated its intention to undertake a review of Canada Post to make sure it provides the high-quality service that Canadians expect at a reasonable price. Canada Post will work with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system.

Financial highlights

In 2015, for a second consecutive year, the Canada Post Group of Companies realized a profit before tax of $136 million, compared to a profit before tax of $269 million in 2014. Similarly, the Canada Post segment realized a profit before tax of $63 million in 2015, compared to a profit before tax of $194 million in 2014. While positive, these profits are modest in comparison to the Corporation's revenue and the significant challenges facing the Canadian postal system. These challenges include declining mail volumes, an increasing number of addresses to serve each year, significant pension obligations and the ongoing need to invest in our infrastructure to continue to serve Canadians.

Financial results for 2015 were mostly shaped by the following factors.

Parcels growth

Online shopping continued its upward trend in 2015, especially in the business-to-consumer e-commerce delivery market, helping us achieve another year of significant growth in our Parcels line of business – revenue and volumes respectively increased by $137 million or 9.1% and 16 million pieces or 9.7% compared to 2014. Strong results for Parcels included a record-breaking holiday season when we had 16 delivery days of over one million packages each and eight delivery weekends with a total of 2.2 million packages delivered.

Erosion in Transaction Mail volumes

Volumes continued to erode in 2015 for Transaction Mail, our largest line of business. With more and more Canadians managing their communications online, demand for Lettermail services has dropped steadily every year since 2006. In 2015, this trend continued as the Canada Post segment experienced a decline of 187 million pieces or 5.2% in Domestic Lettermail, compared to 2014. Canadian points of delivery have increased over the last nine years (by an average of 169,000 per year), contributing to higher costs due to the obligation to provide delivery service to more addresses. In 2015, the mail volume decline per address was 6.8%.

Higher employee benefit expenses

Employee benefit expenses increased significantly in 2015 compared to 2014. The prior year's discount rates, other actuarial assumptions and asset balances of the Corporation's employee benefit plans are used to calculate the current year's employee benefit expenses. The increases were mainly due to the negative impacts from a decrease in the discount rates used to calculate benefit plan costs in 2015, partially offset by the positive impacts of strong pension asset returns in 2014. This led to a substantial rise in Canada Post's employee benefit expenses of $189 million or 17.6% in 2015, compared to 2014.

A full year of Lettermail rate increases

2015 included a full year of rate increases that were introduced at the beginning of the second quarter of 2014 (March 31, 2014), in a new tiered pricing structure for Lettermail. This commercial approach to pricing contributed to an increase in Domestic Lettermail revenue of $107 million in the first quarter of 2015, compared to the same period in 2014. For the remainder of 2015, Domestic Lettermail revenue decreased by $104 million due to the effects of mail volume erosion, ending the year up $3 million compared to 2014.

Canada's federal election

The federal election, which occurred October 19, 2015, had a positive effect on year-end results for all lines of business in the Canada Post segment. The election generated additional mailings of over 25 million Transaction Mail pieces and over 60 million direct marketing items. This reduced the impact of mail erosion, especially in the third quarter of 2015.

Productivity improvements

We achieved productivity improvements and cost savings by focusing on various operational initiatives. We continue to work toward increasing efficiency by changing work methods and processes as well as updating and improving the technologies we use.

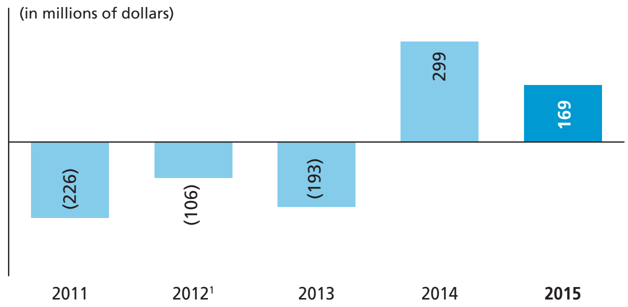
Size and volatility of pension and other post-employment benefits

The solvency deficit to be funded for the Canada Post Corporation Registered Pension Plan is estimated at $6.2 billion (using the three-year average solvency ratio basis) as at December 31, 2015. Significant obligations of the RPP and other post-employment benefits continued to be a concern for the Corporation. The large size and volatility of these obligations compared to our cash position and profit put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one year to the next is caused by fluctuations in discount rates, investment returns and other actuarial assumptions, resulting in sizeable financial and long-term liquidity risks to the Corporation. During 2015, this volatility had a positive effect on the Group of Companies' defined benefit plans, leading to remeasurement gains of $794 million, net of tax, recorded in other comprehensive income (loss) and improving the Group of Companies' equity balance to negative $1.1 billion as at December 31, 2015. These remeasurement gains were mostly the result of gains on investments and an increase in discount rates in 2015. However, without pension funding relief permitted by legislation, Canada Post would have been required to make special contributions to the RPP of approximately $1.4 billion in 2015.

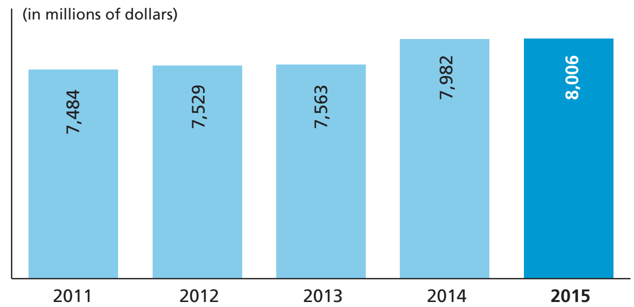
The Canada Post Group of Companies – 2015

The 2015 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

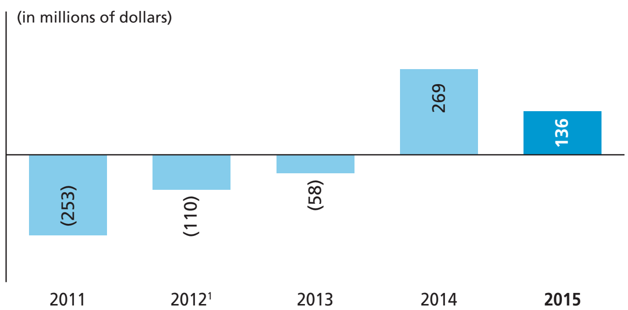
Consolidated profit (loss) from operations



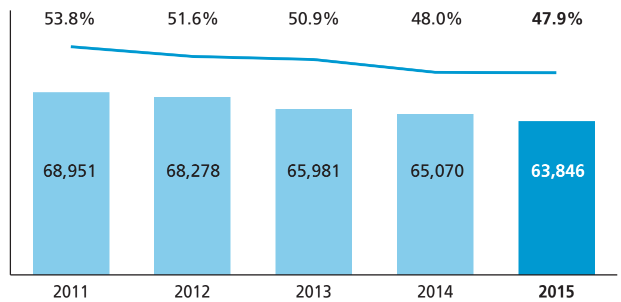
Consolidated revenue from operations



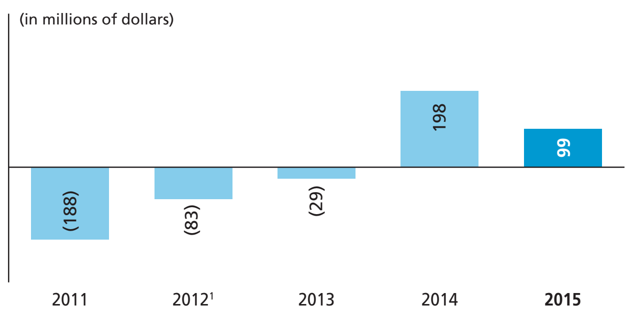
Consolidated profit (loss) before tax



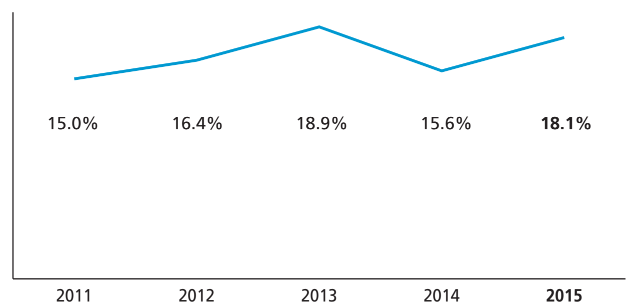
Labour as a percentage of revenue from operations combined with number of employees[2]



Consolidated net profit (loss)



Employee benefits as a percentage of revenue from operations



1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees. Labour as a percentage of revenue from operations excludes employee benefits.

The following table presents the Corporation's consolidated performance for the 2015 fiscal year compared to 2014.

(in millions of dollars)

Year ended December 31	2015	2014	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 77.
Revenue from operations	8,006	7,982	24	0.3	Mainly due to growth in Parcels revenue in the Canada Post segment driven by the thriving business-to-consumer e-commerce market, and Lettermail rate action, partially offset by Transaction Mail volume erosion and lower revenue at Purolator.
Cost of operations	7,837	7,683	154	2.0	Mainly due to higher employee benefit costs in the Canada Post segment primarily from a decrease in discount rates.
Profit from operations	169	299	(130)	(43.4)	
Profit before tax	136	269	(133)	(49.4)	Mainly due to higher employee benefit costs and Transaction Mail volume erosion, partially offset by Lettermail rate action and growth in Parcels revenue in the Canada Post segment.
Tax expense	37	71	(34)	(47.4)	
Net profit	99	198	(99)	(50.2)	
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 69.
Cash and cash equivalents	775	677	98	14.6	Increase mainly due to cash provided by operating activities in 2015, partially offset by cash used in investing and financing activities during the year.
Cash provided by operating activities	595	591	4	0.5	No material change.
Cash used in investing activities	(479)	(359)	(120)	(33.0)	Mainly due to an increase in acquisitions of capital assets in the Canada Post segment.
Cash used in financing activities	(22)	(24)	2	11.6	No material change.

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 a leader in providing innovative e-commerce, marketing and logistics solutions. Its unrivalled networks and capabilities enable remote communications and commerce across Canada and between Canada and the world. Proud to serve individual Canadians and every address, it also works with Canadian businesses, large and small, to help them compete and succeed. Its activities strengthen Canadian enterprises, local communities and the economy.

The Canada Post Group of Companies provides a full range of delivery, logistics and fulfillment services to customers and, combined, has annual revenue of approximately $8 billion. The Group of Companies has the largest retail network in Canada with 7,000 retail locations, operates a fleet of 17,000 vehicles and employs close to 64,000 people.

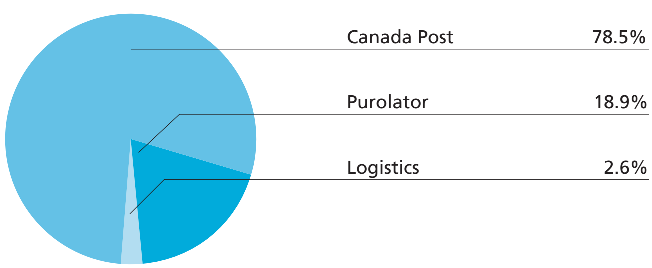
In 2015, our employees delivered close to nine billion pieces of mail, parcels and messages to 15.8 million addresses in urban, rural and remote locations across Canada.

Canada Post is the largest segment of the Group of Companies with revenue of $6.3 billion in 2015. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, direct marketing products and periodicals.

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider with revenue of $1.5 billion in 2015.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions with revenue of $262 million in 2015.

Revenue by segment – 2015



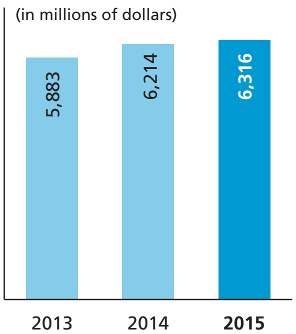
Revenue by segment	2013	2014	2015
Canada Post	77.5%	77.5%	78.5%
Purolator	20.3%	20.1%	18.9%
Logistics	2.2%	2.4%	2.6%

Canada Post segment

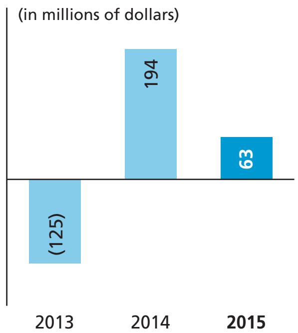
Canada Post operates Canada's largest retail network with over 6,200 retail post offices and a fleet of almost 13,000 vehicles that delivered 8.8 billion pieces of mail and parcels in 2015. With over 50,000 employees, Canada Post provides service to 15.8 million addresses.

The Canada Post segment generated revenue of $6.3 billion and, after excluding intersegment revenue, represents 78.5% of the Group of Companies' 2015 consolidated revenue of $8 billion.

Revenue

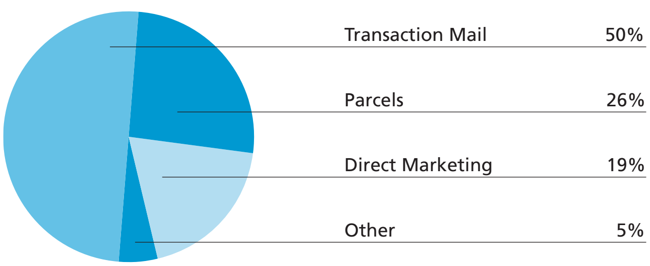


Profit (loss) before tax



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

Revenue by line of business – 2015



Revenue by line of business	2013	2014	2015
Transaction Mail	50%	52%	50%
Parcels	24%	24%	26%
Direct Marketing	21%	19%	19%
Other	5%	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 $3.2 billion or 50% of Canada Post's 2015 operating revenue of $6.3 billion. Transaction Mail revenue decreased by $13 million in 2015, compared to 2014, due to volume erosion, partially offset by the strategic rate increase introduced for Lettermail that took effect March 31, 2014. The majority of Transaction Mail revenue is derived from traditional physical mail delivery services, with Domestic Lettermail accounting for 91%. However, Domestic Lettermail volumes are declining rapidly (5.2% in 2015) as Canadians are adopting digital alternatives. This decline is creating a profound effect on a business model founded on paper-based communications.

Customers include private consumers, but most are businesses in the financial, telecommunications, government and utilities sectors.

Parcels

The Parcels line of business offers Canadians a wide range of delivery services to every domestic address in Canada and international destinations through other posts and collaborative efforts with global integrators. Services are differentiated by the delivery destination and speed, 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 $1.6 billion or 26% of Canada Post's 2015 operating revenue of $6.3 billion. The Parcels line of business has been growing steadily over the last few years with the increasing popularity of e-commerce. This along with investments that Canada Post is making to strengthen its leadership position in e-commerce 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 private consumers, businesses, retailers, governments, posts and other delivery companies.

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary services. The Personalized Mail™ service allows customers to personalize mailings and tailor promotional messages to specific consumers or prospects. With the Neighbourhood Mail™ service, customers can reach specific neighbourhoods or regions across Canada. The Publications Mail™ service includes the distribution of periodicals, such as newspapers, magazines and newsletters.

Direct Marketing accounted for $1.2 billion or 19% of Canada Post's 2015 operating revenue of $6.3 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.

Other

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

The Other category accounted for $284 million or 5% of Canada Post's 2015 operating revenue of $6.3 billion.

Customers include businesses, governments and private consumers.

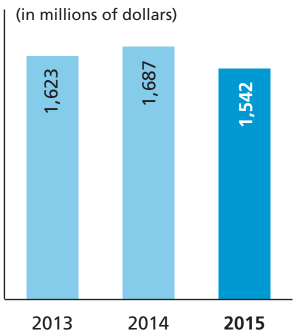
Purolator segment

Purolator is Canada's leading integrated freight, parcel and logistics solutions provider. Purolator has its own ground fleet of more than 3,500 vehicles, and relies on Canada's largest air cargo network. Operating in the highly competitive and rapidly changing Canadian transportation landscape, Purolator brings supply chain know-how and business-to-business expertise to the Group of Companies. Purolator's foothold in the U.S. market also provides inbound transportation and logistics capabilities. Purolator has an extensive service network in Canada that includes 170 operations facilities, 125 shipping centres, 596 authorized shipping agents and 240 drop boxes as well as two customer contact centres and nine PostNet™ business centres.

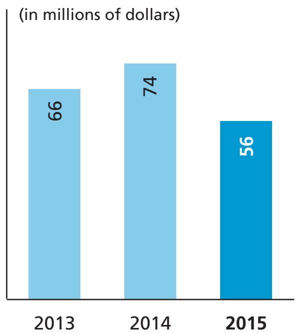
In 2015, Purolator generated revenue of $1.5 billion, which after excluding intersegment revenue, represented 18.9% of the 2015 Group of Companies' consolidated revenue of $8 billion.

Benefiting from its industry-leading service and reliability, Purolator is able to focus on satisfying the needs of the growing e-commerce market spaces, specifically the business-to-business segment of the market through a broad array of services within, to and from Canada. This complements the Canada Post Group of Companies' service offerings and contributes to synergies within the Group of Companies.

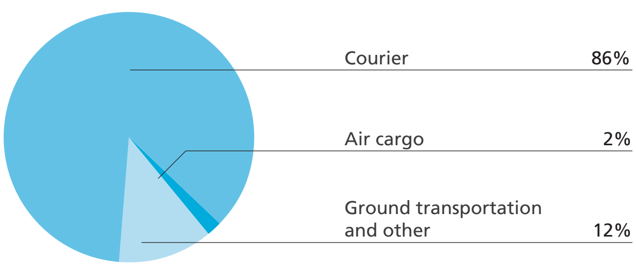
Revenue



Profit before tax



Revenue by market – 2015



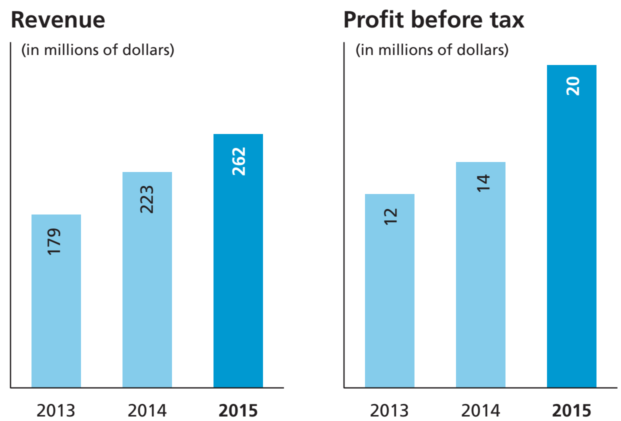
Revenue by market	2013	2014	2015
Courier	86%	86%	86%
Air cargo	5%	5%	2%
Ground transportation and other	9%	9%	12%

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 $262 million, which, after excluding intersegment revenue, represented 2.6% of the 2015 Group of Companies' consolidated revenue of $8 billion.



2.2 Our business environment

Global trends

Global economic growth decelerated in 2015 after a promising start, largely due to reduced growth in emerging economies, particularly China, and a significant slump in commodity prices. These factors will continue to negatively influence growth in 2016. Expected moderate growth in the next two years will be led by energy-importing economies, particularly those of the U.S. and the U.K. Commodity-heavy economies, such as Canada's, are expected to lag behind; the imminent return of Iran as an oil-exporting nation may serve to further entrench lower oil prices, which will have a particularly adverse impact on the ability to develop Canada's oil sands. A Canadian dollar that is expected to remain below 80 cents U.S. for the next two years will benefit non-commodity exporters, while dampening the growth opportunity presented by northbound e-commerce.

The strong link between mail volumes and economic performance began to diminish in the late 1990s as private consumers and businesses gained freer access to the internet. This trend has grown increasingly acute with the advent of more accessible and mobile digital communications platforms that facilitate digitization of communications in all customer segments. Governments seek electronic means of interacting with constituents, businesses continue to encourage digital billing, statements and invoices, and consumers stay in touch with social media. The International Post Corporation (IPC) reported an average decline of nearly 25% in mail volumes per household among 29 reporting members, from 2004 to 2014. Challenged to manage an increasingly expensive and expanding delivery network in an environment of decreasing volumes, many posts continue to pursue creative solutions to manage costs.

At the same time, posts are developing growth strategies that include diversification and partnerships as a more permanent way to ensure viability.

- In 2015, Japan Post acquired Australia's largest logistics company, Toll Holdings, as a first step in attempting to become a leading global logistics company. Japan Post will spend US$16 billion over the next three years to expand its global presence.
- Several posts, including Austrian Post and Le Groupe La Poste (France) are entering the grocery delivery market, which is perceived to be a growing and underserved segment. This is a quick-response business that demands a less structured delivery network than usual in the postal industry, along with investment in specialized equipment such as refrigerated trucks or containers.
- Alibaba is emerging as a global enabler of postal ambitions, partnering with several posts including Singapore Post, Correios (Brazil), Royal Mail (U.K) and Posti (Finland) to make the Chinese consumer base accessible to the world. Singapore Post in particular has built its relationship with Alibaba to become a strong regional logistics presence in South-East Asia and has recently extended its influence into the U.S. with the acquisition of a pair of e-commerce logistics firms in October 2015.

Some posts have not been able to make the changes they desire as a result of status quo policy choices, even though there is overwhelming evidence that operating and policy reform is urgently needed. For example, the United States Postal Service has experienced a decline of more than 27% in mail volume since 2006. It recorded net losses of $5.5 billion and $5.1 billion in fiscal years 2014 and 2015, and expects to continue to record similar losses without significant structural change. Significant growth in its package delivery business has been insufficient to offset these ongoing operational losses.

