# 2017 ANNUAL REPORT


CANADA POST POSTES CANADA

Our $74M profit before tax in 2017* was driven by our success in e-commerce delivery. Parcels revenue growth of $393M outpaced the $124M decline in Transaction Mail revenue.

* Canada Post segment

## KEY FACTORS

### 1 PARCELS REVENUE

In 2017, for the first time, we surpassed $2 billion in Parcels revenue. This achievement is rooted in our 2011 decision to focus on becoming Canada's leader in e-commerce delivery – and in how well we have executed that strategy. In 2017, parcels generated 33 per cent of the Canada Post segment's revenue.

23.1%
REVENUE GROWTH

### 2 NEIGHBOURHOOD MAIL™

Despite its challenges competing with digital media, our Direct Marketing business generated more than $1.1 billion in 2017. Neighbourhood Mail, which businesses use to reach consumers with offers, grew during the year. Volumes increased by 7.5 per cent and revenue by 6.9 per cent, compared to the previous year.

6.9%
REVENUE GROWTH

### 3 DECLINE OF LETTERMAIL™

Due to digital technology, mail volumes and revenue decline every year. Volumes of Transaction Mail – letters, bills and statements – fell by 5.5 per cent in 2017 and revenue fell by 3.7 per cent. Mail generated 45 per cent of the Canada Post segment's 2017 revenue.

REVENUE DECLINE
$124M

# By the numbers

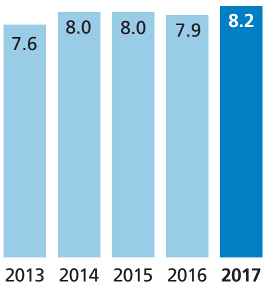
## Canada Post Group of Companies

| (in millions of dollars) | 2017 | 2016 | % Change |
|---|---|---|---|
| **Operations** | | | |
| Revenue from operations | 8,226 | 7,880 | 4.8 % |
| Profit from operations | 226 | 149 | 51.8 % |
| Operating margin (%) | 2.7 % | 1.9 % | |
| Investing and financing income (expense)[1] | (27) | (35) | 23.3 % |
| Profit before tax | 199 | 114 | 74.9 % |
| Net profit | 144 | 81 | 77.8 % |
| Cash provided by operating activities | 748 | 597 | 25.3 % |
| Cash used in capital expenditures | (299) | (253) | (18.1) % |
| **Financial position** | | | |
| Cash and cash equivalents | 1,503 | 849 | 77.0 % |
| Total assets | 8,481 | 7,792 | 8.8 % |
| Loans and borrowings | 1,038 | 1,059 | (2.0) % |
| Equity of Canada | (386) | (331) | (16.7) % |
| **Volume** | | | |
| Total volume – Consolidated (in millions) | 8,383 | 8,371 | 0.5 % |
| Domestic Parcels growth (Canada Post segment) | 22.3 % | 9.0 % | |
| Parcels growth (Canada Post segment) | 24.5 % | 7.7 % | |
| Direct Marketing (Canada Post segment) | 4.0 % | (5.3) % | |
| Domestic Lettermail erosion (Canada Post segment) | (5.3) % | (7.6) % | |
| Transaction Mail erosion (Canada Post segment) | (5.5) % | (7.8) % | |
| Transaction Mail volume decline per address | (6.5) % | (8.8) % | |
| **Canada Post Corporation Registered Pension Plan** | | | |
| Pension assets – Fair market value | 25,028 | 23,150 | 8.1 % |
| Going-concern surplus (deficit) – To be funded[2] | 2,933 | 1,788 | 64.0 % |
| Solvency deficit – To be funded[2] | (6,417) | (6,760) | 5.1 % |
| Employer contributions – Current | 259 | 241 | 7.7 % |
| Employer contributions – Special | 34 | 35 | (2.9) % |

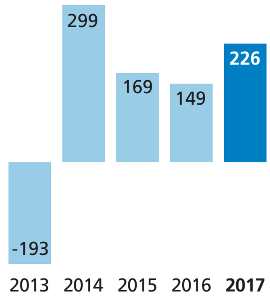
1. Includes gain on sale of capital assets and assets held for sale.
2. Number for 2017 is an estimate. Actuarial valuations for the Plan will be filed by June 30, 2018. For more details, refer to Section 6.5 of the Management's Discussion and Analysis on page 57.

# Canada Post Group of Companies

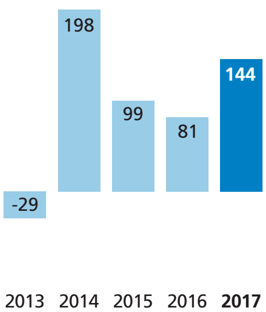
### Revenue from operations
(in billions of dollars)



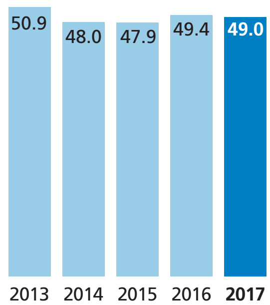

### Profit (loss) from operations
(in millions of dollars)



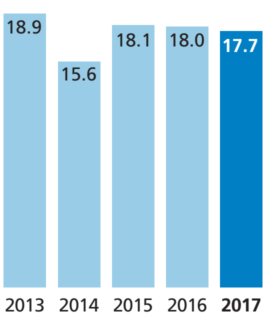

### Net profit (loss)
(in millions of dollars)



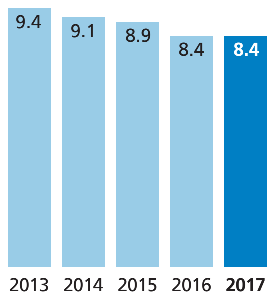

### Labour costs
(percentage of revenue from operations)




### Employee benefit costs
(percentage of revenue from operations)




### Volume
(in billions of pieces)




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.

In the year of Canada 150,
we told the country’s story.
In this report, we tell ours.

# President’s message

A common thread weaves through our 255-year history, which began with regular weekly delivery in 1763. That thread is why the post office was one of the first federal departments created in 1867. It was there in 1884, when Timothy Eaton launched his mail-order catalogue. In the 20th century, it endured as mail volumes grew year after year.

This theme – serving the changing needs of Canadians – remains the foundation of Canada Post. The postal system has endured through centuries of change by evolving and transforming to serve Canadians. In recent years, we have responded once again to those changing needs as Canadians look to us to deliver more of their shopping and less of their mail.

Evolution has brought great results. Since we began our e-commerce journey in 2011, Canada Post has emerged as Canada’s No. 1 parcel delivery company with annual revenue almost doubling to more than $2 billion. We have emerged as one of the most respected brands in the country, as recognized by Cohn & Wolfe’s first-ever list of Canada’s most authentic

As my own service at Canada Post draws to a close, I want to thank each and every employee for their hard work, dedication and enormous pride.

Canada Post President and CEO Deepak Chopra (right) meets employee Jeff Hall during Canada 150 celebrations.

Deepak Chopra and other senior leaders visited employees at the Iqaluit Post Office when he was there to help unveil the Nunavut stamp in May.


brands. Despite Lettermail™ volumes dropping by 2 billion pieces since their peak, Canada Post posted a profit for a fourth consecutive year.

By transforming itself, Canada Post has enabled Canada's retailers to reinvent their businesses as they face accelerating disruption to their old brick-and-mortar business model. It has opened up national and global markets for small Canadian businesses, enabling micro-multinationals that are succeeding on the world stage. It has helped improve the standard of living for rural and northern communities by affordably delivering goods that were otherwise too expensive or unavailable locally.

E-commerce was not alone in driving our profit. While other paper-based industries – newspapers, magazines and books – have been severely disrupted in the digital era, marketing mail remains a strong contributor to our business. We have worked closely with businesses and marketers to deliver a timely and compelling offer into the hands of existing and potential customers. Our efforts have paid off as we see national brands, such as Canadian Tire, embracing the catalogue once again.

Canada Post touches the lives of every Canadian. By providing service that is focused on the needs of our customers, we have not only endured, but are equipped to remain a vital institution for years to come. As my own service at Canada Post draws to a close, I want to thank each and every employee – thousands of whom I met – for their hard work, dedication and enormous pride. It was my privilege to serve the people of this great country with you.