Canada

Canada Post continues to face significant challenges that threaten its sustainability. Mail volumes continue to decline while the number of delivery points increases, resulting in a decline of more than 30% in the number of pieces of mail delivered per address between 2008 and 2015. The valuation of the defined benefit pension solvency deficit continues to put pressure on liquidity. Canada Post faces competitive challenges from an inflexible and high-cost structure that threaten long-term profitability in a growing e-commerce market. 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 profitability and its ability to fulfill the universal service obligation (USO). In October 2015, the Action Plan was put on hold pending the results of a government review.

Transaction Mail (excluding outbound)	2008	2009[1]	2010	2011	2012	2013	2014	2015
Delivered volume percentage change	(1.6)%	(5.5)%	(3.9)%	(3.7)%	(6.1)%	(4.9)%	(5.0)%	(5.9)%
Delivery addresses percentage change	1.4%	1.2%	1.0%	1.0%	1.0%	1.0%	1.2%	0.9%
Mail volume percentage decline per address	(2.9)%	(6.7)%	(4.9)%	(4.6)%	(7.0)%	(5.9)%	(6.1)%	(6.8)%

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

Canada Post is facing a monumental shift in its business, as the rise in digital communications has dramatically changed how Canadians use postal services. Digital platforms are rapidly replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. This behavioural shift is causing significant volume erosion for Transaction Mail, the segment's largest line of business, which is putting downward pressure on revenue at a time when the number of addresses in the network is increasing each year and labour costs remain largely inflexible.

Canada Post must adapt to this shift and the changing needs of Canadians by being an essential enabler of communication and commerce. In this important role, Canada Post needs to offer the kinds of high-quality services that Canadians require – where and when they want them.

In developing our current strategy, we examined the changing needs of our customers, the options for the delivery of more parcels and lower Lettermail volumes, the competitive environment in which we operate, the need to permanently adjust our cost structure, the way we can manage rising costs associated with new addresses, and the volatility of the Canada Post Corporation Registered Pension Plan and its impact on cash.

In 2015, our main strategic priorities consisted of

- redefining postal service through the successful implementation of the Five-point Action Plan,
- becoming an e-commerce enabler by promoting the growth of our Parcels and Logistics lines of business and expanding e-commerce activities,
- developing winning marketing solutions by evolving direct mail to ensure relevance in the new digital and social media context,
- growing customer loyalty,
- enhancing our brand and promoting our role as the trusted intermediary,
- creating an empowered, agile workforce to address evolving customer needs.

The Government of Canada has indicated its intention to undertake a review of Canada Post to make sure it provides the high-quality service that Canadians expect at a reasonable price. Canada Post will work with the Government of Canada to determine the best path to follow given the ongoing challenges faced by the Canadian postal system.

Redefining postal service through the Five-point Action Plan

The Five-point Action Plan, announced in December 2013, was the foundation of our strategy for 2014 and 2015 to meet our mandate to be financially self-sustaining, while providing affordable and universal postal service to Canadians. The Action Plan was part of the foundation of a new postal system designed to serve Canadians' evolving postal needs and help the Corporation succeed in the digital age. In 2014 and 2015, Canada Post made a number of major changes in delivery, retail, operations, and pricing. Based on achieved progress to date, at steady state these transformational initiatives are projected to contribute an estimated $450 million per year to the Corporation's bottom line. Moving forward, we will support the Government of Canada's review, which will help form part of our next strategy. In the meantime, we are focusing on our other strategic priorities, including growing our Parcels and Direct Marketing lines of businesses.

Becoming an e-commerce enabler

The growth of e-commerce and the popularity of online shopping among Canadians is creating significant opportunities for Canada Post. While growth in Parcels alone does not make up for the erosion we are experiencing in Lettermail, it is key to our future. We have made sizeable investments to develop our products, services and operations. This focus on innovation and convenience, our unparalleled market coverage, with over 6,200 post offices across the country, and the development of new delivery services, such as FlexDelivery™ and same-day delivery, will help ensure that we are well positioned to benefit from e-commerce growth and maintain our leadership position in this highly competitive business-to-consumer market. Concentrated efforts and investments in our scanning and tracking capabilities will also be a focus, as visibility of purchases throughout the shipping process is a key requirement for online shoppers. We aim to make ourselves the preferred provider for business-to-consumer deliveries in Canada by improving relationships with e-commerce shippers and foreign postal administrations to enhance the delivery experience and differentiate ourselves from the competition in residential delivery.

Developing winning marketing solutions

Canada Post's direct mail products represent a small percentage of the Canadian advertising market. While print advertising, including direct marketing, has experienced a loss of market share because of the rise of internet and mobile advertising, direct mail remains an important part of a multimedia mix for large and small businesses. Recently, however, marketers have become increasingly doubtful of digital advertising and its soft metrics. This "digital doubt," coupled with two key market trends, is setting the stage for a resurgence in direct mail. The first trend, constant digital connectivity, has fundamentally changed how customers manage life, consume content and interact with brands – creating an expectation from customers that businesses know their preferences and provide them with a more personalized experience. The second trend is a convergence of offline and online channels into one seamless omni-channel shopping and buying interaction that is organized around a brand experience. In this digitally mature marketplace, marketers are finding that, while digital media is generating a lot of customer interaction, it is under-delivering on action. Therefore, Canada Post's direct mail products are uniquely positioned to take the lead in the next generation of direct marketing as they are affordable and provide customers with an excellent return on their investment. Their physical nature provides certain advantages that digital offerings cannot match and they can be targeted, allowing marketers to use data to personalize their messages and reach consumers at home.

During 2015, Canada Post announced changes to the names of its direct mail business and products in ways that will make more sense to customers. The changes better reflect how marketers actually use the products and how they help them grow their business. The rebranding is part of a larger effort to reframe and grow our direct mail business by introducing Canada Post Smartmail Marketing™, a more intelligent approach to direct mail. Canada Post Neighbourhood Mail™ is replacing Unaddressed Admail™, because it's the product marketers use to reach neighbourhoods with offers that are relevant to the people who live there. Similarly, Canada Post Personalized Mail™, replacing Addressed Admail™, is about mail that presents an offer to a person as an individual. We hope to inspire more customers to action with an approach that blends three powerful elements (physical experience, data and connectivity) proven to make their marketing mix more relevant and more engaging. These changes will help to better position our products in the eyes of our customers, and will allow us to compete more effectively with other advertising alternatives, including digital options. In addition to rebranding and repositioning our products, we're also introducing new products and making it easier for customers to purchase and prepare direct mail.

Growing customer loyalty

Canada Post is one of the few organizations that can call all Canadians customers. Canada Post will focus on growing customer loyalty by managing digital and physical life cycles and developing a data-based, customer-centric view with the help of online capabilities. We will also bring more and more services online to improve customer access to our products, better align our operations to meet customer needs and simplify our processes to make it easier for customers to do business with us.

Enhancing our brand and promoting our role as the trusted intermediary

Canada Post is one of the five most well-known companies in Canada. While the Canada Post brand is recognized for being trusted, providing quality service and value, it is in the midst of a significant and visible transformation. Our objective is to maintain our strength in attributes associated with serving the needs of Canadians and contributing positively to Canadian society. We also seek to develop our brand by expanding our e-commerce and digital offerings and moving the business forward to be known as a more innovative, customer-centric and agile company.

Creating an empowered, agile workforce to address evolving customer needs

Engaged employees are a critical element of a successful Corporation. In today's highly competitive environment, customers have choices that employees can influence. While we continue to transform our business, we are still focusing our efforts on employee engagement and putting initiatives in place to create an environment where employees feel they can use their experience and judgment to create solutions, identify efficiencies and opportunities, and manage customer needs.

Purolator

Purolator continues to make progress in implementing its long-term, strategic plan. With the PuroNext initiative in execution mode, the core business continues to strengthen and investments in the business have roughly doubled in comparison to recent years, with much of that focused on launching new services, technologies and processes. Through these efforts, Purolator is reinforcing its position as the leading provider of integrated business-to-business transportation and logistics solutions within, to and from Canada.

The company's strategic imperatives remain the same, seeking to stand out in the competitive landscape through service excellence and customer experience. Participation in the Canada Post Group of Companies enables Purolator to benefit from synergies in strategy and execution, which translates into broader market capabilities and operating efficiencies.

Maintaining Purolator's cost competitiveness and maintaining service performance is crucial for sustainable growth. Therefore, acting on the company's Operations Process Transformation (OPT) strategy is paramount. Purolator delivered some of the foundational elements of OPT in 2015. Key projects of the multi-year strategy included an enriched barcode that holds more shipment data to improve operations visibility and delivery capability, smart-sort and route optimization that enhances productivity and reduces error, a single data repository and a transportation management system.

Purolator continues to strengthen service capabilities with enhanced shipment visibility, improved mobile applications, augmented courier and logistics product features, and e-commerce technologies. To broaden its value proposition and market reach, Purolator applies a solutions approach to selling that deepens customer relationships and adds value. In addition, marketing and brand efforts further generated strong growth in the company's small business segment.

Purolator continues to target attractive industry verticals by creating innovative solutions in sectors such as health care, high-tech and retail. Also, with the significance and potential for cross-border trade, the company is capitalizing on growth opportunities by streamlining transportation, distribution and information flow between Canada and the rest of world.

SCI Group

SCI is acting on its strategy to become Canada's leader of integrated forward and reverse supply chain solutions for high-value and high-growth segments in Canada. The key to SCI's strategy will be to expand on proven capabilities in focused areas, such as omni-channel fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. Benefiting from opportunities within the Canada Post Group of Companies to provide scale and reach will also enable SCI to increase overall market share within Canada.

In 2016, SCI will continue to focus on profitable growth. This will come from targeted verticals such as retail, omni-channel retail, health care and technology, the growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives.

3 Key Performance Drivers

A discussion of our key achievements in 2015

As discussed in Section 2.3 – Our strategy and strategic priorities, in 2015, our main strategic priorities were focused on refining postal service through the successful implementation of the Five-point Action Plan and pursuing growth opportunities that build on or complement our core assets and capabilities.

The Canada Post segment uses performance scorecards to monitor progress against strategic priorities and provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management.

Here we summarize some of our key achievements in 2015.

Achieving leadership in e-commerce through excellence in home delivery

- We increased Parcels revenue to over $1.6 billion in 2015 (an increase of 9.1% over 2014), and Parcels revenue from our top 25 e-commerce customers grew by over 30% over 2014. This was done through investments, by attracting new business and increasing revenue and volumes from our existing customers.
- We grew our northbound Parcels business by implementing solutions for foreign shippers to simplify their access to the Canada Post network for final delivery. We also worked with Purolator to offer customers an integrated solution where we provide inbound air freight or trucking, customs clearance and final delivery.
- We expanded Delivered Tonight to Montréal in 2015, making it the third major city in Canada (with Vancouver and Toronto) where selected merchants and customers can have their purchases delivered within hours of placing an online order. Expanding to Montréal opened up the service to an additional 2.2 million people and a total number to over nine million people.
- We launched the FlexDelivery™ service in 2015, another innovative service, which allows customers to direct their online orders to a post office of their choice – near their home, their workplace, their cottage or a travel destination, or anywhere in the country – for pickup at their convenience. During the year, there were approximately 90,000 registrations and 100,000 shipments.
- We installed over 1,700 additional parcel lockers in apartment buildings and condominiums across Canada, bringing the total installed base to over 2,200. They allow parcels and packages to be delivered safely and securely, even when residents are not home to receive them.
- We continued to build our presence in the e-commerce community through our parcel consumer and merchant awareness campaigns. Key themes were the Delivering the Online World™ campaign, FlexDelivery and messaging focused on Canada Post's e-commerce leadership position and superior convenience for parcel delivery. Campaigns were featured in English and French and supported by advertising across several media platforms, including television, newspaper and digital display.
- On September 28, 2015, we hosted the fourth annual Canada Post E-commerce Innovation Awards™ at a sold-out event in Toronto to honour companies that have transformed the Canadian online retail sector.
- We expanded our Ship From Store service. It's now being used by 22 merchants at over 1,000 pickup locations with volume of over five million pieces (up over 25% from 2014). This service allows our business customers to ship their products to their online customers from the nearest available retail location. Online customers receive their orders in less time, which means lower shipping costs, higher customer satisfaction and more sales.
- We negotiated a new 2016-17 bilateral agreement with the United States Postal Service, our largest trading partner.

Redefining postal service through the Five-point Action Plan

- We achieved significant financial benefits from our Five-point Action Plan initiatives as they contributed approximately $390 million in 2015 to our bottom line. At steady state, this is expected to increase to approximately $450 million per year.
- We converted over 730,000 households across Canada in 2015 (for a total of approximately 830,000 at the end of 2015), from door-to-door delivery to community mailbox delivery. This included installations at almost 23,000 sites involving over 50,000 modules in 76 depots.
- We streamlined our extensive retail network of corporate post offices by changing hours of operation and closing corporate postal outlets, where customers were already well served by other more convenient locations. We also extended access to customers by adding new post office locations with existing and new retailers to sell Canada Post products and services.
- We opened our first concept store in 2015 in Richmond Hill, Ontario. The store offers a range of new customer conveniences including drive-thru parcel pickup, self-serve shipping stations and vending kiosk (open 24/7), a fitting room to try on online purchases and extended hours.
- We carefully managed attrition, which allowed us to minimize the need for hiring staff and achieve labour savings, while respecting the provisions of our collective agreements. Negotiations were also started with the Canadian Postmasters and Assistants Association (CPAA) and the Canadian Union of Postal Workers (for UPO and RSMC units). These negotiations will be important in addressing our labour costs, including pension, and help the Corporation adapt to the changing postal needs of Canadians.

Developing winning marketing solutions

- We launched the Canada Post Smartmail Marketing™ approach in the fall of 2015 to 40,000 customers, associations, partners and agencies. Smartmail Marketing™ gets a brand directly into customers' hands by intelligently bringing together the power of physicality, data and connectivity to deliver more action for marketers.
- We designed, produced and distributed two original research papers on ethnography and neuromarketing, which were well received by the market. Also, we attended 12 tradeshows, 5 webinars, 62 agency workshops and a number of other events to promote the value of Smartmail Marketing.
- We achieved strong performance for Snap Admail™, our turnkey online tool to help businesses create and deliver effective direct mail campaigns on any budget, with over 900 orders, 4.5 million pieces, and revenue of close to $2 million in 2015.

Delivering training and focusing on health and safety

- We reduced lost-time injury frequency by 17% over 2014 and exceeded our 2015 target. We continue to focus on maintaining a healthy and safe workplace by always raising safety awareness with our employees and introducing initiatives to identify and promptly address high-risk situations and activities.
- We delivered just over 700,000 hours of company-wide training on updated business practices, structures and equipment to front-line employees and supervisors and also focused on employees affected by change. All 21 plants and the top 60 depots, including 24,000 front-line employees, now have digital learning access, which allowed us to deliver over 100,000 hours of training in 2015.

Enhancing service performance and customer experience

- We exceeded our on-time service performance targets for International Inbound Parcels and Personalized Mail™.
- We completed our website redesign in 2015, which yielded positive results including an increase in overall visits by 11%, an increase in track searches by 103% and a doubling of visits on mobile devices.
- End-to-end visibility between major plants within the Canada Post delivery network was completed in 2015 through the deployment of nesting. Nesting is the linking of items to containers, containers to shipping units and shipping units to trailers, which allows customers to see when their item departs and arrives between our major plants.
- We continued to enhance the convenience of the online shopping experience for shoppers and merchants with parcel Web Services. Launched in 2012, Web Services enable the integration of Canada Post shipping information into a merchant's website. In 2015, we had over 230 new Web service integrations and over 5,500 customers integrated with Web Services, over 2,500 more than we had in 2014, allowing merchants to increase their shipping transactions with Canada Post.
- We increased our focus on our customers by introducing a number of innovative products and services (such as FlexDelivery and Delivered Tonight), improved our customer reporting, invested in technology, and made network and infrastructure enhancements so that we could improve our service performance and the customer experience.

4 Capabilities

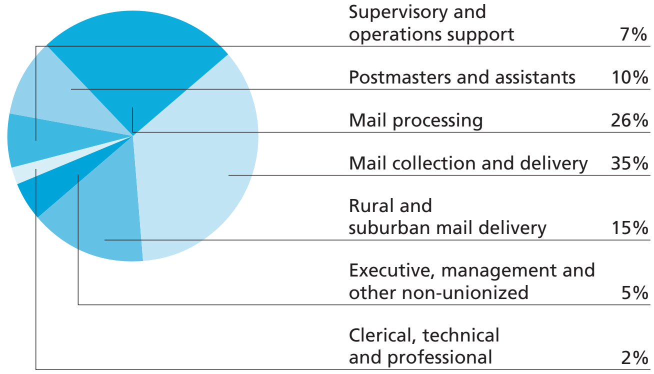
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with close to 64,000[1] people, including over 13,000 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 – 2015



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

Talent management, learning, and development

Canada Post segment

Attracting the right talent is a critical component to achieving our business goals. With a focus on the four designated groups (women, members of visible minorities, Aboriginal peoples and people with disabilities), we continued to expand and refine our recruiting efforts in these areas. As such, we have strong representation of women and visible minorities within our workforce and continue to close gaps in our representation of Aboriginal and disabled employees. These efforts are outlined in our 2015-17 Canada Post Employment Equity Plan. In 2015, we set out to understand the effectiveness of our employment brand to attract and retain a diverse workforce. We will build on this understanding in 2016 and onward by refreshing our promotional materials and continuing to seek new strategic partnerships, outreach channels and opportunities to improve our social media presence.

In the area of leadership, learning and culture, we enhanced our focus on leadership development, continued to modernize our learning platform, and concentrated on improving employee relations. To support these three key initiatives, we expanded our executive development program, completed the roll-out of our new digital learning platform, and extended our customer/employee experience initiative into other key areas.

Our customized leadership development program, designed in collaboration with University of Toronto's Rotman business school, was delivered to 90 senior leaders from across the country. Participants are provided with a practical, hands-on learning experience that includes business strategy discussions with senior executives, core leadership courses, and completion of a team-based, learning project. This program seeks innovative solutions to our business issues, creates alignment in our senior team and facilitates cultural change.

In 2015, we were able to use our new learning management system (SuccessFactors) to deliver over 100,000 hours of digital training (twice as many hours as in 2014). All 21 plants and 60 of our largest depots now have access to computers to facilitate the deployment of digital learning. The ability to use the latest in technology has resulted in higher quality training for our employees, greater reach, reduced costs and access to more learning through a cloud-based application.

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

As a testament to the quality of the digital learning design, we received three awards in 2015. Two were awarded by the Institute for Performance and Learning: a Gold Award for the Route Measurement Officer Training Program and a JOLT Award for Bite Sized Digital Learning for Retail. We also won a Best Practice award from the Office of the Commissioner of Official Languages for our course on official languages. These programs not only received positive reviews from learners, but the overall design, evaluation strategy and deployment approach received top grades from a panel composed of leading experts from the training industry.

For our customer experience initiative, we expanded our reach to Alberta and Ontario, while sustaining our earlier work in Halifax-Dartmouth and Calgary. This initiative aims to improve the employee experience through face-to-face discussions with team leaders and their employees. As the employee experience gets stronger, improved customer experience and loyalty follow. Feedback from the 2015 sites has been positive.

Purolator

In 2015, a three-year human resources (HR) strategic plan was developed in alignment with the overall organizational strategy. The strategic plan identifies key initiatives that are intended to motivate, engage, retain and recognize employees in a diverse, ever-changing environment.

Through our annual MyVoice employee engagement survey, it was once again confirmed that our employees are highly engaged and continue to take pride in the organization. The survey indicated an improved overall engagement index with four key strengths: trust in leadership, ability to adapt to change, effective top-down communication and continued organizational pride. The improvement in our engagement index was obtained through the implementation of activities such as active visible leadership, front-line talks, bi-annual town hall meetings and PuroPulse videos.

The significant change required by Purolator's Operations Process Transformation strategy (PuroNext) also resulted in the need to identify and implement new core competencies. The competencies act as a cultural compass and are integrated into key people processes such as learning and development, performance management, a new mentoring program and peer-to-peer recognition.

Through the development and alignment of our HR strategic plan, HR processes and technology, we have strengthened our employer brand. The strengthening of our brand came from effectively communicating our values, beliefs and culture at every touch point that we have with current or potential employees. Our efforts in 2015 included redefined recruitment processes, acquisition of new recruitment and onboarding technology, application of advanced assessment tools, introduction of a new internship program and focused learning and development programs. As we move forward, we will continue to grow, develop, and adjust our employer brand to ensure that we stand out in a very competitive labour market.

Health and safety

Canada Post segment

Canada Post remains committed to a safe and healthy workplace by identifying, preventing and controlling hazards, recognizing and rewarding safety leadership and making continuous improvements. This strategy helped to reduce the number of injuries, dropping lost-time injury frequency by 17% on a year-over-year basis. The introduction in 2015 of total injury frequency (TIF), a holistic approach to injuries, will further our focus on injury prevention.

Slips, trips and falls continue to be our number one source of injury, followed by manual material handling injuries. These two injury types account for 79% of all injuries. We continue to raise awareness of these risks in the workplace through annual slip, trip and fall campaigns and musculoskeletal injury prevention programs. Coaching on safe practices related to the prevention of these injuries is a fundamental element of our ongoing plans and work habits.