Deepak Chopra

President and Chief Executive Officer

# Highlights of the holiday season

The 2017 holiday season stands out because it was when Canadians and retailers were counting on us most. We met their expectations by delivering a record 62 million parcels between November 5, 2017, and January 14, 2018. We also improved service performance by several measures.

## 1.83M

On December 4, 2017, we achieved an all-time record for parcel deliveries in a single day. Four other days during the season also surpassed our previous record of 1.52M, set in 2016.

## 3.6M

PARCELS DELIVERED ON WEEKENDS

Our employees' dedication kept e-commerce orders flowing quickly through our network and to Canadians. In holiday 2016, we delivered 2.4M on weekends.

## 67 MILLION PARCEL DAYS

IN ALL OF 2017

We had our first one-million-parcel day during Christmas 2012. Now they happen throughout the year.

## 41 MILLION PARCEL DAYS

IN THE HOLIDAY SEASON

40 of these one-million-parcel days were consecutive. In holiday 2016, we had 26 one-million-parcel days, 20 of which were consecutive.

MILLION PARCEL DAY

# Highlights of 2017

7.5%

Growth in Neighbourhood Mail™ volumes in 2017

24.5%

GROWTH IN PARCEL VOLUMES

Most of that was in Domestic Parcels – a sign of our critical role supporting Canadian e-commerce.

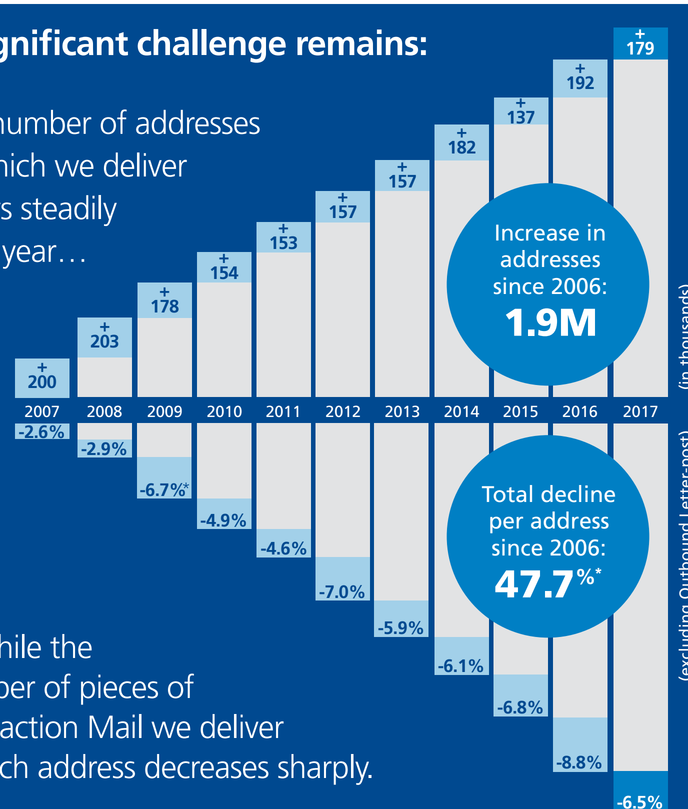
16.2M

ADDRESSES SERVED

While most Canadians live in urban centres and in the south, we find ways to reach every address, delivering parcels and mail in the Northwest Territories by helicopter drop, and by floatplane, hovercraft and snowmobile in other remote spots.

**A significant challenge remains:**

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




… while the number of pieces of Transaction Mail we deliver to each address decreases sharply.

*Due to a methodology change implemented in 2010, volumes for 2009 were restated for comparability. Had 2008 volumes been restated, the decline per address for 2009 would have been 5.1% and the cumulative decrease since 2006 would have been 46.8%.

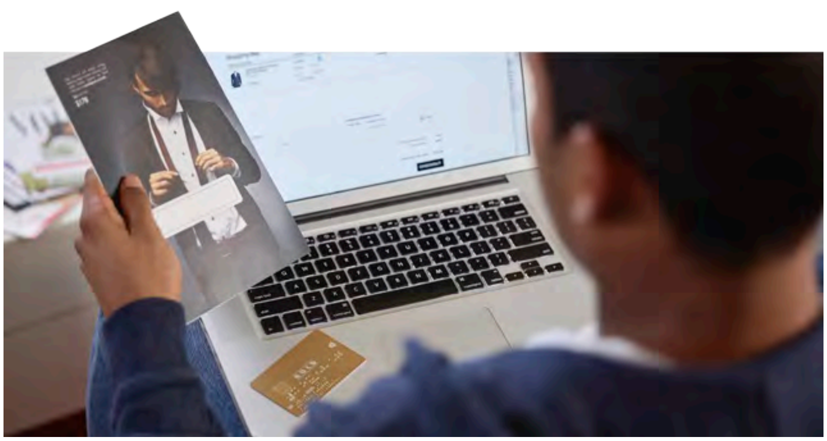
# Direct Marketing

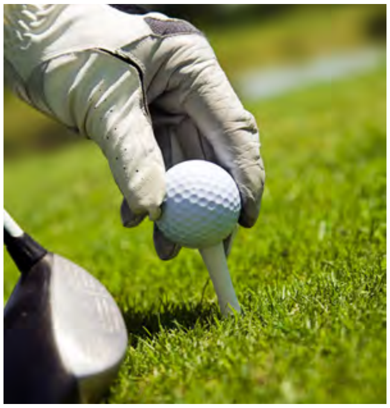
Canadians love a bargain, to shop or eat out. They want and need coupons during the back-to-school season, for example, and during and after Christmas. In both seasons, they're stretching their dollars.

Marketing mail helps by making them aware of sales and discounts and of new stores or eateries in a way that is tangible and personal. For many small, owner-operated or family-run businesses, mailing a flyer is not only the best way to reach nearby consumers, it's also the only advertising they can afford. Larger businesses also appreciate the personal touch that marketing mail brings to their campaigns, and they often combine it with digital advertising.

Marketing mail is part of the advertising mix in this digital era because it works – for consumers and for businesses.

Canadians like deals and discounts, and businesses know they bring customers in the door. That's why marketing mail works for senders and receivers.





## A winning swing with Neighbourhood Mail

Black Friday is the most lucrative day of the year for many retailers. With so much riding on it, Golf Town Vice-President of Marketing and E-commerce, Fred LeCoq, tested the company's shoppers.

Golf Town sent more than 400,000 Neighbourhood Mail pieces to residents of Quebec and nearly three million flyers to homes in the rest of the country. Which would produce better results? "Budgets are constrained and every dollar we spend must drive ROI," says LeCoq.

The answer was clear: Same-store sales increased more than 65 per cent in Quebec versus 20 per cent for the rest of Canada.

## Young entrepreneurs rely on marketing mail

Tony Sanderson, then 21, and Chris Louis, 20, were both working at pizzerias in Victoria, B.C., when Villages Pizza came up for sale. "I called Chris and said 'hey, wanna buy a pizza shop?'" That was 2011. Today they own seven pizza shops.

In 2017, they delivered 28,000 menus. "Putting advertising in people's hands just works," says Sanderson.

"Our new franchisee called recently because he was getting all kinds of sales and inquiries," he says. Five thousand menus had been sent out the previous week. "DM definitely creates a buzz."

# Parcels

Serving Canadians means anticipating their evolving needs – then adapting to meet them.

Canada Post did. After studying global e-commerce trends, we realized that Canadians would need us to deliver hundreds of millions of online orders in this decade alone. So we pivoted our business. Now we deliver more parcels to Canadians than anyone.

We meet their needs for reliable, prompt and secure service. We offer consumers the convenient delivery, pickup and returns options they prefer. Start-ups, small- and mid-sized entrepreneurs and established national brands all rely on us to enable their success – in retail's crucial holiday season and all year.

With mail-order catalogues, parcels were part of our past. With Canada's consumers and retailers, we've made them our future.

With mail-order catalogues, parcels were our past. With Canada's online shoppers, we've made them our future.

## Sport Chek and Atmosphere expand their omni-channel presence


Canada's largest sporting goods retailer, FGL Sports has leading brands Sport Chek and Atmosphere under its banner.

Always looking to better serve customers, Sport Chek and Atmosphere worked with Canada Post last spring to roll out our Ship From Store service to nearly 170 stores. That enabled speedier shipping and increased the online SKU count three-fold. Year-over-year online order volumes shot up roughly 300 per cent.

"Not only can our customers find more online," says Mike Moussa, Associate Vice-President of E-commerce for FGL Sports, "but store associates using tablets can ensure no store visit is wasted."

## A niche product and superb operations spell growth for Tom&Sawyer

Blazing an entirely new market segment, Tom&Sawyer offers fresh, healthy pet meals for dogs and cats – and pet parents can't get enough. The start-up has experienced over 600 per cent sales growth since launching in 2015, fuelled largely by word of mouth.

But it's not just their high-quality products that are winning fans. Operational excellence, including strategic scheduling of on-demand pickups, helps them reduce shipping times, a fresh-food essential.

"We've really appreciated our partnership with Canada Post," says co-founder Kristin Matthews. "They know the demand for fresh-food delivery is growing – it's become a real priority for their team."

Co-founders Kristin Matthews and Peter Zakarow at the Tom&Sawyer café and kitchen in Toronto.

# Our employees

## Proud to serve their fellow Canadians

Employees across the country, including this group at the Léo Blanchette mail processing plant in Montréal, celebrated Canada 150 together – and some even sang *O Canada*.

Canada Post's greatest strength is its employees, as the 2017 Christmas season shows. Record parcel volumes asked a lot of employees in our processing plants, delivery depots and transportation teams, among others. Day after day, our facilities, vehicles and post offices were packed with parcels. Winter came early, bringing storms out East and in British Columbia, and a deep freeze that descended on Ontario and the Prairies. Millions of Canadian families were counting on us to get their gifts to them in time.

In our biggest test, the holiday season, we were at our best. Our dedicated employees rose to all these challenges – and customers noticed. Consumers tweeted their thanks and commercial customers expressed gratitude for our employees' hard work on their behalf. Best Buy Canada, for example, wrote about our "outstanding" service and said it "once again delighted" their customers. Our employees' pride in their work was met with well-deserved appreciation.

In our biggest test, the holiday season, we were at our best.

Delivery agent Lorraine Miner was one of thousands of Canada Post employees across the country who delivered the holidays with a smile.

## Service performance by the numbers

Despite significant parcel volume growth, service performance exceeded targets for this line of business, as it did in Smartmail Marketing™ products and Lettermail. It was a remarkable achievement, made possible by the incredible efforts of employees throughout our network.

Parcels on-time delivery performance exceeded the target for 2017, a year in which parcel volumes increased by 24.5 per cent.

90.2 per cent of those who replied to our Retail Customer Receipt Survey in 2017 were satisfied with our retail service, a rating that exceeds the retail industry standard by about 10 per cent.

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

Lettermail on-time delivery performance was excellent. At 95.4 per cent, it was above target.

Slips, trips and falls remain the biggest risk of injury for delivery agents like Marlon Hinds, shown walking a route in Ottawa, Ontario, in early March.

## Safety first

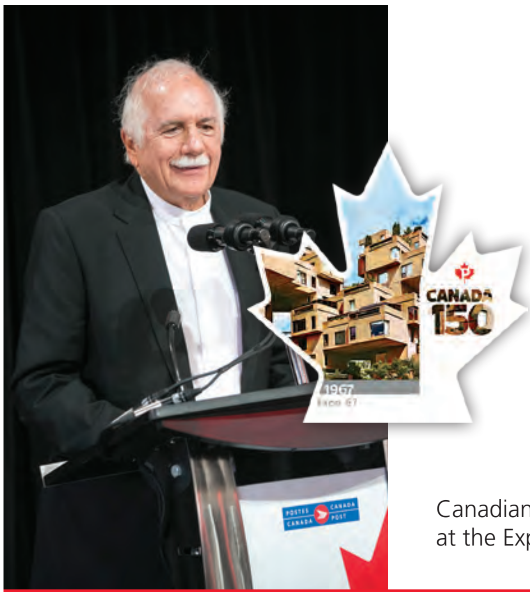
Canada Post continues to place a high priority on health and safety.

In 2017, we launched a rigorous driver safety program, a skills evaluation process for operators of motorized material handling equipment and updated our policies around electrical safety, hot work, safety eyewear and working at heights.

Almost half of the injuries in 2017 were from slips, trips and falls, and more than a third involved manual material handling. For the year, total injury frequency (all injuries that require professional medical treatment) improved by 2 per cent over 2016.

We will increase our focus on safety in 2018 through awareness, coaching and training, as well as policy and program improvements.

# Canada 150 was a celebration of the stories that unite our country, define us as Canadians and make us proud.




## Canada welcomed the world

In Montréal, world-renowned Canadian architect Moshe Safdie unveiled the Expo 67 stamp at Habitat 67, the revolutionary housing complex he designed for Expo. Its image graces the stamp. More than 50 million people from around the world attended Expo 67.

Canadian architect Moshe Safdie at the Expo 67 stamp unveiling.

Dean Brody performs at the outdoor unveiling of the Trans-Canada Highway stamp.


## Open road, endless possibilities

Country music star Dean Brody was in Regina, beside the iconic Trans-Canada Highway, to reveal a stamp celebrating the 8,000-kilometre ribbon of adventures, dreams and commerce. Construction on the Trans-Canada Highway was completed in 1971.

Our iconic stamp program makes us Canada's storyteller – so we embraced Canada 150 wholeheartedly. We celebrated 10 incredible moments and achievements since Canada's centennial in 1967.

Our Canada 150 stamps showcased stories of courage and compassion, innovation and dedication, diversity and unity.

Prominent Canadians helped to tell the stories and to unveil the 10 stamps in suitably memorable settings. It all made for an extraordinary celebration worthy of our country's sesquicentennial.


## Series of the century

Hockey legends who helped Team Canada defeat the mighty Soviets in the 1972 Summit Series unveiled a stamp at CFB Winnipeg, honouring that clash of titans. The epic eight-game series, which included Game 3 in Winnipeg, galvanized Canada and forever changed hockey.

Phil Esposito, member of Team Canada 1972.

Terry Fox receives the Order of Canada, September 1980.

## A hero's legacy

Terry Fox's incredible Marathon of Hope in 1980 captivated a nation and still inspires us today. Judith Fox, Terry's sister, unveiled a stamp in St. John's, N.L. – where the Marathon of Hope began – honouring his run more than halfway across Canada.

Canadian Space Agency astronaut Jeremy Hansen at Glen Ames Senior Public School in Toronto.


## A nation’s innovation

Canadian Space Agency astronaut Jeremy Hansen visited a Toronto school to unveil a stamp saluting Canada’s achievements in space, science, technology and innovation. The stamp features Canada’s most famous robotics accomplishment – the Canadarm – which made its space debut in 1981.

Canada Post President and CEO Deepak Chopra and the Rt. Hon. Beverley McLachlin, then Chief Justice of Canada, unveiling the Constitution stamp on Parliament Hill.


## The Constitution comes home

The Right Honourable Beverley McLachlin, then Chief Justice of Canada, unveiled a stamp on Parliament Hill commemorating the Proclamation of the *Constitution Act, 1982*, which patriated the Constitution and introduced the *Canadian Charter of Rights and Freedoms*.


Rosie Katsak and her daughter are two of the 1,600 residents of Mittimatalik (Pond Inlet), an Inuit community on northern Baffin Island.

## A new territory

In Iqaluit, Nunavut Premier Peter Taptuna, Commissioner of Nunavut Nellie Kusugak, and George Qulaut, Speaker of the Legislative Assembly, unveiled a stamp commemorating Nunavut becoming a territory in 1999. The stamp also celebrates Nunavut’s people and heritage.

Jill Andrew (left) and Aisha Fairclough, co-founders of Body Confidence Canada.


## Marriage equality for all

The 519 in Toronto hosted an emotional stamp unveiling honouring the struggle of same-sex couples to have the legal right to marry. The stamp and its rainbow symbol commemorate the 2005 passage of the *Civil Marriage Act,* which made marriage equality the law in Canada.

Para alpine skier Lauren Woolstencroft, the first Canadian Paralympian to win five gold medals in a single Winter Games, Vancouver, 2010.

## Redefining ability and possibility

Canadian Paralympic legends Lauren Woolstencroft and Arnold Boldt revealed a stamp in Vancouver celebrating Canada's achievements in the Paralympic movement and our country's role in hosting two Paralympic Games – Toronto in 1976 and Vancouver in 2010.