The deployment, recording and active monitoring of employee training was a top priority in 2015 and will continue in 2016.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
CUPW-UPO[2]	32,934	January 31, 2016
CUPW-RSMC[3]	7,482	December 31, 2015
CPAA[4]	5,381	December 31, 2014
APOC[5]	3,555	March 31, 2018
PSAC/UPCE[6]	1,279	August 31, 2016
Total	**50,631**	

1. All full-time and part-time employees including those on unpaid leave, as at December 31, 2015; 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

In 2012, Canada Post commenced the complex process of preparing payments to eligible employees following the Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC). The parties subsequently signed a memorandum of agreement outlining the details of eligibility, calculation methodology, application of interest and payment process. Pay equity payments commenced in August 2013 and are ongoing. Canada Post has been working with the Canada Revenue Agency and other groups to reach remaining eligible individuals whom the Corporation has been unable to contact.

Canadian Postmasters and Assistants Association (CPAA)

The collective agreement between Canada Post and CPAA expired December 31, 2014. Negotiations commenced in the first quarter of 2015. CPAA represents rural post office postmasters and assistants. The Corporation presented a final offer to the CPAA on October 15, 2015, however, despite ongoing discussions, Canada Post and the CPAA reached an impasse on key issues. On March 16, 2016, Canada Post notified the CPAA that it intends to refer all outstanding matters to an arbitrator for final offer selection. Under this dispute resolution method, each party presents final proposals and the relevant supporting evidence. The arbitrator chooses one proposal in its entirety but has no latitude to blend elements from both proposals. Meanwhile, the terms and conditions of the collective agreement that expired on December 31, 2014, continue to apply.

Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO)

The collective agreement expired January 31, 2016. Negotiations commenced in January 2016. This agreement provides for strike or lockout.

Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC)

The collective agreement expired December 31, 2015. Negotiations commenced in January 2016. This agreement provides for strike or lockout.

Association of Postal Officials of Canada (APOC)

Canada Post and APOC are in the second year of a four-year collective agreement, which expires March 31, 2018. The Association represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees. This agreement contains modest wage increases in the second and fourth years and no increases in the first and third years. For existing employees, the agreement preserves job security provisions and the defined benefit pension plan. Employees hired after March 1, 2015, receive a lower starting annual wage rate, less vacation, and attain job security after 10 years of continuous employment with the Corporation. In addition, they are eligible for a defined contribution pension plan in lieu of the defined benefit plan.

Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE)

Canada Post and PSAC/UPCE are now in the final year of the four-year agreement, which expires August 31, 2016. 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. Negotiations should commence later in 2016.

Purolator

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Teamsters[2]	8,162	December 31, 2016
		December 31, 2017
Other[3]	369	December 31, 2017
		January 31, 2015
Total	**8,531**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2015; excludes temporary, casual and term employees.
2. Teamsters represent employees in operations and clerical and administrative employees.
3. Other represents clerical and administrative employees.

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have renewed collective agreements, which expire December 31, 2017.

Our agreement with the Canadian Office and Professional Employees Union, governing approximately seven clerical employees in Thunder Bay, expired January 31, 2015. Bargaining began in 2015 and will carry over to 2016.

Logistics – SCI Group

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Unifor – Toronto	252	December 31, 2019
Unifor – Laval	23	November 30, 2016
Total	**275**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2015; excludes temporary, casual and term employees.

On January 15, 2015, SCI and Unifor – Toronto signed a new collective agreement for five years, expiring December 31, 2019.

4.2 Our network and infrastructure

Canada Post's operating network is vast and complex and requires a coordinated effort between collection activities, mail processing plants, transportation links and delivery agents. In 2015, almost nine billion pieces of mail and parcels were processed in our plants, which represents approximately 35 million items sorted and delivered daily. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. To process and deliver all the mail and parcels, our network includes the following:

- 21 mail processing plants
- 6,252 post offices, corporately owned or managed by authorized dealers
- 485 letter carrier depots
- 13,208 letter carrier routes
- 1,056 mail service carrier routes
- 19,766 street letter boxes
- 193,722 group and community mailbox sites
- 1.8 million post office boxes (including general delivery)
- 7,505 rural and suburban mail carrier routes

In past years, Canada Post has made significant investments to modernize outdated mail processing plants and equipment, automate manual sorting processes and consolidate delivery, and reduce costs while increasing productivity. Investments in high-speed, ergonomic multi-line optical character readers have increased the overall accuracy and reliability of our mail processing network, while automated parcel sorting and container handling infrastructure introduced in all major centres has significantly improved parcel tracking and the customer experience. Investments made in new systems, supported by a centralized network, have made operations more efficient by allowing us to sort and sequence mail for an increased number of locations, while permitting standardized sorting strategies. Our delivery model, focused on automated mail sequencing for letter carriers, motorization and consolidation of our delivery operations, has also improved efficiencies.

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 our business continuity and prepare us for the future.

To benefit from the use of cost-effective, high-speed automated mail processing equipment, the stabilization of the current mail consolidations in the major urban centres and distribution consolidation facilities were completed in 2015.

Given the transformation of our business model from mail to parcels, we began studying requirements for our logistics network. This included assessing market trends and implications on product mix and volume and investigating potential structural changes to the network operating model. As we are handling significantly more parcels each year, we need to address our network capacity and meet future parcel growth demands. This work will continue in 2016 as we start formulating a transformation plan for the logistics network that will protect revenue and enable growth, while saving costs and directing capital resources to where they are needed most.

Investing in the delivery process

Canada Post delivers to 15.8 million addresses through door-to-door delivery, post office boxes, rural mailboxes and group and community mailboxes. To meet the challenge in 2015 of a growing number of delivery points and increase productivity, we continued to make improvements to our delivery operations by restructuring a number of delivery depots and routes.

Our investments in 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 well, our delivery model now includes an increased use of motorization, which allows our full-service agents to deliver and pick up all products in a geographic area, leading to an increase in their efficiency.

In 2015, through the implementation of the Five-point Action Plan, we converted over 730,000 addresses served by 76 depots in 71 municipalities from door-to-door delivery to community mailboxes. These conversions have helped standardize the mode of delivery across Canada, reduced our operating costs, and offered our customers a safe, secure and close-to-home solution for collecting their mail and parcels, at their convenience. On October 26, 2015, we announced the temporary suspension of future conversions and are working with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system. As a result, all conversions planned for 2016 are on hold pending the review of Canada Post by the Government of Canada.

Capital investments

Capital asset expenditures in the Canada Post segment reached $310 million in 2015 and focused on the implementation of the Five-point Action Plan, the replacement of the existing asset base and facility upgrades.

The year-over-year increase of $76 million was driven by an increase in investment to accelerate community mailbox implementations under the Action Plan and replenish our existing asset base. This was partially offset by the reduction of Postal Transformation spending as the project wrapped up in 2014.

In 2016, we anticipate that we will make similar investments in replenishing assets, as well as making the investments required to support strategic growth, business improvement initiatives and critical components of our existing infrastructure. We will continue to closely monitor our financial position and change the pace of capital spending to mitigate the impact of any financial pressures.

Purolator

In 2015, Purolator invested $64 million of capital in the second year of its five-year strategic program (PuroNext), various elements of Purolator's IT transformation and the rollout of various elements of the operations process transformation – including smart sort and route optimization. The smart sort capability provides Purolator's front-line sort team an enhanced quality of information to enable more accurate sorting and loading of packages to a vehicle. Route optimization is designed to ensure that the order of delivery stops minimizes the distance between stops and thereby fuel consumption. Ultimately, these capabilities provide Purolator with a more efficient and accurate delivery process, and its customers with greater package visibility and assurance of on-time delivery performance. In 2015, Purolator maintained its planned investments in technology and infrastructure as it focused on enhancing online customer experience with the addition of new features such as enhanced mobile solutions.

4.3 Sales channels

Retail network

Canadian consumers and businesses count on Canada Post's extensive retail network of over 6,200 post offices, owned by the Corporation and others operated by private dealers, in addition to thousands of private establishments known as stamp shops. The network of post offices operated by dealers continues to be highly successful as Canadians change the way they use the post office – offering convenient access, parking, longer hours of operation at a location where customers shop.

From 2012 to 2015, we focused on operational excellence, particularly maximizing savings within the post office network. We continued to invest in people, our customer-facing systems and tools. Since 2014, customers are invited on their receipt to complete an online survey where they can offer feedback on a recent post office experience. In addition, using the point-of-sale system, we developed on-screen dashboards, complementary selling offers, screen prompts, direct shipment, real-time performance reporting and a sales focus program that promotes the right products at the right time. Training videos and Web training modules are also used to support clerk knowledge and serve customers. These enhancements promote greater value from each customer visit and drive overall performance from every store with a focus on developing a consistent positive customer experience and supporting e-commerce. As well, the retail channel was critical to the success of delivering key new initiatives for the Corporation: FlexDelivery™, Deliver to Post Office, and Delivered Tonight, providing customers with greater flexibility for their online purchases.

To serve our rural clients, the retail network includes almost 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 communication and consultation with the public, the municipality, elected officials and other relevant stakeholders. Decisions are made on a case-by-case basis as we seek practical and sustainable solutions that satisfy the needs of the affected community.

The retail business is evolving its focus, from generating revenue in the age of Lettermail™ to extending market reach that complements our increased focus on parcel delivery. Dealer outlets offer a cost-effective way to reach and serve Canadians and are critical for our e-commerce strategy. They also provide a convenient parcel pickup solution with evening and weekend hours.

Initiatives we're exploring to enhance the retail business and customer experience include handheld devices to speed up post office parcel handling time and concept stores. We're testing new handheld technology in a few key post offices, which speeds up handling time and gets parcels to customers faster. In 2015, we opened a concept store in Richmond Hill, Ontario, which focuses on customer convenience with self-serve technology, a 24/7 area, a drive-thru for picking up parcels and a fitting room to try online purchases. The new store is a testing ground for new interior design concepts, technology and customer service. Two additional concept stores are planned for 2016. As well, a new mobile concept store opened at the Pan Am Games and is now available for future events and unforeseen emergencies.

High-speed internet and e-commerce have changed the role of the post office. As a result, we are committed to enhancing the customer experience by providing busy Canadians with the cost-effective and convenient services they demand.

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 network

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 2015 Management's Discussion and Analysis and consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2015.

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, 2015, in accordance with the Internal Control Integrated Framework, 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, 2015. This process follows the best-practices requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA). As a Crown corporation, Canada Post voluntarily complies with certain rules and regulations of the CSA.

Changes in internal control over financial reporting

In the third quarter of 2015, the Corporation oversaw the transition of its key financial applications to a new data centre management solution, resulting in a material change in internal controls over financial reporting for the period of implementation. The new data centre management solution will support our increasing need to better store and organize data. Pre-implementation testing and post-implementation reviews were conducted by management to ensure that the transition was properly designed and executed to prevent material financial statement errors that could have resulted from the move to the new data centre.

Based on such testing and continuous monitoring of the transition, management concluded that the transition did not cause any misstatements in our 2015 financial statements. Other than the changes related to this new data centre management solution, no other changes in our internal control over financial reporting occurred in 2015 that have materially affected, or are reasonably likely to materially affect, the Group of Companies' internal control over financial reporting.

5 Risks and Risk Management

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

Canada Post 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 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 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 volumes across traditional lines of business. This is prevalent in Transaction Mail and Direct Marketing. Mail volume erosion is a fact of life for posts around the world. The availability of electronic delivery alternatives, combined with a greater level of comfort in their security and reliability mean that mail volume erosion is happening globally at an accelerated rate. Direct Marketing volumes continue to be pressured by digital substitution, strengthened competition offering better integrated multi-channel marketing solutions and a diminishing direct marketing knowledge base within the advertising industry. Further acceleration in the rate of decline would have a substantial impact on the Corporation's cash flow and 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, product profile changes and diversification measures, as well as service enhancements and revenue growth initiatives. Cost management is focused on the restructuring of our network, while changes to pricing and product profile are aimed at simplifying our direct mail offering. We are also repositioning this offering with the Canada Post Smartmail Marketing™ approach based on two ground-breaking studies in neuromarketing and ethnography. The research findings re-affirm the role of physical mail within the marketing mix and its impact on customer motivation and loyalty. Diversification and revenue growth efforts are pursued by focusing on parcels and the rapidly growing e-commerce opportunity.

Pension deficits

The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer sponsored pension plans in Canada with assets of $22 billion in market value at December 31, 2015. The scale of the RPP – given its size relative to the Corporation's revenue and earnings, and its funding volatility – pose an ongoing risk to the Corporation's cash flows and ability to fund needed investments in modernization and growth. The RPP has two primary risk factors:

- continued low long-term interest rates, which serve to increase the pension obligation;
- lower-than-expected returns on assets, which would create a shortfall in assets available to meet benefit payments.

As of December 31, 2015, the going-concern surplus is estimated at $1.2 billion, and the solvency deficit to be funded is estimated at $6.2 billion. The final actuarial valuations for the RPP will be filed by the end of June 2016, and results may differ significantly from these preliminary estimates as actuarial assumptions are being finalized.

Canada Post, as the RPP sponsor, is responsible for funding shortfalls in the RPP. Further information is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan page 70.

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 new investment strategy has been introduced to lower investment volatility.

In February 2014, the Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments to the RPP for four years (from 2014 to 2017). This measure addresses the immediate need for additional liquidity. During the relief period, Canada Post is working with its unions and other representatives of RPP members to evaluate all options to make the RPP financially sustainable.

Financial sustainability

Canada Post's mandate is to fund its operations and pension plans with revenue from the sale of products and services, rather than with taxpayer funding. Rapidly declining Lettermail™ volumes and the financial obligations of the Corporation have put its sustainability at risk. In 2013, Canada Post unveiled a multifaceted plan aimed at achieving financial self-sufficiency. Fully implemented, the plan would have contributed an estimated $700 million to $900 million per year to the Corporation's bottom line. In October 2015, following the election of a new federal government in Canada, the Corporation temporarily suspended future deployment of the program to convert door-to-door mail delivery to community mailboxes, which is a significant element of the Five-point Action Plan.

Risk mitigation

Canada Post is committed to continue working in the best interest of all Canadians and to avoid becoming a burden on taxpayers. The federal government indicated that it will undertake a review of Canada Post to ensure it provides the high-quality service that Canadians expect at a reasonable price. The Corporation will work with the government to determine the best path forward, given the ongoing challenges faced by the Canadian postal system.

Revenue growth and diversification strategy

To offset declining volumes in the core Lettermail business, Canada Post is focused on growing the e-commerce market. This sector presents challenges. Traditional global competitors, who offer seamless cross-border capabilities and benefit from much lower labour costs, are intensifying the deployment in Canada of new cost-effective residential delivery models and further integration along the entire logistics supply chain. New parcel and courier market entrants can deploy asset-free delivery platforms and do not have to contend with legacy networks, pension obligations, or significant capital investments. Retailers are increasingly focusing on fulfillment strategies that use existing assets to minimize delivery costs. For instance, stores are now being used as pickup centres for click-and-collect services. Other risks include increasing online fraud associated with e-commerce transactions and excess volumes during peak season stressing operations. Internally, the historical design of Canada Post's operational network has been focused on Lettermail rather than parcels. This places our operations at a disadvantage to parcel-centric competitors.

Risk mitigation

Canada Post continues to strengthen its value proposition for the e-commerce segment through initiatives such as FlexDelivery™, apartment parcel lockers, Sunday delivery in the weeks before Christmas, the extension of the Delivered Tonight service pilot to Montréal in addition to Toronto and Vancouver, and other efforts to provide industry leading responsiveness and convenience for online shoppers. To support parcel volume growth, Canada Post is shifting its network design strategy to become more parcel-centric and increasing parcel capacity in physical delivery. Internal controls are in place to detect fraud, and systems changes have been implemented to mitigate risks arising from online fraudulent activities.

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, in 2016, Canada Post will be engaged in negotiations with employees represented by CUPW in two separate collective agreements (UPO and RSMC). CUPW is Canada Post's largest union, representing more than 40,000 employees.

Risk mitigation

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 for all its bargaining agents is to consistently work with them and ensure a shared understanding of the structural challenges facing the Corporation and reach settlements that balance employee expectations and cost containment.

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 reactiveness to remain competitive. Performance of critical shipping systems impact customer service and reputation. Externally, the growing threat of cyberattacks and increasing occurrences of personal data breaches due to malevolent acts reported worldwide are taken very seriously by the Corporation.

Risk mitigation

The Innovapost governance structure helps align the IS/IT objectives with existing and future requirements of the Group of Companies. Canada Post is also investing in critical systems supporting parcels to ensure high availability. Prevention and mitigation measures are implemented as part of the Information Security Framework; and business continuity and disaster recovery plans are in place. Canada Post continues to work closely with the Government of Canada to address the risk of cyberattacks.

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 including guidance from a fairness commissioner, the hiring of third-party and industry experts and extended windows for transition periods, when appropriate.

Brand

Canada Post needs to ensure business viability and customer relevance for today and the future. Key to supporting this goal is maintaining a strong, clearly defined brand that reflects the strengths of the business, changing customer needs and an evolving marketplace. This will ensure that Canada Post maintains the strong customer perception of trust, relevance and reliability.

Risk mitigation

Canada Post is constantly innovating to provide new opportunities and better experiences, beyond its traditional line of Transaction Mail. The Corporation is adapting to market changes, launching new products and services to be a more valuable facilitator of connections. It is leading the way in redefining the postal industry to better serve customers.

5.3 Operational risks

Attrition

Canada Post continues to face a high rate of employee departures, with around 15,000 employees expected to retire or leave the Corporation over the next five years. 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 an 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. Canada Post will continue to seek opportunities to streamline and improve the efficiency of its operations to take advantage of voluntary 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.

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 has addressed 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 the 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 through improved delivery methodology. New digital learning centres are enhancing accessibility to training. On-site occupational health and safety officers continue to focus on the coaching of safe practices for employees and supervisors. Leadership safety action plans are established to improve attention and focus throughout operations. A health and safety update is presented to the Human Resources and Compensation Committee, which is scheduled to meet four times in 2016. The same report is then submitted to the Board of Directors. For further information, see Health and safety in Section 4.1 page 58.

Service quality

As the Corporation shifts focus toward the more competitive parcel market, and increasing international trade volumes depend more on non-domestic partners to deliver products, maintaining a high level of service quality remains a priority to ensure customer satisfaction and retention.

Risk mitigation

The 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 the network evolves, responsibility for mail processing and delivery has been separated to ensure better focus and accountability for each function. The modernization of our exchange offices in Richmond, and still to come in Toronto and Montréal, will facilitate in-bound product flow. The Corporation is also reviewing accessing alternative international networks where existing ones do not provide sufficient quality.

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 major building projects for LEED™ (Leadership in Energy and Environmental Design) certification; 32 have been registered to date, and 23 of these have achieved LEED Certification, including the two mail processing facilities in Winnipeg and Richmond. In 2015, we continued replacing existing delivery vehicles with more fuel-efficient ones, which now account for more than 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. A pre-trial conference has been scheduled for September 30, 2016, followed by the commencement of trial on November 7, 2016.

CPAA pay equity complaint

A complaint was filed with the Canadian Human Rights Commission (CHRC) 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 submissions on the reactivation. The report of the Commission investigator was released December 8, 2014. The investigator found that, while agreements between the parties resolved any pay equity issues for the period subsequent to 1997, the prior period (1991-97) remains in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. Canada Post made submissions to the Commission January 30, 2015. In March 2015, the Commission rendered a decision to refer the matter on its merits to the Tribunal. Canada Post's application for judicial review of the Commission's decision was scheduled to be heard by the Federal Court February 17, 2016. However, it had to be rescheduled and a new date has yet to be confirmed by the court. On August 28, 2015, notice was also given to the Tribunal that Canada Post will bring a motion for the dismissal of the complaint and, in the alternative, to adjourn the complaint pending determination of the judicial review. At a case management conference that took place on March 9, 2016, Canada Post was provided until April 15, 2016, to provide written materials in support of its motion. A further case management call was established for May 4, 2016, to discuss the timeline for CPAA and the CHRC to present their responses, and to set the date for a hearing.

Data centre and application development services procurement – CGI

Through July 2014, the Corporation received notices from the Canadian International Trade Tribunal (CITT) that it had accepted for inquiry a number of complaints, both public and confidential, by CGI Information Systems and Management Consultants Inc. (CGI). The complaints concern the requests for proposals for data centre services and application development services conducted by Innovapost on behalf of the Group of Companies for the contracts awarded December 6, 2013, and February 18, 2014. CGI's publicly claimed that it was not provided with the documents and information it was entitled to receive pursuant to its debrief requests, that undisclosed criteria were used to evaluate CGI's bids, and that CGI's bids were improperly evaluated. After reviewing the filed responses and conducting oral hearings, the CITT made recommendations in respect of all public and confidential complaints made by CGI. Other than reimbursement by the Corporation to CGI of its complaint preparation costs, which were minimal, the CITT recommended that no other monetary relief be made to CGI by the Corporation. In November 2014, the Corporation received notice that CGI is appealing the CITT's recommendations in the data centre services matter and is not appealing the CITT's recommendations in the application development services matter. In November 2015, CGI's appeal in respect of the data centre services matter was dismissed by the Federal Court of Appeal. CGI opted not to further appeal the matter to the Supreme Court of Canada and, as a result, both CGI matters are now closed.

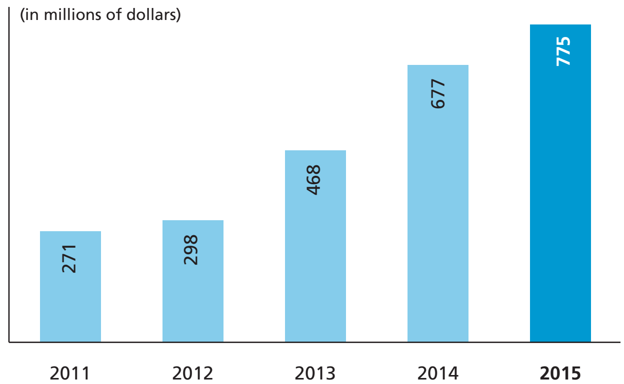
City of Hamilton by-law in respect of CMB installation

The City of Hamilton enacted a municipal by-law that would force Canada Post to seek permits before it can install CMBs. On June 11, 2015, the Ontario Superior Court declared the City of Hamilton municipal by-law inoperative and of no effect. On July 6, 2015, the City of Hamilton filed an appeal of the Ontario Superior Court's decision. The Federation of Canadian Municipalities (FCM) was granted intervener status in the appeal. The appeal was heard February 2, 2016, and judgment has been reserved.

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 $775 million as at December 31, 2015 – an increase of $98 million compared to December 31, 2014. The increase was mainly due to cash provided by operating activities in 2015, partially offset by cash used in investing and financing activities during the year. It was also supported by the temporary relief from making special payments to the Canada Post Corporation Registered Pension Plan obtained from the Government of Canada in February 2014. Without pension funding relief permitted by legislation, Canada Post would have been required to make special contributions to the RPP of approximately $1.4 billion in 2015.

6.2 Operating activities

(in millions of dollars)	2015	2014	Change
Cash provided by operating activities	595	591	4

Cash generated from operating activities was $595 million in 2015. There were no significant changes in operating activities in 2015, when compared to 2014.

6.3 Investing activities

(in millions of dollars)	2015	2014	Change
Cash used in investing activities	(479)	(359)	(120)

Cash used in investing activities was $479 million in 2015 – an increase of $120 million when compared to 2014, primarily due to higher acquisitions of capital assets and higher net acquisitions of investments.

Capital expenditures

(in millions of dollars)	2015	2014	Change
Canada Post	309	231	78
Purolator	40	26	14
Logistics	8	10	(2)
Innovapost and intersegment	(5)	(3)	(2)
Canada Post Group of Companies	352	264	88

Capital expenditures for the Group of Companies increased by $88 million in 2015, when compared to 2014. The increase was mainly due to increased spending on the Five-point Action Plan in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	2015	2014	Change
Cash used in financing activities	(22)	(24)	2

Cash used in financing activities was $22 million in 2015, and there were no significant changes when compared to 2014.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $22 billion as at December 31, 2015, making it one of the largest single-employer sponsored pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) to establish its funded status on a going-concern basis and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act, 1985* (Act) requires Canada Post, as plan sponsor, to make special payments to 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 to the RPP to eliminate this shortfall over five years.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation is exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. Canada Post is working with its unions and other representatives of RPP members to evaluate all options, including plan design changes, to make the RPP financially sustainable. It is also studying and evaluating other jurisdictions' approaches to modify the design of their pension plans. The Communications and Consultation Group was established to facilitate the exchange of information between the Corporation and RPP members. The Group is composed of representatives of RPP members, as well as Canada Post as plan administrator.

The actuarial valuation for the RPP as at December 31, 2014, filed in June 2015, disclosed a going-concern surplus of $0.5 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.8 billion[1] (using the three-year average solvency ratio basis).

The current estimate of the financial position of the RPP as at December 31, 2015, is a going-concern surplus of approximately $1.2 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.2 billion[2] (using the three-year average solvency ratio basis). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2015, will be filed by the end of June 2016 and results may differ significantly from these estimates.

The going-concern funded status improved during the year, mainly due to the return on investments of 7.3% (gross of administrative and management fees). Both the solvency deficit when using the market value of plan assets and the solvency deficit to be funded (using the three-year average solvency ratio basis) improved during the year, mainly due to gains on investments and the positive effect of an increase in the discount rate.

In 2015, the employer's current service contributions to the defined benefit pension plan amounted to $243 million, compared to $251 million in 2014. The employer's current service contributions for 2016 are estimated at $240 million. Without pension relief, the Corporation would have been required to make special payments of approximately $1.4 billion in 2015. The special payments without pension relief would amount to $1.2 billion in 2016 based on the latest estimate of the actuarial valuation as of December 31, 2015.

As a result of the enactment of Bill C-45, the *Jobs and Growth Act, 2012,* the Board of Directors of Canada Post approved changes to the RPP, which enabled the Corporation to move to 50/50 cost sharing with employees. CUPW filed a grievance in 2013 challenging the decision to raise the rate of employee contributions, alleging that it is a violation of the terms of the collective agreement. There were no developments on this grievance during 2014 or 2015.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2015, remeasurement gains, net of tax, for the RPP amounted to $770 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

1. The solvency deficit when using market value of plan assets, as at December 31, 2014, was $6.9 billion.
2. The solvency deficit when using market value of plan assets, as at December 31, 2015, was estimated at $5.9 billion.

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 financial obligations as well as 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, as it maintains basic postal service and carries out objectives, the Corporation must have regard for the need to conduct 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, 2015, and during 2015, the liquidity required by the Canada Post Group of Companies to support financial obligations, fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,427 million of unrestricted liquid investments on hand as at December 31, 2015, and $100 million in lines of credit established under a 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. Based on the temporary relief, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $185 million of unrestricted cash on hand and undrawn credit facilities of $136 million as at December 31, 2015, ensuring sufficient liquidity to support operations for at least the next 12 months.

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 $1,051 million of borrowings as at December 31, 2015, the Canada Post segment had $1,449 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, 2015, amounted to $84 million, resulting in consolidated borrowings of $1,135 million as at December 31, 2015. This represents a slight increase of $1 million over the 2014 year-end level of $1,134 million. The Corporation funded itself primarily through the use of cash-on-hand, funds generated from operations during 2015 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 Acts. 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. As indicated in the 2015-19 Corporate Plan, the Corporation did not intend to pay a dividend in 2015, given its financial results and outlook. 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	2015				
	Measured at fair value		Measured at amortized cost[1]		
	Available for sale	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
Financial assets					
Cash and cash equivalents	–	775	–	–	775
Marketable securities	–	837	–	–	837
Trade and other receivables	–	–	790	–	790
Segregated securities	539	–	–	–	539
Total financial assets	**539**	**1,612**	**790**	**–**	**2,941**
Financial liabilities					
Non-interest bearing[2]	–	–	–	687	687
Risk management liabilities	–	1	–	–	1
Bonds	–	–	–	1,051	1,051
Other loans and borrowings	–	–	–	84	84
Total financial liabilities	**–**	**1**	**–**	**1,822**	**1,823**

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 13 years as at December 31, 2015, (2014 – 12 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 decrease or increase the value of the segregated securities by $70 million (2014 – $64 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2015, and on other comprehensive income or loss.

Loans and borrowings of $1,135 million (2014 – $1,134 million) include fixed-rate debt with prepayment options and finance lease obligations.

Foreign currency risk

Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and 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$), euro, British pound and yen, whereas payment is usually denominated in US$.

The Canada Post segment has an 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 that 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 revenue from operations amounted to $5 million in net gains in 2015 (2014 – nil). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2015, all other variables held constant, would have been an increase or decrease in net profit for the year by $9 million (2014 – $6 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 (2014 – nil), and impairment losses on trade and other receivables were $5 million (2014 – $4 million).

Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The 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 page 71.

For further details on risk associated with financial instruments, see Note 24 to the consolidated financial statements page 134 and Section 6.6 Liquidity and capital resources page 71.

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 pages 132 and 137, 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	752	45	191	516
Finance lease obligations	90	23	61	6
Operating leases[2]	914	137	389	388
Total	**2,811**	**260**	**641**	**1,910**

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 which matured 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, the Group of Companies has contractual arrangements with third-party suppliers approximating $785 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 page 70.

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 $300 million (2014 – $282 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 (2014 – $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 were $10 million for the years ended December 31, 2015, and 2014, which included compensation related to short-term employee benefits and post-employment benefits. See Note 23 to the consolidated financial statements page 133 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 from 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 page 131 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, 2015, and December 31, 2014

(in millions of dollars)

ASSETS	2015	2014	Change	%	Explanation of change
Cash and cash equivalents	775	677	98	14.6	Refer to Section 6 – Liquidity and Capital Resources page 69.
Marketable securities	837	689	148	21.5	Mainly due to the investment of cash in short-term investments to achieve higher returns.
Trade and other receivables	790	795	(5)	(0.7)	No material change.
Other assets	103	99	4	2.5	No material change.
Total current assets	**2,505**	**2,260**	**245**	**10.8**	
Property, plant and equipment	2,738	2,676	62	2.3	Mainly due to acquisitions exceeding depreciation in the Canada Post segment.
Intangible assets	107	117	(10)	(8.4)	Mainly due to amortization of software assets exceeding acquisitions.
Segregated securities	539	551	(12)	(2.2)	No material change
Pension benefit assets	157	141	16	11.8	Mainly due to actuarial gains attributable to an increase in discount rates combined with return on assets in excess of interest income on plan assets.
Deferred tax assets	1,540	1,706	(166)	(9.7)	Mainly due to the decrease of temporary differences from remeasurement gains recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	4	3	1	(17.2)	No material change.
Total non-current assets	**5,215**	**5,324**	**(109)**	**(2.0)**	
Total assets	**7,720**	**7,584**	**136**	**1.8**	

(in millions of dollars)

LIABILITIES	2015	2014	Change	%	Explanation of change
Trade and other payables	530	583	(53)	(9.0)	Mainly due to decreased international settlements and sales taxes payable in the Canada Post segment in addition to decreased accruals in the Purolator segment.
Salaries and benefits payable and related provisions	434	487	(53)	(10.8)	Primarily due to the issuance of pay equity payments.
Provisions	65	71	(6)	(8.0)	Mainly attributable to payments made against provisions in the Purolator segment.
Income tax payable	65	52	13	24.4	Primarily due to an expected tax liability for the Canada Post segment.
Deferred revenue	124	133	(9)	(7.2)	Mainly due to a reduction in stamp deferrals.
Loans and borrowings	76	22	54	250.5	Mainly due to bonds maturing in March 2016 that were reclassified from non-current liabilities.
Other long-term benefit liabilities	62	65	(3)	(5.8)	No material change.
Total current liabilities	**1,356**	**1,413**	**(57)**	**(4.1)**	
Loans and borrowings	1,059	1,112	(53)	(4.7)	Mainly due to bonds maturing in March 2016 that were reclassified to current liabilities for the Canada Post segment.
Pension, other post-employment and other long-term benefit liabilities	6,398	7,037	(639)	(9.1)	Mainly due to actuarial gains in the Canada Post segment mostly attributable to an increase in discount rates combined with return on assets in excess of interest income on plan assets.
Other liabilities	31	33	(2)	(10.6)	No material change.
Total non-current liabilities	**7,488**	**8,182**	**(694)**	**(8.5)**	
Total liabilities	**8,844**	**9,595**	**(751)**	**(7.8)**	

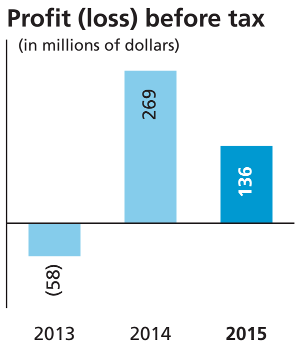
(in millions of dollars)

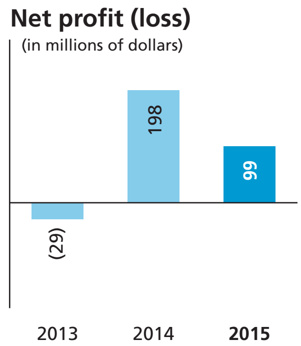
EQUITY	2015	2014	Change	%	Explanation of change
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	48	54	(6)	(10.6)	Mainly due to net unrealized losses on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(2,354)	(3,244)	890	27.5	Mainly due to net actuarial gains from post-employment plans remeasurement.
Equity of Canada	**(1,151)**	**(2,035)**	**884**	**43.5**	
Non-controlling interests	27	24	3	11.7	
Total equity	**(1,124)**	**(2,011)**	**887**	**44.1**	
Total liabilities and equity	**7,720**	**7,584**	**136**	**1.8**	

8 Discussion of Operations

A detailed discussion of our financial performance in 2015

8.1 Consolidated trends





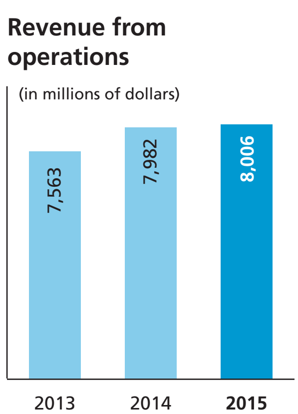
8.2 Consolidated results from operations

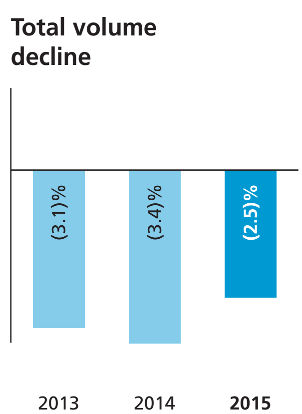
Consolidated results

(in millions of dollars)	2015	2014	Change	%
Revenue from operations	8,006	7,982	24	0.3
Cost of operations	7,837	7,683	154	2.0
Profit from operations	**169**	**299**	**(130)**	**(43.4)**
Investing and financing income (expense), net	(33)	(30)	(3)	(11.4)
Profit before tax	**136**	**269**	**(133)**	**(49.4)**
Tax expense	37	71	(34)	(47.4)
Net profit	**99**	**198**	**(99)**	**(50.2)**
Other comprehensive income (loss)	788	(1,843)	2,631	–
Comprehensive income (loss)	**887**	**(1,645)**	**2,532**	**–**

The Canada Post Group of Companies had a profit before tax of $136 million in 2015, a decline of $133 million when compared to 2014. The drop in profit before tax in 2015 compared to 2014 was primarily due to an increase in employee benefits expense and Transaction Mail volume erosion, partially offset by Lettermail™ rate action and growth in Parcels in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.6.

Consolidated revenue from operations





Revenue from operations totalled $8,006 million in 2015 and increased marginally year-over-year by $24 million or 0.3%. Strong growth in Parcels revenue and a full year of Lettermail rate increases in the Canada Post segment and SCI revenue growth were sufficient to offset volume erosion, caused by electronic substitution, bill consolidation and competition in Canada Post's Transaction Mail line of business.

Consolidated cost of operations

Cost of operations increased by $154 million or 2.0% in 2015 compared to 2014, primarily from higher employee benefit costs in the Canada Post segment.

Consolidated investing and financing income (expense), net

Net investing and financing expenses were $33 million in 2015, compared to $30 million in 2014. The change was primarily due to lower gains on the disposal of real estate assets in the Canada Post segment.

Consolidated tax expense

The consolidated tax expense for 2015 decreased by $34 million compared to 2014, primarily driven by lower profits across the Group of Companies.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive income amounted to $788 million in 2015, mainly due to remeasurement gains on pension and other post-employment plans, primarily due to investment gains and an increase in discount rates. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income (loss).

8.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	2011	2012[1]	2013	2014	2015
Canada Post	(329)	(157)	(269)	204	92
Purolator	76	39	65	80	57
Logistics	7	7	10	14	20
Other	20	5	1	1	–
Canada Post Group of Companies	**(226)**	**(106)**	**(193)**	**299**	**169**

1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

Segmented results – Profit (loss) before tax

(in millions of dollars)	2011	2012[1]	2013	2014	2015
Canada Post	(327)	(136)	(125)	194	63
Purolator	73	36	66	74	56
Logistics	7	7	12	14	20
Other	(6)	(17)	(11)	(13)	(3)
Canada Post Group of Companies	**(253)**	**(110)**	**(58)**	**269**	**136**

1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

8.4 Canada Post segment

The Canada Post segment remained profitable in 2015, recording a profit before tax of $63 million, but compared to 2014, profit declined by $131 million. This decline was mainly attributable to Transaction Mail volume erosion and a substantial increase in employee benefits expense, partially offset by growth in Parcels revenue, operational cost reduction initiatives, and increased revenue because of the October 19 federal election. Results for 2015 were also positively affected by having a full-year of Domestic Lettermail rate action, which took effect March 31, 2014. In total, rate action and the other Five-point Action Plan initiatives contributed approximately $390 million in financial benefits to the Corporation's bottom line in 2015. At steady state, we expect the financial benefits to increase to approximately $450 million per year.

Canada Post summary

(in millions of dollars)	2015	2014	Change	%
Revenue from operations	6,316	6,214	102	1.7
Cost of operations	6,224	6,010	214	3.6
Profit from operations	**92**	**204**	**(112)**	**(54.8)**
Investing and financing income (expense), net	(29)	(10)	(19)	(218.0)
Profit before tax	**63**	**194**	**(131)**	**(67.6)**

Revenue from operations

Canada Post generated revenue from operations of $6,316 million in 2015 – an increase of $102 million or 1.7% when compared to 2014. The increase in revenue was primarily due to continued growth in Parcels revenue, driven by the thriving business-to-consumer e-commerce market, which helped Canada Post generate revenue increases of $137 million over 2014. As well, increased revenue because of the federal election, and higher rates introduced in a new tiered pricing structure for Lettermail that took effect March 31, 2014, helped to substantially offset the declines from volume erosion in Transaction Mail due to electronic substitution, bill consolidation and intense competition.

Revenue and volumes by line of business

	Revenue (in millions of dollars / trading day adjusted percentage)				Volume (in millions of pieces / trading day adjusted percentage)			
	2015	**2014**	**Change**	**%**	**2015**	**2014**	**Change**	**%**
Transaction Mail								
Domestic Lettermail	2,905	2,902	3	0.1	3,430	3,617	(187)	(5.2)
Outbound Letter-post	132	145	(13)	(9.5)	69	79	(10)	(11.9)
Inbound Letter-post	153	156	(3)	(2.2)	192	234	(42)	(18.0)
Total Transaction Mail	**3,190**	**3,203**	**(13)**	**(0.4)**	**3,691**	**3,930**	**(239)**	**(6.1)**
Parcels								
Domestic Parcels	1,167	1,054	113	10.7	133	117	16	13.5
Outbound Parcels	229	220	9	4.3	11	11	–	2.8
Inbound Parcels	234	218	16	7.4	37	37	–	(0.4)
Other	16	17	(1)	(3.7)	–	–	–	–
Total Parcels	**1,646**	**1,509**	**137**	**9.1**	**181**	**165**	**16**	**9.7**
Direct Marketing								
Personalized Mail™	565	569	(4)	(0.7)	1,070	1,105	(35)	(3.1)
Neighbourhood Mail™	407	397	10	2.7	3,514	3,434	80	2.3
Publications Mail™	197	212	(15)	(7.3)	311	346	(35)	(10.1)
Business Reply Mail™ and Other Mail	24	25	(1)	(4.0)	22	22	–	(3.8)
Other	3	4	(1)	(37.7)	–	–	–	–
Total Direct Marketing	**1,196**	**1,207**	**(11)**	**(0.9)**	**4,917**	**4,907**	**10**	**0.2**
Other Revenue	284	295	(11)	(3.4)	–	–	–	–
Total	**6,316**	**6,214**	**102**	**1.7**	**8,789**	**9,002**	**(213)**	**(2.4)**

Transaction Mail

Total Transaction Mail revenue amounted to $3,190 million in 2015. Transaction Mail revenue was made up of the following three product categories: Domestic Lettermail ($2,905 million), Outbound Letter-post ($132 million) and Inbound Letter-post ($153 million).

Total 2015 Transaction Mail revenue decreased by $13 million or 0.4% compared to 2014, primarily due to volume erosion as volumes declined by 239 million pieces or 6.1% compared to 2014. Revenue declines due to erosion were partially offset by a full year of higher rates introduced for Lettermail, which took effect March 31, 2014. Year-over-year changes are broken down by product category as follows:

- Domestic Lettermail revenue increased by $3 million or 0.1%, while volumes declined by 187 million pieces or 5.2% compared to 2014. The marginal increase in revenue was driven by a full year of higher stamp rates introduced in the second quarter of 2014 and additional mail generated from the federal election, all substantially offset by Lettermail volume erosion. Volume declines were primarily driven by erosion due to electronic substitution. Demand for Lettermail continues to steadily drop given the continued increase in the use of digital alternatives by households and businesses, the implementation of pay-for-paper initiatives by some of our largest customers, and the highly competitive environment.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) decreased by $13 million or 9.5%, while volumes decreased by 10 million pieces or 11.9% compared to the previous year. Declines were due to a drop in demand in commercial and retail channels as well as the discontinuance of southbound Registered Mail™ in the first quarter of 2014.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) totalled $153 million and decreased by $3 million or 2.2% compared to 2014. Overall inbound volumes also dropped by 42 million pieces or 18.0% as volumes from the United States and the rest of world were down significantly. Revenue declines were partially offset by exchange rate gains.

Parcels

Total Parcels revenue was $1,646 million in 2015 and was made up of the following four product categories: Domestic Parcels ($1,167 million), Outbound Parcels ($229 million), Inbound Parcels ($234 million), and Other ($16 million).