Canadian Olympic medallists Joannie Rochette and Greg Joy unveiled the Olympic Games stamp in Vancouver.

## Glory of the Games

In Vancouver, Olympic medallists Greg Joy (high jump) and Joannie Rochette (figure skating) unveiled a stamp marking Canada's success at hosting the Olympic Games: the 1976 Summer Olympics in Montréal, 1988 Winter Olympics in Calgary and 2010 Winter Olympics in Vancouver.

# Oh Canada

## Sharing Canada's stories

In 2017, our iconic stamp program enjoyed a number of historic firsts: We issued our first joint stamp with India Post and we adhered a miniature fabric crest to a stamp to mark 100 years of the Toronto Maple Leafs®.

History and multiculturalism also figured prominently: We marked 100 years since the Halifax Explosion and the Battle of Vimy Ridge. Canadian Hockey Legends – the final instalment of our five-year NHL® collection – marked the League's 100th anniversary and 125 years of the Stanley Cup®. And separate Diwali, Eid, Hanukkah and Christmas issues captured Canada's religious diversity.


Canada Post President and CEO Deepak Chopra and Walter Gretzky unveil the Canadian Hockey Legends stamp of Walter's son Wayne, The Great One, at the Hockey Hall of Fame in September.


Deepak Chopra and His Excellency, Vikas Swarup, High Commissioner of India to Canada, unveil the first joint stamp between Canada Post and India Post at Toronto City Hall. The Diwali stamp celebrates the Festival of Lights, an annual observance for many Hindus, Sikhs, Buddhists and Jains.


Canada Post's Eid stamp recognizes Eid al-Fitr and Eid al-Adha, two of the most important festivals celebrated by Muslims.


A joint stamp issue with France's La Poste featured two stamps honouring the bond that the Battle of Vimy Ridge on French soil forged between our two nations. The Canadian stamp, left, was designed by Susan Scott of Montréal.

## Helping kids and communities

In 2017, the Canada Post Community Foundation for Children contributed about $1.1 million in grants to 103 community organizations across the country. It also raised $1.2 million for grants in 2018.

Over the past five years, the Foundation has awarded more than $6 million to more than 550 projects, including crisis lines, anti-bullying initiatives, and breakfast and literacy programs.

Funds are raised through an in-store campaign, sales of fundraising stamps and employee dime-a-day payroll deductions.


Designed by Andrew Lewis, our 2017 Foundation fundraising stamps feature many smiling cats. $1 from the purchase of every 10-stamp booklet went to the Foundation.

## Helping Santa since 1982

Thirty-six years of history.

Six million volunteer hours.

More than 36 million responses.

That's the legacy of the Canada Post Santa Letter-writing Program, which has created many magical memories for Canadians of all ages.

In 1982, the program's inaugural year, we helped Santa answer 22,000 letters. Within 10 years, volunteer employees, retirees and other volunteers were handling about one million letters a year. In 2017, about 9,000 volunteers helped Santa with more than 1.6 million letters.

One parent wrote to say: "I hope you know you have made many, many children very happy."

# Chair's message

The Board of Directors ensures that Canada Post will keep evolving to provide the services that Canadians expect, while remaining financially self-sustaining.

2017 was another year of significant transition for Canada Post. The continued decline of Lettermail was offset financially by the ongoing success of the strategy to focus on Canada's growing e-commerce market. The year set several new records, such as the 67 days with over a million parcels delivered. Customers once again made Canada Post the No. 1 parcel company in Canada. These impressive results, with continued financial profitability, proved the success of the strategies introduced by the CEO and management, which were realized by the thousands of dedicated employees who serve Canadians every day.

This year also marked the start of a transition of leadership at Canada Post. The announced departure of Deepak Chopra, after seven dedicated years of service, sparked the search for a successor. The new CEO will be building on strong leadership and vision and will be tasked with continuing the bold evolution of a vibrant institution that every Canadian relies on. With many Board members' terms ending, Canadians from coast to coast to coast were also offered the opportunity to apply in an open process to serve in that role.

As these transitions are finalized in early 2018, Canada Post will follow new direction from its shareholder, the Government of Canada. It has instructed Canada Post to set a new path forward to meet the changing needs of Canadians, while continuing to ensure the access and high level of service that individuals and businesses expect. We will place a new focus on working collaboratively with employees across the Corporation – to find innovative solutions for the changing work environment, and together, build a vision for the future.

On behalf of the Board, I thank Canadians for the trust and confidence they place in Canada Post. That support comes from many places, from personal relationships with the local mail carrier, to the high-quality service they receive at outlets, and to the deep respect they feel for an institution older than Canada itself.

It is a distinct honour and a great responsibility to serve on the Board. I do so with pride for the past, and optimism for the future.

Jessica L. McDonald
Chair of the Board of Directors

# Board of Directors

**Jessica L. McDonald** ▲ ★ ● ✲
ICD.D
*Vancouver, British Columbia*
Chair of the
Board of Directors
Canada Post Corporation

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

**Michèle Desjardins** ✿ ✲
ICD.D
*Montréal, Quebec*

**A. Michel Lavigne** ◗ ▲
FCPA, FCA
*Laval, Quebec*

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

**William H. Sheffield** ● ★
ICD.D
*Toronto, Ontario*

**Sharon Sparkes** ★ ■
ICD.D, CPA, CA
*St. John's, Newfoundland and Labrador*

**Donald Woodley** ✲ ●
*Mono, Ontario*

■ Chair of the Audit Committee
♦ Chair of the Corporate Governance and Nominating Committee
✿ Chair of the Human Resources and Compensation Committee
◗ Chair 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

Three seats on the Board of Directors are vacant.
As of March 22, 2018

# Officers of the Corporation

Deepak Chopra
President and Chief Executive Officer

**Senior vice-presidents**

Wayne Cheeseman
Chief Financial Officer

Leonard (Len) Diplock
Strategy and Corporate Marketing

Anik Dubreuil
Chief Information Technology Officer

Doug Ettinger
Chief Commercial Officer

Scott G. McDonald
Chief Human Resources Officer

Mary Traversy
Chief Operating Officer

John B. West
General Counsel and Corporate Secretary

**Vice-presidents**

Jay Davis
Engineering

Manon Fortin
Operations Integration

Douglas Greaves
Pension Fund and Chief Investment Officer

Rod Hart
Parcels

Ann Therese MacEachern
Human Resources

Barbara MacKenzie
Finance and Comptroller

Susan Margles
Government Relations and Policy

Serge Pitre
Sales

Jo-Anne Polak
Communications and Public Affairs

Brian Wilson
Operations

Kaval Pannu Corporate Auditor

As of March 22, 2018

# 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 22, 2018, three seats are temporarily vacant. As overseer of an approximately $8.2 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 normally devote 25 to 30 days a year to Board work. In 2017, the Board met 10 times and its committees met a total of 18 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 over 30 per cent, including the Chair. It is focused on growing this number as it identifies new candidates in 2018.

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 Chair 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**
Additional 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 to identify potential gaps in succession. Board remuneration complies with guidelines issued by the Privy Council Office.

**Subsidiaries**

Alignment and oversight of Canada Post's subsidiaries ensure 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

Reporting to the Chair of the Board of Directors, the Office of the Ombudsman is independent of Canada Post staff and management. It gives Canadians another avenue if they feel Canada Post did not live up to its service commitments. It investigates customer complaints and recommends fair and equitable solutions. By identifying trends, focusing on prevention and recommending changes as needed, it also offers Canada Post another perspective to improve service.

In 2017, the overall number of appeals filed to our Office fell 8 per cent, despite the significant increase in parcel volumes. Compared to 2016, we saw a decrease in the 10 most common kinds of appeal.

In 2017, we received 5,449 appeals, compared to 5,943 in 2016. Of the 2,497 cases we investigated, 46 per cent resulted in corrective action. In the rest, our investigation supported Canada Post's actions. In comparison, corrective action was needed in 52 per cent of the 2,617 cases we investigated in 2016 (including resubmissions).

More than half the appeals did not result in an investigation because customers reached out to us before giving Canada Post time to address the issue, or withdrew their submission before the investigation concluded.

The number of appeals related to the *Canadian Postal Service Charter* decreased by 229, or by 10 per cent. The decline reflects improvements in access to the customer service department.