Total 2015 Parcels revenue increased by $137 million or 9.1% and volumes increased by 16 million pieces or 9.7% compared to 2014, reflecting the strength of a thriving business-to-consumer e-commerce delivery market that is seeing more consumers ordering more products online. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue, the largest product category, increased by $113 million or 10.7%, and volumes increased by 16 million pieces or 13.5% over 2014. Propelling this unprecedented growth was the solid performance of major commercial customers to grow their online businesses, coupled with Canada Post's solid delivery performance. To remain competitive, Canada Post continues to strengthen its leadership position in e-commerce by investing in technology and working with commercial customers to offer innovative services like FlexDelivery™, Delivered Tonight, and Ship From Store.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) increased by $9 million or 4.3% compared to 2014, due to higher average revenue per piece, volumes migrating from traditional outbound packet streams to Tracked Packet™ and an increase in southbound Xpresspost™ revenue due to migration from the discontinued southbound Registered Mail stream.
- Inbound Parcels revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering their parcels in Canada) increased by $16 million or 7.4%, while volumes remained mostly unchanged (-0.4%) compared to 2014. The increase in revenue was propelled by continued strong growth from the Rest of World, particularly from Asia Pacific countries, and exchange rate gains.
- Other Parcels revenue was mainly unchanged in 2015 compared to 2014.

Direct Marketing

Total Direct Marketing revenue amounted to $1,196 million in 2015. Direct Marketing revenue was made up of the following four product categories: Personalized Mail ($565 million), Neighbourhood Mail ($407 million), Publications Mail ($197 million), and Business Reply Mail and Other Mail and Other ($27 million).

Total 2015 Direct Marketing revenue decreased by $11 million or 0.9%, while volumes increased marginally by 10 million pieces or 0.2% compared to 2014. Year-over-year changes by product category are summarized as follows:

- Personalized Mail revenue declined by $4 million or 0.7% and volumes decreased by 35 million pieces or 3.1% compared to 2014. The declines were caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels.
- Neighbourhood Mail revenue increased by $10 million or 2.7% compared to the previous year, while volumes increased by 80 million pieces or 2.3%. Increases were due to new and incremental sales to commercial clients, as well as additional mailings generated because of the federal election in 2015.
- Publications Mail revenue declined by $15 million or 7.3% and volumes declined by 35 million pieces or 10.1% compared to 2014. The revenue decline was caused by volume erosion due to a decline in mail publication subscriptions.
- Business Reply Mail and Other Mail and Other experienced declines in revenue of 8.6%. Volumes also dropped by 3.8% compared to 2014.

Other Revenue

Other Revenue totalled $284 million in 2015 – a decrease of $11 million or 3.4% when compared to 2014. The revenue decrease was mainly due to a drop in multi-channel services and other corporate revenue.

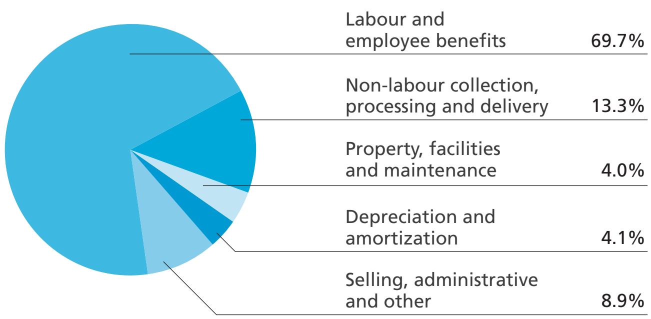
Cost of operations

In 2015, the Canada Post segment's cost of operations totalled $6,224 million – an increase of $214 million or 3.6% when compared to 2014.

					Cost as % of Revenue from operations	
(in millions of dollars)	2015	2014	Change	%	2015	2014
Labour	3,073	3,063	10	0.3	48.7	49.3
Employee benefits	1,265	1,076	189	17.6	20.0	17.3
Total labour and employee benefits	**4,338**	**4,139**	**199**	**4.8**	**68.7**	**66.6**
Non-labour collection, processing and delivery	826	815	11	1.3	13.1	13.2
Property, facilities and maintenance	249	251	(2)	(0.4)	3.9	4.0
Selling, administrative and other	552	535	17	3.1	8.7	8.6
Total other operating costs	**1,627**	**1,601**	**26**	**1.6**	**25.7**	**25.8**
Depreciation and amortization	259	270	(11)	(3.9)	4.1	4.3
Total	**6,224**	**6,010**	**214**	**3.6**	**98.5**	**96.7**

The chart and table below show the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 69.7% of the total cost of operations in 2015, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2015



Cost of operations	2013	2014	2015
Labour and employee benefits	71.3%	68.9%	69.7%
Non-labour collection, processing and delivery	12.9%	13.5%	13.3%
Property, facilities and maintenance	4.0%	4.2%	4.0%
Depreciation and amortization	4.2%	4.5%	4.1%
Selling, administrative and other	7.6%	8.9%	8.9%

Labour

Labour costs increased marginally by $10 million or 0.3% when compared to 2014. The increase was primarily due to additional costs driven by higher revenue, which were partially offset by operational cost reduction initiatives.

Employee benefits

(in millions of dollars)	2015	2014	Change	%
Pension expense	612	387	225	58.3
Post-employment health benefits	149	140	9	6.6
Other post-employment and other long-term benefits	79	125	(46)	(36.2)
Interest on segregated assets	(29)	(21)	(8)	37.9
Total post-employment and other long-term benefits	**811**	**631**	**180**	**28.7**
Active employee benefits	454	440	14	3.1
Other	–	5	(5)	(103.8)
Employee benefits	**1,265**	**1,076**	**189**	**17.6**

Employee benefits increased by $189 million or 17.6% when compared to 2014, as detailed below:

- The non-cash pension expense increased by $225 million or 58.3% in 2015 due to a drop in the discount rate from 5.0% to 4.0%, partially offset by higher asset balances resulting from strong returns on plan assets experienced in 2014.
- The non-cash post-employment health benefits expense increased by $9 million or 6.6%, mainly due to the 2014 non-recurring accounting gains for past service credits resulting from negotiated changes to the plan arrangement. There was no such gain in 2015.
- Other post-employment and other long-term benefit expenses decreased by $46 million or 36.2% due to a reduction in the other long-term benefits expense because of a change in discount rates and experience gains.
- The benefits expense for active employees and other increased by $9 million or 2.0% in 2015, when compared to 2014. This increase is primarily due to an increase in claim costs related to the vision care coverage cycle.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $11 million or 1.3% in 2015 when compared to 2014, primarily due to higher international settlement costs, customs fees, and maintenance and repairs expenses, partially offset by lower fuel costs, employee conveyance and rural delivery expenses.

Property, facilities and maintenance

The cost of facilities remained relatively flat for 2015 when compared to 2014.

Selling, administrative and other

Selling, administrative and other expenses increased by $17 million or 3.1% for 2015 when compared to 2014 mainly due to higher IT expenses and expenses related to the Five-point Action Plan, partially offset by reduced advertising spend.

Depreciation and amortization

The depreciation and amortization expense decreased by $11 million to $259 million, a drop of 3.9% compared to 2014. This decrease was the result of fully depreciated assets in computer and plant equipment and a prior year change in accounting estimates of useful life for security equipment assets.

8.5 Purolator segment

The Purolator segment contributed $56 million to the 2015 consolidated profit before tax, a decrease of $18 million when compared to 2014.

Purolator summary

(in millions of dollars)	2015	2014	Change	%
Revenue from operations	1,542	1,687	(145)	(8.6)
Cost of operations	1,485	1,607	(122)	(7.6)
Profit from operations	**57**	**80**	**(23)**	**(28.2)**
Investing and financing income (expense), net	(1)	(6)	5	81.7
Profit before tax	**56**	**74**	**(18)**	**(23.7)**

Revenue from operations

Revenue from operations decreased by $145 million or 8.6% in 2015 compared to 2014, primarily driven by reduced courier volumes, reduced fuel surcharge revenue and termination of the provision of air cargo services to Canada Post.

Cost of operations

The cost of operations decreased by $122 million or 7.6% when compared to 2014, mostly due to reduced volumes, air transportation, ground line haul and fuel expenses.

8.6 Logistics segment

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

Logistics summary

(in millions of dollars)	2015	2014	Change	%
Revenue from operations	262	223	39	17.1
Cost of operations	242	209	33	15.3
Profit from operations	**20**	**14**	**6**	**42.9**
Investing and financing income (expense), net	–	–	–	–
Profit before tax	**20**	**14**	**6**	**41.6**

SCI Group

SCI's financial performance improved in 2015, with profit before tax of $20 million, an increase of $6 million when compared to 2014.

Revenue from operations increased by $39 million or 17.1% compared to 2014. The revenue increase was driven mainly by volume growth from current clients as well as revenue from new services and new clients.

The cost of operations increased by $33 million or 15.3% in 2015 when compared to 2014. This increase in cost was primarily due to volume growth and new business.

8.7 Consolidated results to plan

Consolidated results compared to 2015 Corporate Plan

(in millions of dollars)	2015 Results	2015 Plan	Change	%
Revenue from operations	8,006	8,108	(102)	(1.3)
Cost of operations	7,837	8,047	(210)	(2.6)
Profit from operations	**169**	**61**	**108**	**177.0**
Investing and financing income (expense), net	(33)	(31)	(2)	(7.8)
Profit before tax	**136**	**30**	**106**	**348.4**

The Canada Post Group of Companies' profit before tax of $136 million in 2015 was $106 million better than planned. Revenue from operations of $8,006 million was 1.3% or $102 million less than expected mainly due to lower than expected revenue in the Purolator segment driven by reduced courier volumes, partially offset by higher than expected revenue in the Canada Post and Logistics segments. The positive change in revenue for Canada Post was primarily due to stronger than expected growth in Parcels, higher than expected revenue from additional mail during the 2015 federal election, combined with higher than expected Transaction Mail revenue as erosion was slightly lower than planned. Cost of operations of $7,837 million was 2.6% or $210 million lower than planned, mainly due to the variable cost related to volumes in the Purolator segment as well as lower than expected costs in the Canada Post segment.

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 2015 and future years

9.1 Critical accounting estimates

Our significant accounting policies are described in Note 2 to the consolidated financial statements page 105. 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 pages 105 and 111, 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 page 105. 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 finite 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 page 128.

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 pages 129 and 131.

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 the amounts are based on complex actuarial calculations using several assumptions and, 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 majority of the defined benefit obligations are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM) dated February 2014, more specifically the CPM 2014 Public Sector Mortality Table with the CPM improvement scale B, 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	(147)	(1,904)
0.5% decrease in discount rates	144	2,072
Consumer price index sensitivity		
0.25% increase in consumer price index	64	854
0.25% decrease in consumer price index	(62)	(826)
Mortality tables sensitivity		
10% increase in mortality tables	(31)	(478)
10% decrease in mortality tables	31	487

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	(5)	(190)
0.5% decrease in discount rates	6	216
Health care cost trend rates sensitivity		
1% increase in health care cost trend rates	43	462
1% decrease in health care cost trend rates	(31)	(358)
Mortality tables sensitivity		
10% increase in mortality tables	(5)	(73)
10% decrease in mortality tables	5	82

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 page 119.

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 page 126.

The tax bases of assets and liabilities as well as tax losses carried forward, if any, 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 Interpretations Committee that had mandatory effective dates of annual periods beginning on or after July 1, 2014. The following amendments, which were adopted by the Group of Companies January 1, 2015, did not have an impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS – 2010-2012 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2102 cycle. The standards and topics covered by the amendments were as follows: IFRS 2 "Shared-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.

Annual Improvements to IFRS – 2011-2013 Cycle • 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 were 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 the portfolio exception and IAS 40 "Investment Property" providing clarification on classifying property as investment or owner-occupied property.

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.

9.3 Accounting policy developments

The following table presents the not-yet-effective standards and amendments issued by the 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 consolidated financial statements of the Group of Companies in the future. The Group of Companies will continue to monitor any additional changes required or available (through early adoption where permitted) during 2016, as new or amended standards are issued by the IASB.

Standard or amendment	Effective for annual periods beginning on or after
Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations	January 1, 2016
Annual Improvements to IFRS – 2012-2014 Cycle	January 1, 2016
Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements"	January 1, 2016
Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows"	January 1, 2017
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

(a) **Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interest in Joint Operations •** The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted. The Group of Companies is not expecting any impact from adopting these amendments.

(b) **Annual Improvements to IFRS – 2012-2014 Cycle •** The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments are as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. These annual improvements are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Group of Companies is not expecting any impact from adopting these amendments.

(c) **Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) •** The IASB issued amendments to IAS 1 that provide additional guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Group of Companies is not expecting a material impact from adopting these amendments.

(d) **Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) •** In January 2016, the IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). IAS 7 is to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. The extent of the impact on the Group of Companies of adopting IAS 7 has not yet been determined.

(e) **IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) •** The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized. IFRS 15 was amended by the IASB in the current year to provide for a one-year deferral in the effective date. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2018, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted. The extent of the impact of the adoption of IFRS 15 has not yet been determined.

(f) IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

(g) IFRS 16 "Leases" (IFRS 16) • In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 "Leases" (IAS 17), and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Early application is permitted, but only if IFRS 15 has also been adopted. The extent of the impact on the Group of Companies of adopting IFRS 16 has not yet been determined. However, given the numerous operating leases where the Group of Companies is the lessee, the impact on the statement of financial position is expected to be significant.

10 Outlook for 2016

Our prospects for 2016

10.1 Economic outlook

Global economic growth slowed noticeably in 2015 and will likely finish at under 3% after averaging more than 4% per year over the last eight years. Continued deceleration of growth in emerging economies, particularly China, and a prolonged slump in commodity prices will continue to influence growth in 2016. Growth in the range of 3.3% in 2016 and 3.5% in 2017 will be led by energy-importing economies particularly those of the U.S. and U.K.

Canada's economic growth in 2015 was hit hard by weak commodity prices that in turn resulted in the collapse of capital investments, particularly in the energy sector. Commodity prices, notably oil, are expected to remain low, and in the absence of significant capital spending, economic growth in 2016 will be dependent on non-commodity exports and consumer spending. A dollar that is expected to remain below US $0.80 for at least the next two years and a rebounding U.S. economy will help stimulate the growth of provinces with manufacturing-based economies. The major banks are cautiously forecasting growth of less than 2% in 2016 and 2.3% in 2017. The uncertain pace of economic recovery will continue to have an adverse impact on the rate of mail volume erosion.

Inflation, as measured by the consumer price index (CPI), fell sharply in 2015 due to the drop in energy prices and finished the year at just 1.1%, prompting two cuts to the Bank of Canada overnight rate in the first six months. Economists expect both core and total CPI to return to the target level of 2% by the end of 2016. In response, major banks have again pushed out expectations for increased long-term bond rates, which are not expected to return to 3% until midway through 2017.

Housing starts are expected to continue to add an average of more than 180,000 addresses to Canada Post's network per year, increasing the cost pressure on delivery operations. This, combined with continued Lettermail™ erosion accentuates the need to control costs and remain competitive to win share in a growing e-commerce parcels market.

	2015	2016	2017	2018	2019
Economic (% change)					
Real gross domestic product (GDP)	1.2	1.8	2.3	1.7	1.6
Inflation (consumer price index [CPI])	1.1	1.8	2.0	2.0	2.0
Demographic (% change)					
Total population growth	0.9	1.0	1.0	1.0	1.0
Household growth	0.9	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 from Statistics Canada projections.

10.2 Canada Post Group of Companies outlook

Canada Post

For Canada Post, 2016 will be another crucial year in transforming the business from a mail-centric model to a parcel-centric business. The Corporation will commence its transformation plan to address future requirements of the Canada Post's logistics network, to a future of more parcels and less Lettermail items. Transformation will also include continued investment in operational tools, equipment, processes and infrastructure to drive improvements in costs, service, and health and safety.

The Government of Canada has indicated its intention to undertake a review of Canada Post to make sure it provides the high-quality service that Canadians expect at a reasonable price. Canada Post will work with the Government of Canada to determine the best path forward given the ongoing challenges faced by the Canadian postal system.

2016 will also be very important in trying to help address pension challenges as well as realign labour costs to make them more cost-competitive and operationally flexible as possible through negotiating new collective agreements with the Canadian Postmasters and Assistants Association and the Canadian Union of Postal Workers (for both bargaining units, the Urban Postal Operations and the Rural and Suburban Mail Carriers).

All these activities will be essential in building the foundation of a new postal system with a flexible cost structure that will prepare the Corporation for the persistent decline in mail volumes, lay the foundation to take advantage of the rise in e-commerce and allow Canada Post to compete in highly contested direct marketing and parcel markets.

Lettermail erosion is expected to continue in 2016. While Domestic Lettermail volumes continued to fall in 2015, by 5.2% compared to 2014, the amount of Lettermail erosion for 2016 is difficult to predict and represents a significant risk to the Corporation. Patterns in past digital disruptions, from film to digital cameras or from compact discs to downloads and streaming, show that volumes do not follow a smooth decline and can drop dramatically, often earlier than expected. We are working hard to address this challenge and ensure that we remain financially sustainable.

Our Parcels line of business is expected to continue its growth trend in 2016. This should lead to more parcel volumes and higher revenue, especially in the business-to-consumer market, as Canadians do more online shopping and increase their reliance on parcel delivery. However, as the parcel market is highly competitive, it will be crucial for us to remain focused on being customer-centric, cost-competitive, innovative and operationally flexible in order to keep achieving positive results. Continuing to succeed in the parcel business will be vital to the future of the Canada Post Group of Companies.

The Direct Marketing line of business, which generates about $1.2 billion or about 19% of Canada Post's revenue, continues to present a challenge, but there is an opportunity for growth. While direct mail represents just a fraction of Canada's overall advertising market, it holds the unique advantage over other advertising media of putting a company's message directly into the hands of prospective customers. As marketers and their clients look to stand out in a competitive digital marketing space, Canada Post sees growth potential in direct marketing and will work toward creating new product offerings that are better targeted and more personalized.

In 2016, the Corporation will continue to focus on addressing the sustainability of its Registered Pension Plan (RPP). Pension obligations are substantial compared to the financial position and income of the Corporation, and investment returns, discount rates and changes in other assumptions have caused considerable volatility. The Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments to the RPP until 2018. However, without structural change to address the volatility, swings in RPP solvency could lead to required payments beyond 2017 that would easily overwhelm any increase in cash from corporate earnings or cost savings and threaten the sustainability of the Corporation and the RPP. As a result, Canada Post will continue working with unions and other representatives of RPP members to face these challenges and restructure the Registered Pension Plan. Negotiations with our bargaining agents are at the cornerstone of this process.

Purolator

In 2016, Purolator will continue to focus on customer experience improvement and stakeholder value creation. Purolator will concentrate its efforts on profitable growth in high growth areas including Purolator Logistics and the U.S./international markets, while continuing to investigate areas of efficiencies and maintaining cost controls as efforts are made to strengthen its core business.

Logistics

In 2016, SCI will continue to focus on growing revenue and profit. This improvement will come from growth of contract logistics and transportation services within targeted verticals in Canada, and operational savings driven by continuous improvement initiatives. As well, SCI continues to work with Canada Post and Purolator on several initiatives that would capitalize on existing capabilities within the Group of Companies.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated)	**2015**	2014	2013	2012[1]	2011
OPERATIONS					
Revenue from operations	**8,006**	7,982	7,563	7,529	7,484
Cost of operations	**7,837**	7,683	7,756	7,635	7,710
Profit (loss) from operations	**169**	299	(193)	(106)	(226)
Percentage of revenue from operations	**2.1 %**	3.7 %	(2.6) %	(1.4) %	(3.0) %
Investing and financing income (expense), net	**(33)**	(30)	135	(4)	(27)
Profit (loss) before tax	**136**	269	(58)	(110)	(253)
Tax expense (income)	**37**	71	(29)	(27)	(65)
Net profit (loss)	**99**	198	(29)	(83)	(188)
Other comprehensive income (loss)	**788**	(1,843)	2,279	(906)	(1,148)
Comprehensive income (loss)	**887**	(1,645)	2,250	(989)	(1,336)
Net profit (loss) attributable to					
Government of Canada	**96**	194	(32)	(85)	(191)
Non-controlling interests	**3**	4	3	2	3
	99	198	(29)	(83)	(188)
Comprehensive income (loss) attributable to					
Government of Canada	**884**	(1,644)	2,242	(985)	(1,334)
Non-controlling interests	**3**	(1)	8	(4)	(2)
	887	(1,645)	2,250	(989)	(1,336)
STATEMENT OF FINANCIAL POSITION					
Assets					
Current	**2,505**	2,260	1,915	1,704	1,946
Segregated securities	**539**	551	510	560	553
Capital assets	**2,845**	2,793	2,836	2,798	2,544
Pension benefit assets	**157**	141	177	83	93
Deferred tax assets	**1,540**	1,706	1,093	1,808	1,472
Other assets	**134**	133	136	141	136
Total assets	**7,720**	7,584	6,667	7,094	6,744
Liabilities and equity					
Current	**1,356**	1,413	1,521	1,554	1,522
Pension, other post-employment and other long-term benefit liabilities	**6,398**	7,037	4,382	7,007	5,719
Other liabilities	**1,090**	1,145	1,129	1,147	1,134
Non-controlling interests	**27**	24	26	19	24
Equity of Canada	**(1,151)**	(2,035)	(391)	(2,633)	(1,655)
Total liabilities and equity	**7,720**	7,584	6,667	7,094	6,744
ACQUISITION OF CAPITAL ASSETS					
Land and buildings	**35**	55	61	102	105
Other capital assets	**339**	238	312	510	470
	374	293	373	612	575

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).

Historical Financial Information

	2015	**% Change**	2014	% Change	2013	% Change	2012	% Change	2011
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS[1] (unaudited, in millions of Canadian dollars unless otherwise indicated / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail	**2,905**	**0.1 %**	2,902	7.9 %	2,688	(0.7) %	2,707	(4.2) %	2,813
Outbound Letter-post (to other postal administrations)	**132**	**(9.5) %**	145	(7.1) %	157	(12.4) %	179	6.7 %	167
Inbound Letter-post (from other postal administrations)	**153**	**(2.2) %**	156	30.1 %	120	(4.8) %	126	1.4 %	124
Canada Post segment	**3,190**	**(0.4) %**	3,203	8.0 %	2,965	(1.6) %	3,012	(3.3) %	3,104
Elimination of intersegment	**(3)**		(3)		(3)		(3)		(4)
Canada Post Group of Companies	**3,187**	**(0.4) %**	3,200	8.0 %	2,962	(1.6) %	3,009	(3.3) %	3,100
Parcels									
Domestic Parcels	**1,167**	**10.7 %**	1,054	8.7 %	969	7.6 %	901	6.3 %	844
Outbound Parcels (to other postal administrations)	**229**	**4.3 %**	220	5.2 %	209	3.1 %	203	4.6 %	193
Inbound Parcels (from other postal administrations)	**234**	**7.4 %**	218	13.2 %	193	11.5 %	173	12.7 %	153
Total parcels	**1,630**	**9.3 %**	1,492	8.8 %	1,371	7.4 %	1,277	6.9 %	1,190
Other	**16**	**(3.7) %**	17	(6.0) %	18	(6.4) %	19	(29.4) %	27
Canada Post segment	**1,646**	**9.1 %**	1,509	8.6 %	1,389	7.2 %	1,296	6.1 %	1,217
Purolator segment	**1,537**	**(8.7) %**	1,683	3.7 %	1,623	(0.6) %	1,632	0.6 %	1,615
Logistics segment	**262**	**17.1 %**	223	25.3 %	179	9.7 %	162	17.7 %	138
Elimination of intersegment	**(110)**		(138)		(117)		(127)		(126)
Canada Post Group of Companies	**3,335**	**1.7 %**	3,277	6.7 %	3,074	3.7 %	2,963	3.8 %	2,844
Direct Marketing									
Personalized Mail™	**565**	**(0.7) %**	569	(2.8) %	586	(2.7) %	602	0.0 %	600
Neighbourhood Mail™	**407**	**2.7 %**	397	(0.5) %	398	(1.7) %	405	0.9 %	400
Publications Mail™	**197**	**(7.3) %**	212	(8.2) %	231	(4.1) %	241	(4.2) %	251
Business Reply Mail™ and Other mail	**24**	**(4.0) %**	25	(1.9) %	25	(8.2) %	28	(6.8) %	29
Total mail	**1,193**	**(0.8) %**	1,203	(3.0) %	1,240	(2.8) %	1,276	(0.7) %	1,280
Other	**3**	**(37.7) %**	4	8.0 %	4	(17.9) %	5	37.9 %	3
Canada Post segment / Group of Companies	**1,196**	**(0.9) %**	1,207	(3.0) %	1,244	(2.8) %	1,281	(0.6) %	1,283
Other revenue									
Canada Post segment	**284**	**(3.4) %**	295	3.5 %	285	2.9 %	277	7.5 %	257
Purolator segment	**5**	**50.6 %**	4	– %	0	– %	(0)	77.9 %	(0)
Innovapost and elimination of intercompany	**(1)**		(1)		(2)		(1)		0
Canada Post Group of Companies	**288**	**(2.7) %**	298	4.8 %	283	3.0 %	276	7.0 %	257
Revenue from operations									
Canada Post segment	**6,316**	**1.7 %**	6,214	5.6 %	5,883	0.3 %	5,866	(0.3) %	5,861
Purolator segment	**1,542**	**(8.6) %**	1,687	4.0 %	1,623	(0.5) %	1,632	0.6 %	1,615
Logistics segment	**262**	**17.1 %**	223	25.3 %	179	9.7 %	162	17.7 %	138
Innovapost and elimination of intercompany	**(114)**		(142)		(122)		(131)		(130)
Canada Post Group of Companies	**8,006**	**0.3 %**	7,982	5.5 %	7,563	0.4 %	7,529	0.2 %	7,484

1. Prior years' revenues may be restated due to realignments in the reporting structure.

Historical Financial Information

	2015	% Change	2014	% Change	2013	% Change	2012	% Change	2011
LINE OF BUSINESS DIMENSIONS									
VOLUME[1] (unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail	**3,430**	**(5.2) %**	3,617	(5.4) %	3,824	(4.8) %	4,015	(6.4) %	4,270
Outbound Letter-post (to other postal administrations)	**69**	**(11.9) %**	79	(14.0) %	92	(18.1) %	112	0.4 %	111
Inbound Letter-post (from other postal administrations)	**192**	**(18.0) %**	234	2.5 %	228	(7.5) %	247	(1.0) %	249
Canada Post segment	**3,691**	**(6.1) %**	3,930	(5.2) %	4,144	(5.3) %	4,374	(5.9) %	4,630
Elimination of intersegment	**(3)**		(3)		(4)		(5)		(4)
Canada Post Group of Companies	**3,688**	**(6.0) %**	3,927	(5.2) %	4,140	(5.2) %	4,369	(5.9) %	4,626
Parcels									
Domestic Parcels	**133**	**13.5 %**	117	9.2 %	107	6.9 %	100	6.0 %	94
Outbound Parcels (to other postal administrations)	**11**	**2.8 %**	11	2.0 %	11	(2.8) %	11	2.6 %	11
Inbound Parcels (from other postal administrations)	**37**	**(0.4) %**	37	(6.9) %	40	(5.6) %	42	9.4 %	38
Canada Post segment	**181**	**9.7 %**	165	4.6 %	158	2.8 %	153	6.7 %	143
Purolator segment	**120**	**(9.1) %**	133	(0.7) %	133	(3.6) %	139	(1.9) %	141
Elimination of intersegment	**(3)**		(3)		(2)		(2)		(1)
Canada Post Group of Companies	**298**	**1.2 %**	295	1.9 %	289	(0.3) %	290	2.2 %	283
Direct Marketing									
Personalized Mail	**1,070**	**(3.1) %**	1,105	(5.9) %	1,174	(6.3) %	1,252	(2.4) %	1,278
Neighbourhood Mail	**3,514**	**2.3 %**	3,434	(0.1) %	3,439	0.9 %	3,408	(1.7) %	3,453
Publications Mail	**311**	**(10.1) %**	346	(9.5) %	382	(6.3) %	409	(5.6) %	431
Business Reply Mail and Other mail	**22**	**(3.8) %**	22	(5.3) %	24	(11.6) %	27	(10.6) %	30
Canada Post segment / Group of Companies	**4,917**	**0.2 %**	4,907	(2.2) %	5,019	(1.5) %	5,096	(2.2) %	5,192
Total volume									
Canada Post segment	**8,789**	**(2.4) %**	9,002	(3.4) %	9,321	(3.1) %	9,623	(3.8) %	9,965
Purolator segment	**120**	**(9.1) %**	133	(0.7) %	133	(3.6) %	139	(1.9) %	141
Elimination of intersegment	**(6)**		(6)		(6)		(7)		(5)
Canada Post Group of Companies	**8,903**	**(2.5) %**	9,129	(3.4) %	9,448	(3.1) %	9,755	(3.8) %	10,101
EMPLOYMENT[2]									
Canada Post segment	**50,348**	**(2.0) %**	51,365	(2.0) %	52,433	(4.1) %	54,668	(2.7) %	56,212
Purolator segment	**10,814**	**(5.0) %**	11,389	(2.1) %	11,633	(2.9) %	11,986	0.2 %	11,962
Logistics segment[3]	**1,778**	**23.7 %**	1,437	29.8 %	1,107	21.4 %	912	17.4 %	777
Innovapost business unit[4]	**906**	**3.1 %**	879	8.8 %	808	13.5 %	712		N/A
Canada Post Group of Companies[3, 4]	**63,846**	**(1.9) %**	65,070	(1.4) %	65,981	(3.4) %	68,278	(1.0) %	68,951
MAIL NETWORK									
Post offices	**6,252**	**(0.7) %**	6,296	(0.3) %	6,317	(1.0) %	6,380	(1.2) %	6,460
Points of delivery (in thousands)	**15,814**	**0.9 %**	15,677	1.2 %	15,495	1.0 %	15,338	1.0 %	15,181
Pickup points (in thousands)[5]	**944**	**2.0 %**	925	(0.8) %	933	(1.3) %	946	(1.7) %	962

1. Prior years' volumes may be restated due to realignments in the reporting structure.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.
3. In 2012, Logistics employee counts were restated to exclude casuals.
4. Innovapost employee count is included in the Canada Post Group of Companies, further to the acquisition of control over Innovapost in March 2012.
5. Includes rural mailboxes (RMBs), which are collection points for customers with this mode of delivery.

Additional Information

In 2009 the Government of Canada approved a five-year financial framework for the Corporation that sets out financial performance targets from 2010 to 2014. 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 five years from 2011 to 2015 under the revised financial framework:

Consolidated ratios (unaudited)		Financial framework	**2015**	2014	2013	2012*	2011
Profitability							
EBITDA margin[1]		5.0-7.5 %	**6.1 %**	7.9 %	3.8 %	3.2 %	0.9 %
Return on adjusted book equity[2]		0-5 %	**4.7 %**	10.3 %	(1.8) %	(4.6) %	(9.7) %
Leverage							
Total debt to EBITDAR[3]		2.5-4.0 x	**3.4 x**	2.8 x	5.0 x	5.7 x	9.6 x
Total debt to adjusted book capital[4]		45-65 %	**49.9 %**	51.8 %	55.4 %	55.2 %	55.5 %
Liquidity							
(EBITDAR - capex) ÷ interest[5]		1.0-2.5 x	**2.6 x**	5.7 x	3.3 x	1.3 x	(1.8) x
Dividend payout							
Dividend payout ratio[6]	2011-2012	0-20 %				0.0 %	0.0 %
	2013-2015	15-20 %	**0.0 %**	0.0 %	0.0 %		

Based on IFRS

Ratio definitions
1. Earnings before interest, taxes, depreciation and amortization ÷ revenue
2. Net profit (loss) attributable to Government of Canada ÷ [(adjusted book equity[E] of Canada beginning of year + adjusted book equity[E] of Canada end of year) ÷ 2]
3. (Total debt + long-term financial obligations[A]) ÷ (earnings before interest, taxes, depreciation and amortization with adjustment for operating leases[B])
4. (Total debt + long-term financial obligations[A]) ÷ (total debt + long-term financial obligations[A] + adjusted book equity[E] of Canada)
5. (Earnings before interest, taxes, depreciation and amortization with adjustment for operating leases[B] - capex[C]) ÷ interest[D]
6. Dividend paid ÷ prior year net profit (loss)

Notes
A. Long-term financial obligations include decommissioning obligations, obligation to repurchase shares (Purolator) and capitalization of operating leases.
B. Operating leases are removed from earnings and capitalized using a factor of 7.0x.
C. Capex refers to estimated maintenance capital, which includes all capital purchases and finance leases, but excludes capital purchases for Postal Transformation.
D. Interest includes imputed interest on capitalized operating leases (calculated as 1/3 of lease expense).
E. 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.

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, 2015, 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, 2015. 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, 2015 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, 2015.

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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 24, 2016
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, 2015
(in millions of Canadian dollars, unless otherwise indicated)

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

The following analysis is based on the assignment of 61% 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	$ 3,462	$ 2,572	$ 24	$ 258	$ 6,316
Long-run incremental costs	(1,820)	(1,818)	(20)	(156)	(3,814)
Long-run incremental contribution	**$ 1,642**	**$ 754**	**$ 4**	**$ 102**	**$ 2,502**
Percentage of revenue	47 %	29 %	17 %	40 %	40 %
Unallocated fixed costs					$ (2,410)
Contribution before the undernoted items					**$ 92**
Investment and other income					19
Finance costs and other expense					(48)
Profit before tax – Canada Post segment					**$ 63**

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, 2015

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, 2015.

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. 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 and 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, 2015, 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 Public Services and Procurement.

President and Chief Executive Officer

Chief Financial Officer

March 24, 2016

Independent Auditors’ Report

To the Minister of Public Services and Procurement

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, 2015, 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, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Post Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly-owned subsidiaries, and the directives issued pursuant to section 89 of the *Financial Administration Act* described in Note 1 to the consolidated financial statements.

Marise Bédard

Marise Bédard, CPA, CA
Principal
for the Auditor General of Canada

KPMG LLP

Chartered Professional Accountants
Licensed Public Accountants

March 24, 2016
Ottawa, Canada

Consolidated Statement of Financial Position

As at December 31 (in millions of Canadian dollars)	**Notes**	**2015**	2014
Assets			
Current assets			
Cash and cash equivalents	**6**	**$ 775**	$ 677
Marketable securities	**6**	**837**	689
Trade and other receivables	**24**	**790**	795
Other assets	**7**	**103**	99
Total current assets		**2,505**	2,260
Non-current assets			
Property, plant and equipment	**8**	**2,738**	2,676
Intangible assets	**8**	**107**	117
Segregated securities	**6**	**539**	551
Pension benefit assets	**10**	**157**	141
Deferred tax assets	**11**	**1,540**	1,706
Goodwill	**13**	**130**	130
Other assets		**4**	3
Total non-current assets		**5,215**	5,324
Total assets		**$ 7,720**	$ 7,584
Liabilities and equity			
Current liabilities			
Trade and other payables	**14**	**$ 530**	$ 583
Salaries and benefits payable and related provisions	**16**	**434**	487
Provisions	**16**	**65**	71
Income tax payable		**65**	52
Deferred revenue		**124**	133
Loans and borrowings	**15**	**76**	22
Other long-term benefit liabilities	**10**	**62**	65
Total current liabilities		**1,356**	1,413
Non-current liabilities			
Loans and borrowings	**15**	**1,059**	1,112
Pension, other post-employment and other long-term benefit liabilities	**10**	**6,398**	7,037
Other liabilities		**31**	33
Total non-current liabilities		**7,488**	8,182
Total liabilities		**8,844**	9,595
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**48**	54
Accumulated deficit		**(2,354)**	(3,244)
Equity of Canada		**(1,151)**	(2,035)
Non-controlling interests		**27**	24
Total equity		**(1,124)**	(2,011)
Total liabilities and equity		**$ 7,720**	$ 7,584
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**	**2015**	2014
Revenue from operations		**$ 8,006**	$ 7,982
Cost of operations			
Labour		**3,838**	3,829
Employee benefits	**9**	**1,452**	1,247
		5,290	5,076
Other operating costs	**20**	**2,232**	2,279
Depreciation and amortization	**8**	**315**	328
Total cost of operations		**7,837**	7,683
Profit from operations		**169**	299
Investing and financing income (expense)			
Investment and other income	**6, 21**	**17**	23
Finance costs and other expense	**15, 21**	**(50)**	(53)
Investing and financing expense, net		**(33)**	(30)
Profit before tax		**136**	269
Tax expense	**11**	**37**	71
Net profit		**$ 99**	$ 198
Other comprehensive income (loss)			
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of available-for-sale financial assets	**12**	**$ (10)**	$ 35
Foreign currency translation adjustment	**12**	**4**	1
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans	**12**	**794**	(1,879)
Other comprehensive income (loss)		**788**	(1,843)
Comprehensive income (loss)		**$ 887**	$ (1,645)
Net profit attributable to			
Government of Canada		**$ 96**	$ 194
Non-controlling interests		**3**	4
		$ 99	$ 198
Comprehensive income (loss) attributable to			
Government of Canada		**$ 884**	$ (1,644)
Non-controlling interests		**3**	(1)
		$ 887	$ (1,645)

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2015 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2014	**$ 1,155**	**$ 54**	**$ (3,244)**	**$ (2,035)**	**$ 24**	**$ (2,011)**
Net profit	**–**	**–**	**96**	**96**	**3**	**99**
Other comprehensive income (loss)	**–**	**(6)**	**794**	**788**	**–**	**788**
Comprehensive income (loss)	**–**	**(6)**	**890**	**884**	**3**	**887**
Balance at December 31, 2015	**$ 1,155**	**$ 48**	**$ (2,354)**	**$ (1,151)**	**$ 27**	**$ (1,124)**

For the year ended December 31, 2014 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2013	$ 1,155	$ 18	$ (1,564)	$ (391)	$ 26	$ (365)
Net profit	–	–	194	194	4	198
Other comprehensive income (loss)	–	36	(1,874)	(1,838)	(5)	(1,843)
Comprehensive income (loss)	–	36	(1,680)	(1,644)	(1)	(1,645)
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at December 31, 2014	$ 1,155	$ 54	$ (3,244)	$ (2,035)	$ 24	$ (2,011)

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**	**2015**	2014
Cash flows from operating activities			
Net profit		**$ 99**	$ 198
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**8**	**315**	328
Pension, other post-employment and other long-term benefit expense	**10**	**905**	701
Pension, other post-employment and other long-term benefit payments	**10**	**(505)**	(524)
Gain on sale of capital assets and assets held for sale	**21**	**(3)**	(9)
Tax expense	**11**	**37**	71
Net interest expense	**21**	**36**	35
Change in non-cash operating working capital:			
Decrease (increase) in trade and other receivables		**7**	(14)
Decrease in trade and other payables		**(51)**	(38)
Decrease in salaries and benefits payable and related provisions		**(53)**	(93)
Decrease in provisions		**(6)**	(9)
Net increase in other non-cash operating working capital		**(15)**	(19)
Other income not affecting cash, net		**(34)**	(7)
Cash provided by operations before interest and tax		**732**	620
Interest received		**37**	35
Interest paid		**(51)**	(51)
Tax paid		**(123)**	(13)
Cash provided by operating activities		**595**	591
Cash flows from investing activities			
Acquisition of securities		**(1,548)**	(1,151)
Proceeds from sale of securities		**1,407**	1,039
Acquisition of capital assets		**(352)**	(264)
Proceeds from sale of capital assets		**14**	17
Cash used in investing activities		**(479)**	(359)
Cash flows from financing activities			
Payments on finance lease obligations		**(22)**	(23)
Dividend paid to non-controlling interests		**–**	(1)
Cash used in financing activities		**(22)**	(24)
Net increase in cash and cash equivalents		**94**	208
Cash and cash equivalents, beginning of year		**677**	468
Effect of exchange rate changes on cash and cash equivalents		**4**	1
Cash and cash equivalents, end of year		**$ 775**	$ 677

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

Notes to Consolidated Financial Statements

December 31, 2015

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 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 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. Treasury Board approvals were obtained, as required.

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation is reviewing its current corporate policies as well as Treasury Board policies, directives and related instruments in order to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of Treasury Board, without undue delays and by no later than 2017.

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.

These consolidated financial statements were approved and authorized for issue by the Board of Directors March 24, 2016.

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). 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 and 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 assets and financial liabilities are classified and subsequently measured as follows:

Financial instrument	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Marketable securities	Fair value through profit or loss	Fair value
Segregated securities	Available for sale	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Risk management financial assets and liabilities	Fair value through profit or loss	Fair value
Trade and other payables	Other financial liabilities	Amortized cost
Salaries and benefits payable	Other financial liabilities	Amortized cost
Loans and borrowings	Other financial liabilities	Amortized cost

(b.1) **Cash equivalents and marketable securities** 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 from the date of acquisition and are recognized at the settlement date. Marketable securities consist of investments with maturities of three to 12 months from the date of acquisition and are recognized at the settlement date. Changes in fair value are recognized as they occur. 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 intended to be held for an indefinite period of time and consist of investments that may be sold to fund specific restricted benefit plans (Note 6 [a]). These securities are recognized at the settlement date and changes in fair value are recognized as they occur. Interest income and realized gains and losses on sale of 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 are reclassified to employee benefit expense recorded within net profit or loss. The cumulative loss that is removed from accumulated other comprehensive income or loss and recognized in employee benefit expense 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 expense.

(b.3) **Trade and other receivables** 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.4) **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. These financial assets and liabilities are recognized at the trade date and are presented within either trade and other receivables or trade and other payables. Fair value adjustments are recognized as they occur in revenue from operations. These derivatives have not been designated as hedges for accounting purposes.

(b.5) **Trade and other payables and salaries and benefits payable** 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 initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs and any discount or premium. Interest expense on loans and borrowings is recognized in finance costs and other expense.

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

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

(c.1) Recognition and measurement • Capital assets acquired or developed internally are initially measured at cost and are subsequently measured at cost, less accumulated depreciation or amortization and any accumulated impairment losses.

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

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset.

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 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	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 10 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer contracts	Straight-line	Term of contract plus period of renewal options, maximum of 5 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

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

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

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

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

(c.5) Impairment of capital assets • The Group of Companies assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of an asset or group of 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 its 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. 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, Parcels and Direct Marketing. Transaction Mail includes physical delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Personalized Mail™ (formerly Addressed Admail™), Neighbourhood Mail™ (formerly Unaddressed Admail™) and Publications Mail™, such as newspapers and periodicals. 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 of 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 profit or 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. Current service cost, 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 credits available to eligible employees while on short-term disability or injury-on-duty leave, 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 top-up credits 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 profit or 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 on transaction dates. 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 on transaction dates. The resulting foreign currency translation adjustment is 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

Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Other category includes the results of the support functions provided by the information technology business unit, Innovapost, under a shared services agreement between Canada Post, Purolator and Innovapost, as well as consolidation adjustments and intersegment balance eliminations.

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

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 and further re-examined as at the reporting date. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period or in the period of revision and future periods if revisions affect 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.

(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.

3. Critical Accounting Estimates and Judgments (continued)

(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 best 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.

(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 used by the Group of Companies 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.

3. Critical Accounting Estimates and Judgments (continued)

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 contributions 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 a 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 adopted

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after July 1, 2014.