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

Ombudsman
CANADA POST • POSTES CANADA

# 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 2017 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 16.2 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 4.8 million addresses. Of the approximately 6,200 postal outlets located across Canada, more than half are in rural areas.*

### 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.

*In light of the government review of Canada Post, there were no proposed changes to regulated postage rates in 2017.*

### 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 25.*

**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 2017, the on-time service performance for Domestic Lettermail delivery was 95.4 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 approximately 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 231,000 collection points where postal items could be deposited (and approximately 707,000 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 2017, 98.8 per cent of Canadians lived within 15 km of a postal outlet, 90.8 per cent within 5 km, and 79 per cent within 2.5 km.*

**11.** The moratorium on the closure of rural post offices is maintained. Situations affecting Canada Post personnel (e.g., retirement, illness, death, etc.) or Canada Post infrastructure (e.g., fire or termination of lease, etc.) may, nevertheless, affect the ongoing operation of a post office.

*In 2017, personnel or infrastructure issues affected 129 post offices covered by the moratorium. In 76 cases, retail services to the community were maintained through staffing of vacancies and in 24 cases retail services*

Continued on page 24

# Canadian Postal Service Charter

*were provided in a neighbouring community. Remaining cases are undergoing staffing actions or being reviewed through further community consultation. 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 2017, seven 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 Annual Public Meeting on September 14, 2017, in Yellowknife.*

### 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.

*In 2017, Customer Service received 3.9 million customer calls and more than 808,000 electronic customer inquiries through email, fax and online service tickets. These interactions related to questions, requests, problems and complaints.*

**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 Office of 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 | 4,204,007 | 26.0% | $291 |
| Centralized point (e.g. apt. lobby lockbox) | 4,276,195 | 26.4% | $120 |
| Group mailbox, community mailbox, kiosk | 5,278,814 | 32.6% | $130 |
| Delivery facility (postal box, general delivery) | 1,719,091 | 10.6% | $75 |
| Rural mailbox | 706,958 | 4.4% | $217 |
| All methods | 16,185,065 | 100.0% | $167 |

* As at December 31, 2017

**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.

*The government review concluded that Canada Post is expected to continue to meet the expectations laid out in the Charter.*

# 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, and other designated officials of Parliament. 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 2017 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 2017 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, 2017, 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, 2017, 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 22, 2018, 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 the 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 50 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 22, 2018, 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 2017 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 with close to 64,000 people. During 2017, employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16.2 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with almost 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 revenues, are sufficient to cover the costs incurred in its operations.

In addition to its core postal services and USO, the Corporation also delivers certain public-policy programs on behalf of the Government of Canada. Pursuant to the *Canada Post Corporation Act*, members of Parliament and certain senior government officials are allowed to send mail free of charge. The Act also provides for free mailing of materials for 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. With more people shifting to the internet and smart mobile devices to communicate and transact, posts continue to experience a structural decline in mail volumes as customers shift to digital alternatives.

Canada Post is also at a critical point in its history. As the trend toward online communication is increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Transaction Mail, our largest line of business. In 2017, we delivered three billion pieces of Domestic Lettermail, two billion pieces (or 41%) less than we did in the peak year of 2006. Transaction Mail is not expected to rebound.

Digital technology has disrupted many industries, including Canada Post's. However, Canada Post has reinvented itself to continue to play a key role in the lives of Canadians in the digital era and has become the country's no. 1 parcel delivery company. The Canada Post segment has grown its annual Parcels revenue by over $900 million since 2011. Canada Post has achieved its market-leading position in e-commerce by pivoting its operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience. Though parcels and direct marketing represent opportunities for Canada Post, their growth alone is not expected to entirely offset the financial impact of the decline in the core Lettermail business.

Our strategy in 2017 was to remain focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and ensuring we meet our service commitments to provide a superior customer experience.

## Financial and business highlights

For a fourth consecutive year, the Canada Post Group of Companies realized a profit before tax, in 2017 amounting to $199 million, compared to a profit before tax of $114 million in 2016. This represents an increase of $85 million, or 74.9%, mainly from positive results in the Purolator segment due to e-commerce parcel growth. The fourth quarter profit accounted for a significant portion, or $88 million, of the Canada Post Group of Companies' 2017 profit before tax due to very successful holiday season, when demand for its services is the highest.

The Canada Post segment reported a profit before tax of $74 million in 2017, compared to a profit before tax of $55 million in 2016, an increase of $19 million or 35.1%. It generated revenue of $6,417 million, an increase of $231 million or 4.1%[1] compared to 2016. The strong revenue growth in Parcels, $393 million, or 23.1%,[1] was offset by a decline of $124 million, or 3.7%,[1] in Transaction Mail. The year-over-year revenue increase was also due to lower revenue in 2016 because customers made alternate delivery arrangements due to the labour uncertainty from prolonged negotiations with the Canadian Union of Postal Workers. This positive impact was partially offset by one less trading day in 2017 compared to 2016. The cost of operations grew by $212 million. Labour and employee benefit costs alone increased year-over-year by $163 million, or 4.1%,[1] from the impact of Parcels growth and a lower base in 2016, again, mainly as a result of a reduction in mailings due to the labour uncertainty. These negative factors were partially offset by one less paid day in 2017. The Purolator segment recorded a profit before tax of $120 million in 2017, compared to a profit before tax of $67 million in 2016, an increase of $53 million, or 79.8%.

Financial results for 2017 were affected by the following factors, in the Canada Post segment.

### Parcels growth

The Canada Post segment's strategy to be a leader in the business-to-consumer e-commerce delivery market, allowed it to achieve another year of growth in its Parcels line of business. Revenue and volumes respectively increased by $393 million or 23.1%[1] and 47 million pieces or 24.5%[1] compared to 2016. In 2017, for the first time, we exceeded the $2 billion mark in parcel revenue. During our holiday peak season, we broke several parcel records as we delivered 62 million parcels, compared to 54 million in the 2016 holiday peak season. We delivered over one million packages a day for 41 days, compared to 26 days in 2016, and set the all-time, single day record by delivering 1.8 million parcels on December 4, 2017, compared to our 2016 single day record of 1.5 million parcels.

### Commitment to service

Our vast retail network of post offices and dealer outlets across the country provide convenient locations and service, with many of them offering evening and weekend hours to meet the changing needs of Canadians.

To enhance service we installed approximately 1,000 additional parcel lockers in apartment buildings and condominiums across Canada in 2017. With a base that now exceeds 4,300 parcel lockers across the country, we are enabling safe and secure delivery to residents even when they are not at home to receive their parcels. We also continued to adapt our delivery model by increasing our use of weekend delivery throughout the year, not just during the holiday season, making it more aligned with the growing demand for parcels.

### Ongoing decline in Transaction Mail volumes

Total 2017 Transaction Mail revenue decreased by $124 million or 3.7%[1] compared to 2016, and volumes declined by 200 million pieces or 5.5%[1] compared to 2016, as consumers and mailers continued to migrate to digital alternatives. Canadian points of delivery have also increased over the last 11 years (by an average of 172,000 per year), contributing to higher costs due to the obligation to provide delivery service to more addresses. In 2017, the mail volume decline per address was 6.5%.

### Engaging our workforce

In 2017, Canada Post and two of its bargaining units reached new collective agreements, including a first for the Corporation with the successful negotiation of a new collective agreement completed four months prior to the expiry date of the current agreement. In November 2017, Canada Post and the Association of Postal Officials of Canada signed a new collective agreement that will take effect April 1, 2018. Also in November, without third party assistance or the threat of a labour dispute, Canada Post and the Public Service Alliance of Canada / Union of Postal Communications Employees reached a four-year agreement retroactive to September 1, 2016.

To improve labour relations by promoting more effective open and continuous interaction between the parties and enhancing communication, a Labour-Management Relationship Committee was established per the previous collective agreement between the Corporation and the Canadian Union of Postal Workers – Urban Postal Operations. The committee has met regularly starting in 2017.

1. Adjusted for trading days or paid days, where applicable.

### Size and volatility of pension and other post-employment benefits

The solvency deficit to be funded for the Canada Post Corporation Registered Pension Plan (RPP) was estimated at $6.4 billion (using the three-year average solvency ratio basis) as at December 31, 2017. 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 can put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one quarter 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. At the end of 2017, this volatility led to remeasurement losses of $203 million, net of tax, on the Group of Companies' defined benefit plans. These losses were recorded in other comprehensive income and reduced the Group of Companies' equity balance to negative $354 million as at December 31, 2017. The losses were mostly the result of a decrease in discount rates, offset by positive investments returns.

In February 2014, the Government of Canada introduced regulations that provided Canada Post with relief from making special payments to the RPP from 2014 to 2017. In 2018, the Corporation will revert back to the regulations in the *Pension Benefits Standards Act, 1985.*

On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. This change will further delay upcoming special payments for Canada Post, resulting in no special payments having to be made in 2018. Canada Post intends to work with its bargaining agents to address the pension plan's long-term challenges in an effort to secure the RPP's future for all plan members.

### Government review of Canada Post

In 2016, the Government of Canada undertook a review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. On January 24, 2018, the government announced its vision for renewal at Canada Post. The vision emphasizes service to Canadians while acknowledging that Canada Post must be efficient and financially sustainable for the long term. Under this vision, the Corporation will:

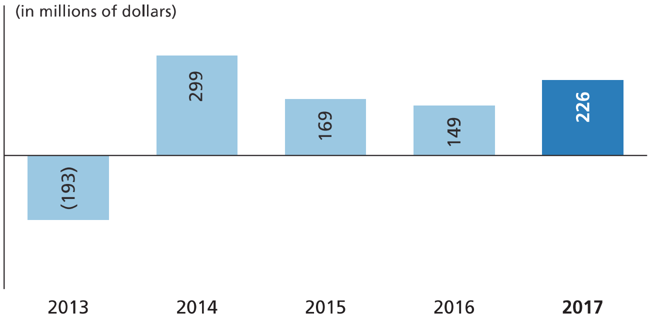
1. terminate the conversion of home delivery to community mailboxes,
2. improve its accessibility program to lessen difficulties in accessing mail for seniors and those with mobility challenges,
3. better promote its remittance services,
4. invest its profits in service and innovation, and
5. build more collaborative relationships with communities, employees, labour and other stakeholders. A new Chair of the Board of Directors, and new members to be appointed to the Board of Directors, will guide and direct Canada Post as it implements the government's vision.

Canada Post welcomes the Government of Canada's vision to renew the postal service. It provides a valuable blueprint as the Corporation looks to deliver the services Canadians expect today and in the future, while ensuring that it remains financially strong.

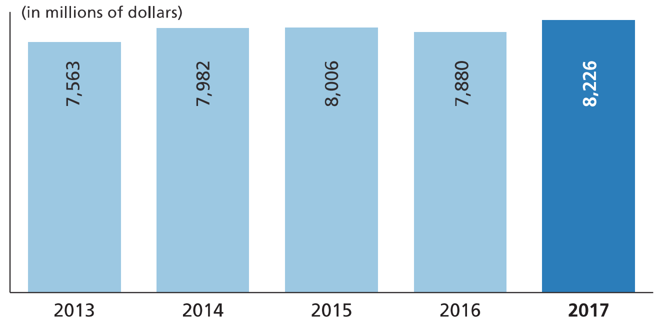
## The Canada Post Group of Companies – 2017

The 2017 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

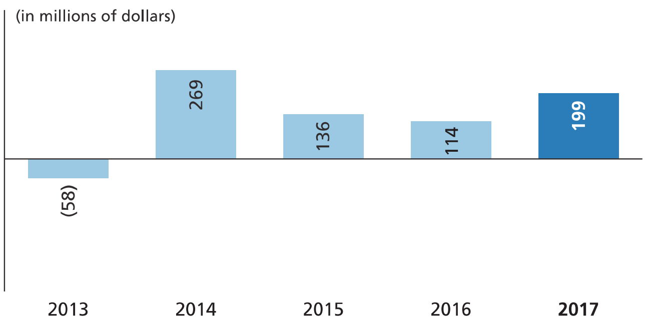
### Consolidated profit (loss) from operations



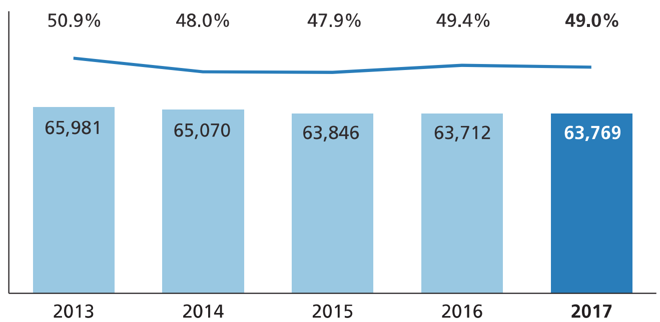

### Consolidated revenue from operations



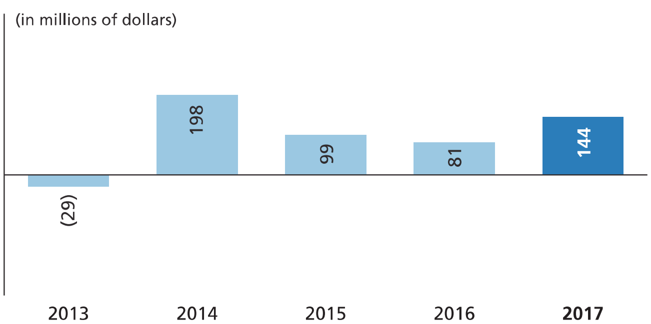

### Consolidated profit (loss) before tax



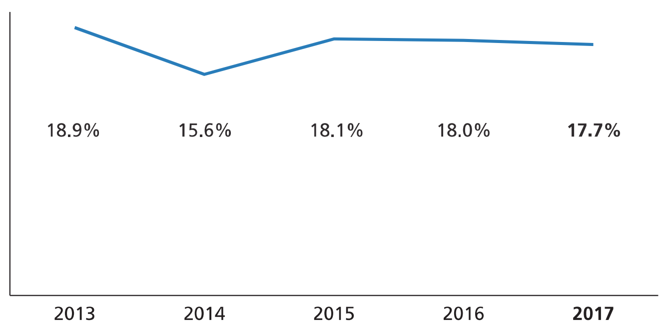

### Labour as a percentage of revenue from operations combined with number of employees[1]




### Consolidated net profit (loss)




### Employee benefits as a percentage of revenue from operations




1. 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 2017 fiscal year compared to 2016.

(in millions of dollars)

| Year ended December 31 | 2017 | 2016 | Change | % | Explanation of change |
|---|---|---|---|---|---|
| Consolidated statement of comprehensive income | | | | | Highlights, as discussed in Section 8 – Discussion of Operations page 64. |
| Revenue from operations | 8,226 | 7,880 | 346 | 4.8[1] | Increase in parcels growth in the Canada Post and Purolator segments, including recovery from the negative impact in 2016 of the labour uncertainty in the Canada Post segment, partially offset by ongoing Transaction Mail volume erosion. |
| Cost of operations | 8,000 | 7,731 | 269 | 3.9[1] | Increase mainly due to higher volumes and inflationary pressures in the Canada Post and Purolator segments. |
| Profit from operations | 226 | 149 | 77 | 51.8 | Increase due to higher revenue resulting from growth in parcels offset by increased labour, benefit and transportation costs. |
| Profit before tax | 199 | 114 | 85 | 74.9 | |
| Tax expense | 55 | 33 | 22 | 67.7 | |
| Net profit | 144 | 81 | 63 | 77.8 | |
| Consolidated statement of cash flows | | | | | Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 56. |
| Cash and cash equivalents | 1,503 | 849 | 654 | 77.0 | Increase mainly due to cash provided by operating activities and financing activities, partially offset by cash used in investing activities during the year. |
| Cash provided by operating activities | 748 | 597 | 151 | 25.3 | Increase mainly due to higher profits and reduced tax payments. |
| Cash used in investing activities | (68) | (443) | 375 | 84.6 | Decrease primarily due to higher proceeds from disposal of investments, partially offset by higher acquisitions of capital assets. |
| Cash used in financing activities | (24) | (80) | 56 | 70.7 | Decrease mainly due to repayment of non-redeemable bonds that matured in March 2016. |

1. Adjusted for trading or paid days, where applicable.

# 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 $8.2 billion. The Group of Companies has the largest retail network in Canada with almost 7,000 retail locations, operates a fleet of over 18,000 vehicles and employs close to 64,000 people.