The following amendments, which were adopted by the Group of Companies January 1, 2015, did not have an impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS – 2010-2012 Cycle • 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 were 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.

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

Annual Improvements to IFRS – 2011-2013 Cycle • 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 were 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 the portfolio exception and IAS 40 "Investment Property" providing clarification on classifying property as investment or owner-occupied property.

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.

(b) Standards and amendments not yet in effect

The following standards and amendments issued by the IASB 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 standards and amendments on its consolidated financial statements.

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The Group of Companies is not expecting any impact from adopting these amendments.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized. IFRS 15 was amended by the IASB in the current year to provide for a one-year deferral in the effective date. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2018, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted. The extent of the impact on the Group of Companies of adopting IFRS 15 has not yet been determined.

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The extent of the impact on the Group of Companies of adopting IFRS 9 has not yet been determined.

Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments were as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. These annual improvements are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Group of Companies is not expecting any impact from adopting these amendments.

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

Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • The IASB issued amendments to IAS 1 that provide additional guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The Group of Companies is not expecting a material impact from adopting these amendments.

IFRS 16 "Leases" (IFRS 16) • In January 2016, the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 "Leases" (IAS 17), and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Early application is permitted, but only if IFRS 15 has also been adopted. The extent of the impact on the Group of Companies of adopting IFRS 16 has not yet been determined, however given the numerous operating leases where the Group of Companies is the lessee, the impact on the statement of financial position is expected to be significant.

Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) • In January 2016, the IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). IAS 7 is to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. The extent of the impact on the Group of Companies of adopting IAS 7 has not yet been determined.

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 Domestic 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 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 its processing. Revenue from products and services charged to customers at regulated rates comprises 10% (2014 – 15%) of the Canada Post segment revenue (Note 25).

The Act requires that proposed changes to regulated rates 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.

In March 2014, the Government of Canada approved regulations that created a new rate structure under which stamps for letters weighing 0 to 30 grams that are sold in booklets, coils or panes are priced less than stamps sold individually. As well, increases to remaining regulated products for Domestic Lettermail products and U.S. and international Letter-post items were also approved and came into effect March 31, 2014. Since then, there has been no rate increases for Domestic Lettermail products and U.S. and international Letter-post items.

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for the 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 of certain products and services are subject to regulation does not affect the application of IFRS to these consolidated financial statements.

(in millions of Canadian dollars, unless otherwise indicated)

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	2015		2014	
Cash and cash equivalents				
Cash	$ 515	67 %	$ 457	68 %
Money market instruments issued by				
Government of Canada	–	– %	10	1 %
Provincial governments	80	10 %	23	3 %
Financial institutions	10	1 %	84	13 %
Corporations	170	22 %	103	15 %
Total cash and cash equivalents	**$ 775**	**100 %**	$ 677	100 %
Marketable securities				
Money market instruments issued by				
Government of Canada	$ 169	20 %	$ 132	19 %
Provincial governments	308	37 %	259	38 %
Financial institutions	253	30 %	136	20 %
Corporations	107	13 %	162	23 %
Total marketable securities	**$ 837**	**100 %**	$ 689	100 %
Segregated securities				
Cash	$ 7	1 %	$ 10	2 %
Bonds issued by				
Government of Canada	116	22 %	114	21 %
Provincial governments	202	37 %	211	38 %
Corporations	214	40 %	216	39 %
Total segregated securities	**$ 539**	**100 %**	$ 551	100 %

The remaining term to maturity at December 31, 2015, is 12 months or less with the exception of segregated bond securities that, if held to maturity, have terms expiring over a 27-year period.

All money market instruments and bonds held as at December 31, 2015, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2015, was 0.8% for money market instruments (2014 – 1.2%) and 2.9% for bonds (2014 – 2.8%).

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.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $13 million (2014 – $13 million). Interest income and gains and losses on segregated securities amounted to $29 million (2014 – $21 million).

7. Other Current Assets

As at December 31	2015	2014
Income tax receivable	$ 6	$ 1
Prepaid expenses	94	89
Assets held for sale	3	9
Total other current assets	**$ 103**	$ 99

As at December 31, 2015, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

(in millions of Canadian dollars, unless otherwise indicated)

8. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2013	$ 309	$ 1,785	$ 269	$ 1,300	$ 433	$ 440	$ 892	$ 202	$ 5,630
Additions	5	50	5	58	49	20	44	27	258
Reclassified as held for sale	(1)	(4)	–	–	–	–	–	–	(5)
Retirements	–	(9)	(11)	(70)	(5)	(6)	(57)	–	(158)
Transfers (nets to nil with Note 8 [b])	–	159	–	12	3	4	–	(177)	1
December 31, 2014	$ 313	$ 1,981	$ 263	$ 1,300	$ 480	$ 458	$ 879	$ 52	$ 5,726
Additions	2	33	12	30	48	16	116	82	339
Reclassified as held for sale	–	(3)	–	–	–	(9)	–	–	(12)
Retirements	–	(6)	(3)	(18)	(6)	(45)	(116)	–	(194)
Transfers	–	13	1	3	2	1	25	(45)	–
December 31, 2015	**$ 315**	**$ 2,018**	**$ 273**	**$ 1,315**	**$ 524**	**$ 421**	**$ 904**	**$ 89**	**$ 5,859**
Accumulated depreciation									
December 31, 2013	$ –	$ 910	$ 195	$ 681	$ 225	$ 337	$ 575	$ –	$ 2,923
Depreciation	–	61	16	83	42	43	37	–	282
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	(9)	(11)	(65)	(5)	(6)	(57)	–	(153)
December 31, 2014	$ –	$ 960	$ 200	$ 699	$ 262	$ 374	$ 555	$ –	$ 3,050
Depreciation	–	60	13	79	49	30	39	–	270
Reclassified as held for sale	–	(2)	–	–	–	(8)	–	–	(10)
Retirements	–	(5)	(3)	(14)	(6)	(45)	(116)	–	(189)
December 31, 2015	**$ –**	**$ 1,013**	**$ 210**	**$ 764**	**$ 305**	**$ 351**	**$ 478**	**$ –**	**$ 3,121**
Carrying amounts									
December 31, 2014	$ 313	$ 1,021	$ 63	$ 601	$ 218	$ 84	$ 324	$ 52	$ 2,676
December 31, 2015	**$ 315**	**$ 1,005**	**$ 63**	**$ 551**	**$ 219**	**$ 70**	**$ 426**	**$ 89**	**$ 2,738**

As at December 31, 2015, the Group of Companies held assets under finance leases in three asset classes: sales counters, office furniture and equipment with net book value of nil (2014 – $2 million); vehicles with net book value of $75 million (2014 – $71 million); and plant equipment with net book value of $6 million (2014 – $9 million).

(in millions of Canadian dollars, unless otherwise indicated)

8. Capital Assets (continued)

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2013	$ 640	$ 33	$ 30	$ 703
Additions	45	(10)	–	35
Retirements	(30)	–	–	(30)
Transfers (nets to nil with Note 8 [a])	2	(3)	–	(1)
December 31, 2014	$ 657	$ 20	$ 30	$ 707
Additions	10	25	–	35
Retirements	(7)	–	–	(7)
Transfers	24	(24)	–	–
December 31, 2015	**$ 684**	**$ 21**	**$ 30**	**$ 735**
Accumulated amortization				
December 31, 2013	$ 547	$ 1	$ 26	$ 574
Amortization	46	–	–	46
Retirements	(30)	–	–	(30)
December 31, 2014	$ 563	$ 1	$ 26	$ 590
Amortization	44	–	1	45
Retirements	(6)	(1)	–	(7)
December 31, 2015	**$ 601**	**$ –**	**$ 27**	**$ 628**
Carrying amounts				
December 31, 2014	$ 94	$ 19	$ 4	$ 117
December 31, 2015	**$ 83**	**$ 21**	**$ 3**	**$ 107**

9. Employee Benefits

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

For the year ended December 31	**2015**	2014
Active and other employee benefits	$ 576	$ 567
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	876	680
Employee benefits	**$ 1,452**	$ 1,247

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 eligible 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, are based on negotiated benefit rates. These plans provide for a retirement pension, a 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, as well as 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 credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and health, dental and life insurance coverage for employees receiving long-term disability benefits. Under short-term disability or injury-on-duty leave, eligible employees can use their unused balances from the former sick leave plan as top-up credits to supplement eligible employees' salary while on leave. The other long-term 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.

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 (i).

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, which increases the funding risk faced by plan sponsors.

(in millions of Canadian dollars, unless otherwise indicated)

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. 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 strategies remain appropriate in challenging economic environments. The investment strategies also incorporate 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) Net defined benefit liability

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

As at December 31		**2015**		2014
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 25,423	$ 3,577	$ 21,132	$ 3,363
Current service cost	513	112	368	108
Interest cost	1,014	145	1,049	170
Employee contributions	238	–	244	–
Benefits paid	(926)	(147)	(875)	(151)
Actuarial (gains) losses (Note 10 [f])	(414)	(47)	3,505	116
Gains from plan amendments	–	–	–	(29)
Balance, end of year	$ 25,848	$ 3,640	$ 25,423	$ 3,577
Fair value of plan assets				
Balance, beginning of year	$ 22,039	$ –	$ 20,219	$ –
Interest income on plan assets	876	–	1,004	–
Return on plan assets, excluding interest income on plan assets	623	–	1,095	–
Employer regular contributions	291	–	298	–
Employer special contributions	57	–	66	–
Employee contributions	238	–	244	–
Other administration costs	(13)	–	(12)	–
Benefits paid	(926)	–	(875)	–
Balance, end of year	$ 23,185	$ –	$ 22,039	$ –
Net defined benefit liability	**$ 2,663**	**$ 3,640**	$ 3,384	$ 3,577

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, 2015, and 2014.

(in millions of Canadian dollars, unless otherwise indicated)

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

A reconciliation of the net defined benefit liability was as follows:

As at December 31	**2015**		2014	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	$ 3,384	$ 3,577	$ 913	$ 3,363
Remeasurements of defined benefit plans (Note 10 [e])	(1,037)	(21)	2,410	98
Benefits paid directly to beneficiaries	–	(147)	–	(151)
Employer regular contributions paid	(291)	–	(298)	–
Employer special contributions paid	(57)	–	(66)	–
Defined benefit expense (Note 10 [e])	664	231	425	267
Net defined benefit liability, end of the year	**$ 2,663**	**$ 3,640**	$ 3,384	$ 3,577

The net defined benefit liability was recognized and presented in the consolidated statement of financial position as follows:

As at December 31	**2015**	2014
Pension benefit assets	**$ 157**	$ 141
Pension benefit liabilities	$ 2,820	$ 3,525
Other post-employment and other long-term benefit liabilities	3,640	3,577
Total pension, other post-employment and other long-term benefit liabilities	$ 6,460	$ 7,102
Current other long-term benefit liabilities	**$ 62**	$ 65
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,398**	$ 7,037

(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 24 for the Group of Companies was as follows:

As at December 31, 2015

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 242	1 %	$ 114	1 %	$ –	– %	$ 356	2 %
Fixed income	49	– %	8,332	36 %	–	– %	8,381	36 %
Equities	11,478	50 %	14	– %	–	– %	11,492	50 %
Real estate	–	– %	–	– %	1,766	8 %	1,766	8 %
Private equity	–	– %	–	– %	641	3 %	641	3 %
Infrastructure	–	– %	–	– %	377	1 %	377	1 %
Derivatives	–	– %	(20)	– %	–	– %	(20)	– %
Total investment assets	**$ 11,769**	**51 %**	**$ 8,440**	**37 %**	**$ 2,784**	**12 %**	**$ 22,993**	**100 %**
Non-investment assets less liabilities							$ 192	
Fair value of plan assets							**$ 23,185**	

As at December 31, 2014

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 233	1 %	$ 243	1 %	$ –	– %	$ 476	2 %
Fixed income	24	– %	6,505	30 %	–	– %	6,529	30 %
Equities	12,538	58 %	109	– %	–	– %	12,647	58 %
Real estate	–	– %	–	– %	1,457	7 %	1,457	7 %
Private equity	–	– %	–	– %	418	2 %	418	2 %
Infrastructure	–	– %	–	– %	311	1 %	311	1 %
Derivatives	–	– %	13	– %	–	– %	13	– %
Total investment assets	$ 12,795	59 %	$ 6,870	31 %	$ 2,186	10 %	$ 21,851	100 %
Non-investment assets less liabilities							$ 188	
Fair value of plan assets							$ 22,039	

(in millions of Canadian dollars, unless otherwise indicated)

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

Total plan assets included $2,556 million (2014 – $1,873 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $158 million (2014 – $153 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the non-investment assets less liabilities, which included the refundable taxes, approximated 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			**2015**			2014
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 513	$ 112	$ 625	$ 368	$ 108	$ 476
Interest cost	1,014	145	1,159	1,049	170	1,219
Interest income on plan assets	(876)	–	(876)	(1,004)	–	(1,004)
Actuarial (gains) losses (Note 10 [f])[1]	–	(26)	(26)	–	18	18
Other administration costs	13	–	13	12	–	12
Gains from plan amendments	–	–	–	–	(29)	(29)
Defined benefit expense (Note 10 [c])	664	231	895	425	267	692
Defined contribution expense	10	–	10	9	–	9
Total expense	674	231	905	434	267	701
Return on segregated securities	–	(29)	(29)	–	(21)	(21)
Component included in employee benefits expense (Note 9)	**$ 674**	**$ 202**	**$ 876**	$ 434	$ 246	$ 680
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (623)	$ –	$ (623)	$ (1,095)	$ –	$ (1,095)
Actuarial (gains) losses (Note10 [f])	(414)	(21)	(435)	3,505	98	3,603
Component included in other comprehensive income (loss) (Note 10 [c])	**$ (1,037)**	**$ (21)**	**$ (1,058)**	$ 2,410	$ 98	$ 2,508

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

(in millions of Canadian dollars, unless otherwise indicated)

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			**2015**			2014
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial gains arising from changes in demographic assumptions	$ –	$ (9)	$ (9)	$ –	$ (7)	$ (7)
Actuarial (gains) losses arising from changes in financial assumptions	–	(1)	(1)	–	27	27
Actuarial gains arising from experience adjustments	–	(16)	(16)	–	(2)	(2)
Actuarial (gains) losses included in net profit (loss) (Note10 [e])	**$ –**	**$ (26)**	**$ (26)**	$ –	$ 18	$ 18
Actuarial (gains) losses on defined benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ (8)	$ (1)	$ (9)	$ –	$ 5	$ 5
Actuarial (gains) losses arising from changes in financial assumptions	(286)	(102)	(388)	3,599	92	3,691
Actuarial (gains) losses arising from experience adjustments	(120)	82	(38)	(94)	1	(93)
Actuarial (gains) losses included in other comprehensive income (loss) (Note 10 [e])	**$ (414)**	**$ (21)**	**$ (435)**	$ 3,505	$ 98	$ 3,603
Total actuarial (gains) losses (Note 10 [c])	**$ (414)**	**$ (47)**	**$ (461)**	$ 3,505	$ 116	$ 3,621

(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		**2015**		2014
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	4.1 %	4.2 %	4.0 %	4.1 %
Consumer price index	2.25 %	2.25 %	2.25 %	2.25 %
Defined benefit expense:				
Discount rate	4.0 %	4.1 %	5.0 %	5.1 %
Consumer price index	2.25 %	2.25 %	2.25 %	2.25 %
Health care cost trend rate[1]	N/A	5.4 %	N/A	5.5 %

1. For 2015, the health care cost trend rate was 5.4%, decreasing progressively to a rate of 4.5% by 2029. For 2014, the health care cost trend rate was 5.5%, decreasing progressively to a rate of 4.5% by 2029.

(in millions of Canadian dollars, unless otherwise indicated)

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

The average life expectancies are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM), more specifically the CPM 2014 Public Sector Mortality Tables with the CPM improvement scale B, adjusted for experience. The average life expectancies based on these 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	**2015**	2014
Life expectancy at age 60 at December 31, 2015, and 2014 (in years):		
Males	27	27
Females	29	29
Life expectancy at age 60 at December 31, 2035, and 2034 (in years):		
Males	28	28
Females	30	30

(h) Sensitivity analysis

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

As at December 31, 2015

	Pension benefit plans	**Other benefit plans**	**Total**
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,003)	$ (282)	$ (2,285)
0.5% decrease in discount rates	$ 2,187	$ 320	$ 2,507
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 857	$ 35	$ 892
0.25% decrease in CPI	$ (828)	$ (33)	$ (861)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (489)	$ (67)	$ (556)
10% decrease in mortality tables	$ 499	$ 78	$ 577
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 467	$ 467
1% decrease in health care trend rates	N/A	$ (362)	$ (362)

As at December 31, 2014

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,010)	$ (279)	$ (2,289)
0.5% decrease in discount rates	$ 2,198	$ 317	$ 2,515
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 850	$ 39	$ 889
0.25% decrease in CPI	$ (821)	$ (37)	$ (858)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (478)	$ (65)	$ (543)
10% decrease in mortality tables	$ 488	$ 76	$ 564
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 516	$ 516
1% decrease in health care trend rates	N/A	$ (395)	$ (395)

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these 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 used in determining this sensitivity analysis are consistent with those used to determine the pension and other benefit plan obligations and with the methods used in 2014.

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.

(in millions of Canadian dollars, unless otherwise indicated)

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

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 15 to 24, 15 to 18, and 5 to 8 years, respectively.

(i) Total cash payments and funding relief

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	**2015**	2014
Benefits paid directly to beneficiaries for other benefit plans	$ 147	$ 151
Employer regular contributions to pension benefit plans	291	298
Employer special contributions to pension benefit plans	57	66
Cash payments for defined benefit plans	495	515
Contributions to defined contribution plans	10	9
Total cash payments	**$ 505**	$ 524

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.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations.* Under these regulations, the Corporation is exempt from making special contributions into its registered pension plan from 2014 to 2017. Temporary measures were implemented to address the Corporation's operational challenges and provided immediate relief on its capital resources. The Corporation continues to evaluate options in order to ensure the financial sustainability of its pension plan. The Corporation is expected to resume special contributions in 2018, at the end of the temporary relief period.

Without relief, an additional $1.4 billion in special contributions would have been required by the Corporation in 2015. Based on the latest estimate of the Canada Post Corporation Registered Pension Plan's funding position as of December 31, 2015, the special contributions without pension relief would be $1.2 billion in 2016.

(j) Future expected contributions

In 2016, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $348 million, including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $240 million.

(in millions of Canadian dollars, unless otherwise indicated)

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 profit and other comprehensive income or loss (OCI), were as follows:

	December 31, 2014	**Recognized in net profit**	**Recognized in OCI**	**December 31, 2015**
Net deferred tax assets (liabilities)				
Capital assets	$ (53)	$ (5)	$ –	$ (58)
Salaries and benefits payable and related provisions	47	(10)	–	37
Pension, other post-employment and other long-term benefit liabilities	1,708	105	(264)	1,549
Other	2	5	3	10
Net deferred tax assets	$ 1,704	**$ 95**	**$ (261)**	**$ 1,538**

	December 31, 2013	Recognized in net profit	Recognized in OCI	December 31, 2014
Net deferred tax assets (liabilities)				
Capital assets	$ (47)	$ (6)	$ –	$ (53)
Salaries and benefits payable and related provisions	84	(37)	–	47
Pension, other post-employment and other long-term benefit liabilities	1,029	50	629	1,708
Other	24	(10)	(12)	2
Net deferred tax assets	$ 1,090	$ (3)	$ 617	$ 1,704

As presented in the consolidated statement of financial position:

As at December 31	**2015**	2014
Deferred tax assets	**$ 1,540**	$ 1,706
Deferred tax liabilities, included in non-current other liabilities	**2**	2
	$ 1,538	$ 1,704

As at December 31, 2015, the Corporation recognized a deferred tax asset of $1,502 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, 2015, was $244 million (2014 – $193 million).

The major components of tax expense were as follows:

For the year ended December 31	**2015**	2014
Current tax expense relating to		
Current tax expense	$ 130	$ 68
Adjustments for prior years	2	–
	132	68
Deferred tax expense (income) relating to		
Origination and reversal of temporary differences	(94)	2
Adjustments for prior years	(1)	1
	(95)	3
Tax expense	**$ 37**	$ 71

(in millions of Canadian dollars, unless otherwise indicated)

11. Income Taxes (continued)

The tax expense differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2014 – 25%) to profit before tax. The reasons for the differences were as follows:

For the year ended December 31	**2015**	2014
Profit before tax	$ 136	$ 269
Federal tax at Corporation's statutory rate	34	67
Subsidiaries' provincial tax less federal tax abatement	1	2
Effect of non-taxable portion of gain on sale of capital assets	(1)	(1)
Other	3	3
Tax expense	**$ 37**	$ 71

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2015 (2014 – 25%).

12. Other Comprehensive Income (Loss)

	Items that may subsequently be reclassified to net profit (loss)					Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets						
	Gains (losses) arising	Prior period gains transferred to net profit	Total	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2013			$ 18	$ –	$ 18		
Other comprehensive income (loss)							
Amount arising	$ 47	$ –	$ 47	$ 1	$ 48	$ (2,508)	$ (2,460)
Income taxes	(12)	–	(12)	–	(12)	629	617
Net	$ 35	$ –	$ 35	$ 1	$ 36	$ (1,879)	$ (1,843)
Accumulated balance as at December 31, 2014			$ 53	$ 1	$ 54		
Other comprehensive income (loss)							
Amount arising	$ (3)	$ (10)	$ (13)	$ 4	$ (9)	$ 1,058	$ 1,049
Income taxes	1	2	3	–	3	(264)	(261)
Net	**$ (2)**	**$ (8)**	**$ (10)**	**$ 4**	**$ (6)**	**$ 794**	**$ 788**
Accumulated balance as at December 31, 2015			**$ 43**	**$ 5**	**$ 48**		

(in millions of Canadian dollars, unless otherwise indicated)

13. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the Logistics segment. The carrying amounts of goodwill for those segments were as follows:

As at December 31			**2015**	2014
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning and 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 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% (2014 – 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 15% (2014 – 16%), which is based on Purolator's weighted-average cost of capital.