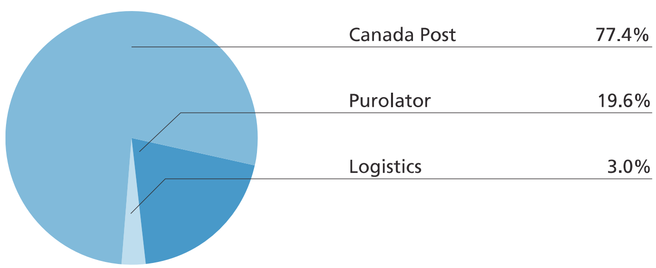
In 2017, our employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16.2 million addresses in urban, rural and remote locations across Canada.

Canada Post is the largest segment of the Group of Companies with revenue of $6.4 billion in 2017. 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 whose revenue reached $1.6 billion in 2017.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2017 revenue was $283 million.

**Revenue by segment – 2017**



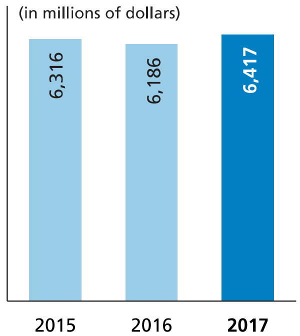

| Revenue by segment | 2015 | 2016 | 2017 |
|---|---|---|---|
| Canada Post | 78.5% | 78.1% | 77.4% |
| Purolator | 18.9% | 19.1% | 19.6% |
| Logistics | 2.6% | 2.8% | 3.0% |

## Canada Post segment

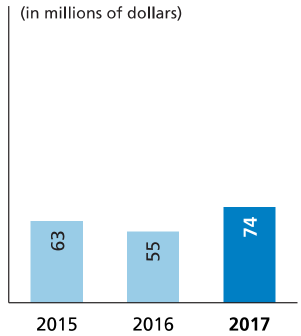
Canada Post operates Canada's largest retail network with close to 6,200 retail post offices and a fleet of over 13,000 vehicles that delivered almost 8.3 billion pieces of mail and parcels in 2017. With almost 51,000 employees, Canada Post provides service to 16.2 million addresses.

The Canada Post segment generated revenue of $6.4 billion and, after excluding intersegment revenue, represented 77.4% of the Group of Companies' 2017 consolidated revenue of $8.2 billion.

### Revenue

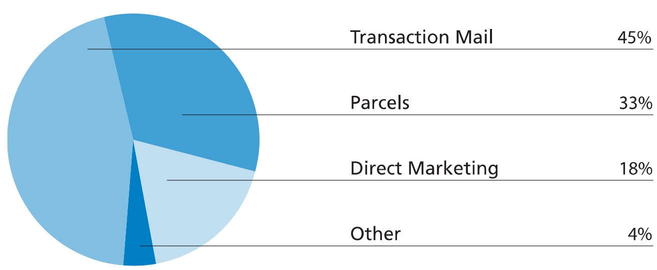



### Profit before tax




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 – 2017




| Revenue by line of business | 2015 | 2016 | 2017 |
|---|---|---|---|
| Transaction Mail | 50% | 49% | 45% |
| Parcels | 26% | 28% | 33% |
| Direct Marketing | 19% | 19% | 18% |
| Other | 5% | 4% | 4% |

### 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 $2.9 billion or 45% of Canada Post's 2017 operating revenue of $6.4 billion. Most of the Transaction Mail revenue is derived from traditional physical mail delivery services, with Domestic Lettermail accounting for 91%. However, Domestic Lettermail volumes are declining rapidly (5.3% in 2017) 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 accounted for $2.1 billion or 33% of Canada Post's 2017 operating revenue of $6.4 billion. This line of business has grown by $914 million since 2011, an indicator of its successful strategy to win a leadership position in e-commerce. Leveraging its core strength in delivering to every Canadian address, as well as its processing, delivery and retail network, Canada Post has become no. 1 in Canada in the competitive e-commerce delivery market (by revenue), by partnering with retailers and innovating to create greater convenience for online shoppers.

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 Canada Post Personalized Mail™ service allows customers to personalize mailings and tailor promotional messages to specific consumers or prospects. With the Canada Post Neighbourhood Mail™ service, customers can reach specific neighbourhoods or regions across Canada. Together, Personalized Mail™ and Neighbourhood Mail™ make up the Canada Post Smartmail Marketing™ solution, a more intelligent approach to direct mail. The Publications Mail™ service includes the distribution of periodicals, such as newspapers, magazines and newsletters.

Direct Marketing accounted for $1.1 billion or 18% of Canada Post's 2017 operating revenue of $6.4 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 mail redirection, data products, commemorative stamps, gifts and coins, and the epost™ service that allows users to receive, pay and manage bills in one place online.

The Other category accounted for $252 million or 4% of Canada Post's 2017 operating revenue of $6.4 billion.

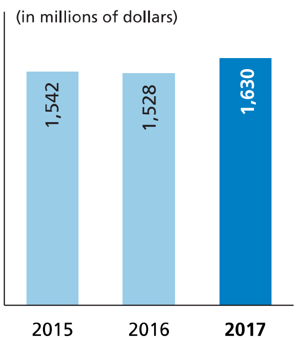
Customers include businesses, governments and private consumers.

## Purolator segment

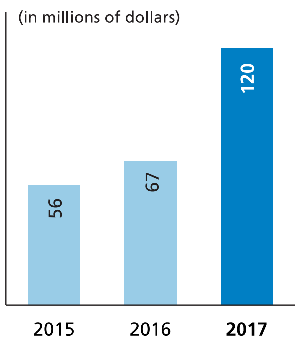
Purolator Inc. is a leading Canadian transportation, delivery and logistics solutions provider, with a history going back over 50 years. Benefiting from its industry-leading premium services and reliability, Purolator focuses on satisfying the needs of the traditional business-to-business customers and the growing e-commerce 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. Purolator brings logistics know-how, premium service capabilities and business-to-business expertise to its customers in the highly competitive and rapidly changing Canadian distribution landscape. Purolator's presence in the U.S. market also provides inbound transportation and logistics capabilities in an expanding cross-border market. Purolator has an extensive service network in Canada that includes its own ground fleet of more than 3,500 vehicles, 175 operations facilities, more than 100 shipping centres, approximately 600 authorized shipping agents as well as customer contact centres.

In 2017, Purolator generated revenue of $1.6 billion, which after excluding intersegment revenue, represented 19.6% of the 2017 Group of Companies' consolidated revenue of $8.2 billion.

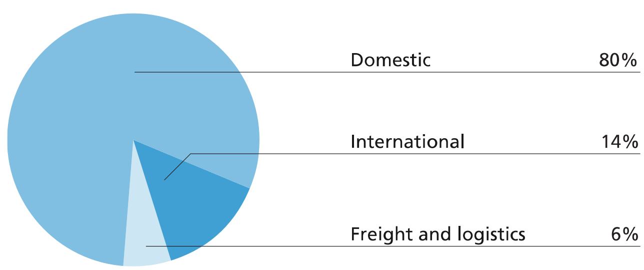
### Revenue




### Profit before tax




### Revenue by market – 2017




| Revenue by market | 2015 | 2016 | 2017 |
|---|---|---|---|
| Domestic | 82% | 81% | 80% |
| International | 13% | 13% | 14% |
| Freight and logistics | 5% | 6% | 6% |

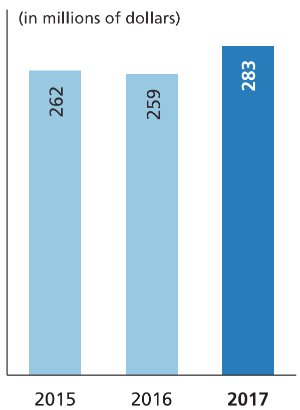
### Logistics segment – SCI Group

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.

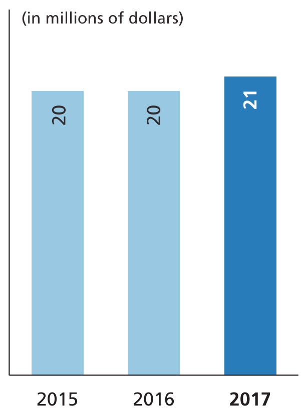
SCI Group offers its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada.