14. Trade and Other Payables

As at December 31	**2015**	2014
Trade payables	$ 88	$ 120
Accruals and other payables	276	243
Payables to foreign postal administrations	81	115
Outstanding money orders	23	26
Taxes payable	62	79
Total	**$ 530**	$ 583

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

15. Loans and Borrowings

As at December 31		**2015**		2014
	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[1,2]	$ 653	$ 498	$ 638	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2]	601	498	585	498
Non-redeemable bonds maturing March 2016, interest at 10.35%, payable semi-annually on March 15 and September 15[2,3]	56	55	61	55
Finance lease obligations, matured in 2015, net of implicit interest at rates varying from 5.7% to 7.5%[4]	–	–	4	4
Finance lease obligations, maturing on various dates from 2016 through 2022, net of implicit interest at rates varying from 2.4% to 5.5%[5]	84	84	79	79
Total loans and borrowings	**$ 1,394**	**$ 1,135**	$ 1,367	$ 1,134
Current loans and borrowings	**$ 76**	**$ 76**	$ 22	$ 22
Non-current loans and borrowings	**$ 1,318**	**$ 1,059**	$ 1,345	$ 1,112

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
3. There are no prepayment terms associated with this debt.
4. These finance lease obligations were related to the Corporation's computer refresh program and 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 that, every quarter, the funded debt to income before interest, tax and amortization covenant ratio be equal to or less than 2.5:1. The subsidiary is in compliance with this covenant.

(in millions of Canadian dollars, unless otherwise indicated)

15. Loans and Borrowings (continued)

Additional information regarding the Group of Companies' externally imposed capital requirements and borrowing capacity is disclosed in Notes 17 and 24 (c).

Interest expense on loans and borrowings amounted to $50 million (2014 – $49 million).

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

As at December 31	**2015**	2014
2016	$ 55	$ 55
2025	500	500
2040	500	500
	$ 1,055	$ 1,055

Finance lease obligations at December 31, 2015, were as follows:

	Minimum payments	**Unamortized interest expense**	**Present value of minimum payments**
Not later than one year	$ 23	$ 2	$ 21
Later than one year and not later than five years	61	4	57
Later than five years	6	–	6
Finance lease obligations	**$ 90**	**$ 6**	**$ 84**
Current finance lease obligations	**$ 23**	**$ 2**	**$ 21**
Non-current finance lease obligations	**$ 67**	**$ 4**	**$ 63**

Finance lease obligations at December 31, 2014, were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 25	$ 3	$ 22
Later than one year and not later than five years	59	4	55
Later than five years	6	–	6
Finance lease obligations	$ 90	$ 7	$ 83
Current finance lease obligations	$ 25	$ 3	$ 22
Non-current finance lease obligations	$ 65	$ 4	$ 61

16. Provisions

The following table presents the movement in provisions for the year ended December 31, 2015:

	Claims	Other	Total
Balance at December 31, 2014	$ 48	$ 25	$ 73
Additional provisions recognized	8	35	43
Provisions used during the year	(8)	(36)	(44)
Reduction from remeasurement of provisions	(2)	(4)	(6)
Balance at December 31, 2015	**$ 46**	**$ 20**	**$ 66**
Current provisions	**$ 46**	**$ 19**	**$ 65**
Non-current provisions, included in non-current other liabilities	**$ –**	**$ 1**	**$ 1**

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.

16. Provisions (continued)

Other

The December 31, 2015, and 2014 balances for the other provisions category consist of a number of items, such as lease retirement obligations, tax provisions and other corporate provisions. 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. With the exception of lease retirement obligations, the timing of cash outflows relating to these items is current. The cash outflows relating to lease retirement obligations are expected to occur over the next four years.

Disclosures regarding contingent liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 18.

Pay equity

Salaries and benefits payable and related provisions include a provision that reflects management's best estimate of the remaining liability to comply with the memorandum of agreement reached between the Public Service Alliance of Canada and the Corporation related to its pay equity complaint. 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. 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.

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 $1,135 million at December 31, 2015, compared to $1,134 million at December 31, 2014. The increase of $1 million in 2015 was due to a net increase in finance lease obligations. Non-current other liabilities decreased by $2 million in 2015, primarily due to a decline in long-term deferred revenue. The increase in the equity of Canada was primarily attributable to the remeasurements of defined benefit plans, which 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 $1,151 million at December 31, 2015, compared to a deficit position of $2,035 million at December 31, 2014.

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 2016-2020 Corporate Plan was not submitted to the Minister responsible for Canada Post for Governor-in-Council consideration in light of the Government of Canada's review of Canada Post that is expected to commence in 2016.

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 2015-2019 Corporate Plan its intention not to pay a dividend in 2015. No dividend has been paid to the shareholder from 2009 to 2015.

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.

The Corporation's borrowing limit, other than from the Crown, is authorized pursuant to *Appropriation Act No. 4, 2009-10*. The *Canada Post Corporation Act* provides a maximum limit for borrowing from the Government of Canada's Consolidated Revenue Fund and 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. No such shares have been issued. Additional information regarding the Corporation's total authorized borrowing limit is disclosed in Note 24 (c).

The Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, subsidiaries must satisfy certain restrictive covenants related to funded debt to income before interest, tax and amortization, and interest coverage ratios. The subsidiaries are in compliance with all covenants.

18. Contingent Liabilities

(a) In October 2012, the Corporation received notice from the Canadian Human Rights Commission (Commission) that the Canadian Postmasters and Assistants Association (CPAA) had requested the reactivation of its pay equity complaint, originally filed in 1982. The report of the Commission's investigator, which was released December 8, 2014, found that pay equity issues for the period of 1991 to 1997 remained unresolved and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. The Corporation made submissions to the Commission January 30, 2015, in respect of the report. In March 2015, the Commission rendered a decision that this matter should proceed on its merits to the Tribunal. Materials in support of the Corporation's application for judicial review of the Commission's decision were filed April 24, 2015.

On August 28, 2015, notice was also given to the Tribunal that Canada Post will be bringing a motion for the dismissal of the complaint, and, in the alternative, to adjourn the complaint pending the determination of the judicial review. At a case management conference that took place on March 9, 2016, Canada Post was provided until April 15, 2016, to provide written materials in support of its motion. A further case management call was established for May 4, 2016, to discuss the timeline for CPAA and the Commission to present their responses, and to set the date for a hearing.

Canada Post's application for judicial review of the Commission's decision was scheduled to be heard by the Federal Court February 17, 2016, however it had to be rescheduled and a new date has yet to be confirmed by the Court.

(b) The collective agreement that was signed in May 2007 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.

CUPW's application was heard in October 2015, with the Court reserving judgment. 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) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. A hearing on the application has not yet been scheduled. The outcome of this challenge 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 enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies 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 from 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).

(f) Some of the Corporation's owned buildings have asbestos-containing materials, which the Corporation would 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 fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

(in millions of Canadian dollars, unless otherwise indicated)

19. Commitments

(a) The Group of Companies is committed to the following future minimum lease payments under facilities, transportation equipment and other operating leases:

As at December 31	2015	2014
Not later than one year	$ 137	$ 138
Later than one year and not later than five years	389	394
Later than five years	388	431
Total	**$ 914**	$ 963

Included in the above table are lease payments to be made to related parties, in the normal course of business, in the amount of $65 million for premises used in postal operations and transportation services (2014 – $84 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. The average lease term is six 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, 2015, $134 million was recognized as an expense in net profit in respect of operating leases (2014 – $144 million). This amount is net of lease revenues of $9 million (2014 – $10 million).

(b) The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $785 million that extend to 2022.

(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

For the year ended December 31	2015	2014
Non-labour collection, processing and delivery	$ 1,263	$ 1,338
Property, facilities and maintenance	347	354
Selling, administrative and other	622	587
Other operating costs	**$ 2,232**	$ 2,279

21. Investing and Financing Income (Expense)

For the year ended December 31	2015	2014
Interest revenue	$ 14	$ 14
Gain on sale of capital assets and assets held for sale	3	9
Investment and other income	**$ 17**	$ 23
Interest expense	$ (50)	$ (49)
Other expense	–	(4)
Finance costs and other expense	**$ (50)**	$ (53)
Investing and financing expense, net	**$ (33)**	$ (30)

(in millions of Canadian dollars, unless otherwise indicated)

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, 2015	December 31, 2014
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 %

23. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other government 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

For the year ended December 31	**2015**	2014
Related party revenue	**$ 278**	$ 260
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	**$ 26**	$ 30

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).

As at December 31	**2015**	2014
Due to/from related parties		
Included in trade and other receivables	**$ 29**	$ 25
Included in trade and other payables	**$ 12**	$ 7
Deferred revenue from related parties	**$ 2**	$ 3

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

As at December 31	**2015**	2014
Not later than one year	$ 6	$ 7
Later than one year and not later than five years	18	23
Total	**$ 24**	$ 30

(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 the KMP was as follows:

For the year ended December 31	**2015**	2014
Short-term employee benefits	$ 9	$ 9
Post-employment benefits	1	1
Total compensation	**$ 10**	$ 10

The 2015 KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.3 million (2014 – $0.3 million).

There were no transactions with the KMP other than compensation.

(in millions of Canadian dollars, unless otherwise indicated)

23. Related Party Transactions (continued)

(c) Transactions with entities in which the KMP of the Canada Post Group of Companies has 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 the KMP of the Group of Companies. 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, 2015, 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 $32 million (2014 – $112 million). As at December 31, 2015, no amount was due to the company from Purolator (2014 – $6 million) and was included in trade and other payables. These transactions had been 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 $11 million (2014 – $10 million). As at December 31, 2015, $9 million (2014 – $11 million) relating to transactions with the Registered Pension Plan was 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. Financial Instruments and Risk Management

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

As at December 31, 2015	**Level 1[1]**	**Level 2[2]**	**Level 3[3]**	**Total**
Assets measured at fair value				
Cash and cash equivalents	$ 515	$ 260	$ –	**$ 775**
Marketable securities	$ –	$ 837	$ –	**$ 837**
Segregated securities	$ –	$ 539	$ –	**$ 539**
Liabilities measured at fair value				
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	**$ 1**
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,394	$ –	**$ 1,394**

As at December 31, 2014	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets measured at fair value				
Cash and cash equivalents	$ 457	$ 220	$ –	$ 677
Marketable securities	$ –	$ 689	$ –	$ 689
Segregated securities	$ –	$ 551	$ –	$ 551
Liabilities measured at fair value				
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	$ 1
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,367	$ –	$ 1,367

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 interest rates with similar terms and characteristics and 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.

There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2015.

The fair values of trade and other receivables, trade and other payables and salaries and benefits payable and related provisions approximate their carrying values due to their expected short-term settlement.

(in millions of Canadian dollars, unless otherwise indicated)

24. Financial Instruments and Risk Management (continued)

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 segregated securities portfolio was 13 years as at December 31, 2015 (2014 – 12 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 decrease or increase the value of the segregated securities and other comprehensive income or loss by $70 million at December 31, 2015 (2014 – $64 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 • Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and 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$), euro (€), British pound (£) and yen (¥), whereas payment is usually denominated in US$.

The Canada Post segment has an 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 forward contracts outstanding were as follows:

As at December 31, 2015

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$25	$ 34	$1.35/US$	January 14, 2016	Sell forward	$ (1)
Euro	€15	23	$1.49/€	January 15, 2016	Sell forward	–
British pound	£3	6	$2.06/£	January 15, 2016	Sell forward	–
Yen	¥300	3	$0.011/¥	January 15, 2016	Sell forward	–
Total		**$ 66**				**$ (1)**

(in millions of Canadian dollars, unless otherwise indicated)

24. Financial Instruments and Risk Management (continued)

As at December 31, 2014

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$24	$ 27	$1.14/US$	January 15, 2015	Sell forward	$ (1)
Euro	€14	20	$1.41/€	January 16, 2015	Sell forward	–
British pound	£3	5	$1.78/£	January 16, 2015	Sell forward	–
Yen	¥300	3	$0.010/¥	January 16, 2015	Sell forward	–
Total		$ 55				$ (1)

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

For the year ended December 31		**2015**			2014	
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange gains (losses)	Derivative losses	Total
Unrealized	$ 8	$ –	$ 8	$ (4)	$ (1)	$ (5)
Realized	13	(16)	(3)	5	–	5
Total	**$ 21**	**$ (16)**	**$ 5**	$ 1	$ (1)	$ –

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2015, all other variables held constant, would have been an increase or decrease in net profit for the year by $9 million (2014 – $6 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 in cash and cash equivalents, marketable securities and segregated securities 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 (2014 – 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. General and specific provisions are estimated based on prior experience with, and the past-due status of, doubtful debtors, write-offs, customers' 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 and ad hoc monitoring of aged receivables and the day's sales outstanding has indicated no significant change in the trend of the aging of receivables.

(in millions of Canadian dollars, unless otherwise indicated)

24. Financial Instruments and Risk Management (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 Canada and the United States. 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 age of receivables and the allowance for doubtful accounts for trade and other receivables were as follows:

As at December 31	**2015**	2014
Trade receivables:		
Current	$ 439	$ 437
1-15 days past due	69	63
16-30 days past due	27	14
Over 30 days past due	33	29
Allowance for doubtful accounts	(8)	(7)
Trade receivables – net	560	536
Trade receivables from foreign postal administrations	191	204
Other receivables	39	55
Trade and other receivables	**$ 790**	$ 795

Impairment losses on trade and other receivables recognized during the year were $5 million (2014 – $4 million).

(c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring 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.

In February 2014, the Corporation received relief from making special contributions into its registered pension plan from 2014 to 2017 (Note 10 [i]). The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

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 and the Minister of Finance, as part of its Corporate Plan approval process (Note 17). 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 (2014 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2015.

The Corporation's loans and borrowings amounted to $1,051 million (2014 – $1,055 million), and letters of credit of $12 million (2014 – $12 million) were issued at December 31, 2015. No amounts were drawn on the short-term borrowing facilities as of December 31, 2015.

As at December 31, 2015, the Corporation's subsidiaries had access to financing facilities totalling $220 million (2014 – $205 million), of which $84 million (2014 – $79 million) was drawn at year-end. The subsidiaries also had letters of credit issued in the amount of $7 million (2014 – $7 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 15.

(in millions of Canadian dollars, unless otherwise indicated)

24. Financial Instruments and Risk Management (continued)

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, 2015

	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	$ 686	$ 1	$ –	$ 687
Risk management liabilities	N/A	1	–	–	1
Bonds, Series 1	4.39 %	22	109	914	1,045
Bonds, Series 2	4.12 %	20	82	602	704
Non-redeemable bonds	10.6 %	58	–	–	58
Finance lease obligations	2.4% – 5.5%	23	61	6	90
		$ 810	**$ 253**	**$ 1,522**	**$ 2,585**

As at December 31, 2014

	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	$ 713	$ 1	$ –	$ 714
Risk management liabilities	N/A	1	–	–	1
Bonds, Series 1	4.39 %	22	87	958	1,067
Bonds, Series 2	4.12 %	20	82	622	724
Non-redeemable bonds	10.6 %	6	58	–	64
Finance lease obligations	3.3% – 7.5%	25	59	6	90
		$ 787	$ 287	$ 1,586	$ 2,660

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.

(in millions of Canadian dollars, unless otherwise indicated)

25. Segmented Information

(a) Operating segments • A description of the Group of Companies' operating segments can be found in the significant accounting policies (Note 2 [m]). The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 2). Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities. With the exception of the information technology (IT) business unit delivering shared services on a cost-recovery basis, the terms and conditions of these transactions are comparable to those offered in the marketplace. On a consolidated basis, no external customer's purchases account for more than 10% of total revenues.

For the year ended December 31, 2015, the IT business unit earned intersegment revenue of $263 million (December 31, 2014 – $245 million), incurred cost of operations of $263 million (December 31, 2014 – $245 million), and earned net profit of nil (December 31, 2014 – nil). Total assets and liabilities at December 31, 2015, were $125 million and $74 million, respectively (December 31, 2014 – $113 million and $66 million, respectively).

For the year ended and as at December 31, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,286	$ 1,511	$ 209	$ –	$ 8,006
Intersegment revenue	30	31	53	(114)	–
Revenue from operations	$ 6,316	$ 1,542	$ 262	$ (114)	$ 8,006
Labour and employee benefits	$ 4,338	$ 735	$ 120	$ 97	$ 5,290
Other operating costs	1,627	699	114	(208)	2,232
Depreciation and amortization	259	51	8	(3)	315
Cost of operations	$ 6,224	$ 1,485	$ 242	$ (114)	$ 7,837
Profit from operations	$ 92	$ 57	$ 20	$ –	$ 169
Investment and other income	$ 19	$ 1	$ –	$ (3)	$ 17
Finance costs and other expense	(48)	(2)	–	–	(50)
Profit before tax	$ 63	$ 56	$ 20	$ (3)	$ 136
Tax expense	16	16	5	–	37
Net profit	$ 47	$ 40	$ 15	$ (3)	$ 99
Total assets	$ 7,094	$ 847	$ 120	$ (341)	$ 7,720
Acquisition of capital assets	$ 310	$ 64	$ 8	$ (8)	$ 374
Total liabilities	$ 8,477	$ 358	$ 59	$ (50)	$ 8,844

For the year ended and as at December 31, 2014

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,183	$ 1,604	$ 195	$ –	$ 7,982
Intersegment revenue	31	83	28	(142)	–
Revenue from operations	$ 6,214	$ 1,687	$ 223	$ (142)	$ 7,982
Labour and employee benefits	$ 4,139	$ 746	$ 99	$ 92	$ 5,076
Other operating costs	1,601	807	103	(232)	2,279
Depreciation and amortization	270	54	7	(3)	328
Cost of operations	$ 6,010	$ 1,607	$ 209	$ (143)	$ 7,683
Profit from operations	$ 204	$ 80	$ 14	$ 1	$ 299
Investment and other income	$ 40	$ (3)	$ –	$ (14)	$ 23
Finance costs and other expense	(50)	(3)	–	–	(53)
Profit before tax	$ 194	$ 74	$ 14	$ (13)	$ 269
Tax expense	46	21	4	–	71
Net profit	$ 148	$ 53	$ 10	$ (13)	$ 198
Total assets	$ 6,983	$ 835	$ 110	$ (344)	$ 7,584
Acquisition of capital assets	$ 234	$ 51	$ 9	$ (1)	$ 293
Total liabilities	$ 9,200	$ 382	$ 66	$ (53)	$ 9,595

(in millions of Canadian dollars, unless otherwise indicated)

25. Segmented Information (continued)

(b) Geographic area revenue information

Revenue reported for geographical areas outside of Canada is, for the Corporation, based on the location of the foreign postal administration hiring the service, and based on the location of the customer hiring the service for the other segments and the business unit. 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.

For the year ended December 31	**2015**	2014
Canada	$ 7,426	$ 7,419
United States	431	430
Rest of the world	149	133
Total revenue	**$ 8,006**	$ 7,982

(c) Products and services revenue information

Revenue reported for 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 the lines of business.

For the year ended December 31, 2015

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed on sale			
Transaction Mail	$ 2,021	$ (2)	$ 2,019
Parcels	3,455	(111)	3,344
Direct Marketing	1,196	–	1,196
Other	530	(264)	266
	$ 7,202	**$ (377)**	**$ 6,825**
Unattributed revenue			
Stamp postage	$ 507	$ –	$ 507
Meter postage	674	–	674
	$ 1,181	**$ –**	**$ 1,181**
Total	**$ 8,383**	**$ (377)**	**$ 8,006**

For the year ended December 31, 2014

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 1,999	$ (3)	$ 1,996
Parcels	3,427	(138)	3,289
Direct Marketing	1,208	–	1,208
Other	518	(246)	272
	$ 7,152	$ (387)	$ 6,765
Unattributed revenue			
Stamp postage	$ 536	$ –	$ 536
Meter postage	681	–	681
	$ 1,217	$ –	$ 1,217
Total	$ 8,369	$ (387)	$ 7,982

The 2014 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 $3 million was reclassified to Direct Marketing from the Other category.

Our size and scope

EMPLOYEES

Close to

64,000

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

FLEET

Almost

13,000

Canada Post vehicles

ADDRESSES SERVED

Residential

Almost

14.8 million

Businesses

Almost

1 million

RETAIL POST OFFICES

More than

6,200

retail post offices across Canada

PIECES DELIVERED

Almost

9 billion

pieces of mail, parcels and messages

DELIVERY METHOD

(by address)

Door to door

Almost

4.3 million

Centralized or rural

More than

11.5 million

ITEM TRACKING

More than

425 million

online tracking events (68 per cent via the mobile app)

CANADAPOST.CA

189 million

visits to canadapost.ca in 2015

(includes visits to epost.ca)

PLANTS AND DEPOTS

21

processing plants

485

letter carrier depots

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**.

Ce rapport est aussi publié en français.

canadapost.ca

Canada

CANADA POST POSTES CANADA