SCI Group generated revenue of $283 million, which, after excluding intersegment revenue, represented 3.0% of the 2017 Group of Companies' consolidated revenue of $8.2 billion.

**Revenue**




**Profit before tax**




## 2.2 Our business environment

### Global trends

After experiencing slow growth in 2016, the global economy strengthened in 2017. Major factors included increases in investment and industrial production with an increased consumer and business confidence. In Canada, government and household spending contributed to strong growth for the year.

However, a high level of uncertainty remains regarding economic policies of the U.S. administration. Tax reform, while potentially stimulating U.S. domestic growth, may shift global trade and investments and increase the strength of the U.S. dollar. While a strong U.S. economy is typically a benefit for Canada, the change could have an impact on foreign investment in Canada as more investment flows into the U.S. Likewise, a focus on greater protectionism and uncertainty around negotiations of the North American Free Trade Agreement could directly affect cross-border trade and investments between Canada and its largest trading partner.

Elsewhere, the most immediate impact of rising interest rates, particularly in the U.S., would be downward pressure on the relative value of the Canadian dollar. While this could likely have a negative impact on domestic consumer spending, it could also boost export-dependent businesses and encourage renewed foreign investment in Canada. Canadian economic growth in 2018 is expected to be driven by growth in manufacturing, transport, and services. However, economic growth may be tempered by higher interest rates and a cooling housing market.

Posts around the world have had to innovate and manage costs in the face of growth in delivery networks coupled with decreasing mail volumes as governments, businesses and individuals substitute online and mobile platforms for traditional mail. The International Post Corporation reports that mail volume has declined by more than a quarter in some advanced economies and has more than halved for others since 2006.

The rapid growth in e-commerce is expected to continue in the future. For the postal industry, parcels will drive future growth. Continuing to introduce new delivery solutions that focus on convenience for retailers and consumers will be critical as competition from outside the postal industry increases. Global integrators, such as UPS and FedEx, are investing to compete for residential deliveries in urban areas. Major e-retailers like Amazon are now expanding their own final mile delivery and parcel lockers. Other companies are entering the market for local deliveries. Retailers are increasingly adopting novel delivery solutions as they compete for more of their customers' spending.

Posts are also developing new strategies to ensure their sustainability:

- Several posts have launched e-commerce returns solutions aimed at improving the customer experience, developing solutions to complement their existing return at retail. An Post (Ireland), Swiss Post and La Poste (France) now offer solutions that involve home pickup of returns parcels. Posten Norge (Norway) now sends the consumer a text or email to confirm receipt of the returned item. Correos (Spain) has recently incorporated a network of parcel lockers into its returns solution, allowing consumers to return items at a parcel locker.
- Posts are seeking greater automation to improve productivity and customer experience. Deutsche Post DHL is testing autonomous delivery trucks, including for last mile delivery, through a partnership with NVIDIA, a specialist in artificial intelligence. Swiss Post is testing delivery robots in Zurich and other cities through partnerships with Starship Technologies and retailer Jelmoli. Similarly, Australia Post is testing autonomous robot parcel delivery in Brisbane. The United States Postal Service is researching autonomous vehicles to increase safety, reduce costs, and improve productivity.

**Canada**

Canada Post has been successful at growing its Parcels business, which helps to offset declining mail volumes and a reduction in the annual number of pieces of mail delivered per address. However, similar to posts around the world, we are facing increased competition from traditional competitors and new entrants who are disrupting the delivery business. In addition, our ability to compete and achieve long-term profitability in a growing e-commerce market is threatened by the Corporation's inflexible and high cost structure. As well, declining mail volumes have resulted, since 2008, in a reduction of more than 41% in the annual number of pieces of mail delivered per address. It is impossible to predict when the steady rate of decline in mail volumes might suddenly accelerate, which has occurred when other communication technologies or media have been disrupted.

| Transaction Mail (excluding outbound) | 2009[1] | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|
| Delivered volume percentage change | (5.5)% | (3.9)% | (3.7)% | (6.1)% | (4.9)% | (5.0)% | (5.9)% | (7.7)% | (5.4)%[2] |
| Delivery addresses percentage change | 1.2% | 1.0% | 1.0% | 1.0% | 1.0% | 1.2% | 0.9% | 1.2% | 1.1% |
| Mail volume percentage decline per address | (6.7)% | (4.9)% | (4.6)% | (7.0)% | (5.9)% | (6.1)% | (6.8)% | (8.8)% | (6.5)%[2] |

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. Adjusted for trading days.

## 2.3 Our strategy and strategic priorities

### Canada Post

The Canadian postal system connects rural, remote and urban communities, supports the success of Canadian businesses of all sizes and helps charities raise funds. However, Canada Post is facing an ongoing and irreversible drop in mail volumes, as Canadians are changing the way they use postal services. Digital platforms are replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. Canadians value their postal system and expect it to evolve to meet their changing needs.

In 2017, while we were awaiting the results of the Government review, our strategy and strategic priorities remained focused on growing our Parcels business, providing a superior customer experience and meeting our service commitments.

**Adapting our network**

Canada Post needs to continue improving its network in order to offer the best delivery experience for customers and drive growth. Investments and enhancements of plant equipment and delivery systems have been achieved to improve service performance and customer experience. With our growing demand in parcels, as a results of Canadians' changing postal needs, we have consolidated our delivery network processes to be more efficient and effective.

**Achieving leadership in e-commerce through delivery excellence and innovation**

Canada Post's focus on growing through e-commerce is reaping benefits for its brand and for the country's retail sector. While growth in Parcels alone does not make up for Lettermail erosion, it is key to our future. Our focus on innovation and convenience, such as the FlexDelivery™ service, our unparalleled market coverage, with close to 6,200 post offices across the country and our focus on providing a superior customer experience, mainly through convenience and speed, have us well positioned to continue benefiting from e-commerce growth. We expect to invest in infrastructure capacity in 2018 to meet the challenges of continued e-commerce growth, through upgrades to facilities and information technology systems. We aim to solidify our position as 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. We will continue to differentiate ourselves from the competition in residential delivery.

### Developing winning marketing solutions

Print advertising, including direct marketing, has experienced a loss of market share because of the rise of internet and mobile advertising. However, it remains an important part of a multimedia mix for large and small businesses, as marketers are finding that, while digital media is generating a lot of customer interaction, it is under-delivering on action. Three powerful elements of direct marketing products – physical experience, data and connectivity – are proven to make their marketing mix more relevant and more engaging than digital offerings. Campaigns can be targeted, allowing marketers to use data to personalize their messages and reach consumers at home.

Canada Post's direct mail products represent a small percentage of the Canadian advertising market. However, our Smartmail Marketing™ solution is a more intelligent approach to direct mail and it allows us to compete more effectively with other advertising alternatives, including digital options. Neighbourhood Mail is the product marketers use to reach neighbourhoods with offers that are relevant to the people who live there. Similarly, Personalized Mail is mail that presents an offer to a person by name. Canada Post's direct mail products are also affordable and provide customers with an excellent return on their investment.

### Creating a more engaged and commercially-oriented workforce

Engaged employees are a critical element to the success of the Corporation. In today's highly competitive environment, customers have choices that employees can influence. While we continue to adapt 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. Collaboration with our unions is key to this journey; we will continue to work with all our unions on new initiatives, programs and plans and share ideas for continuous improvement.

### Enhancing the brand through service performance and customer service

Canada Post is one of the most iconic and recognized brands in Canada and is one of the few organizations that can call all Canadians customers. The Canada Post brand is recognized for being trusted, providing quality service and value; however, it is in the midst of a significant transformation. Our objective is to maintain our strength in attributes associated with serving the needs of Canadians and contributing positively to Canadian society. 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 continue to bring 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.

### Update to the government review

On January 24, 2018, when the federal government announced its new vision for Canada Post, it included five concrete actions:

1. The Corporation's program to convert door-to-door delivery to community mailboxes is terminated. All households receiving door-to-door delivery will continue to receive it. New subdivisions will continue to have community mailboxes installed.
2. Canada Post will establish a national advisory panel, to develop, implement and promote an enhanced accessible delivery program for Canadians experiencing difficulty with community mailboxes, especially seniors and others with reduced mobility.
3. Canada Post will be reclassified under the *Financial Administration Act* to remove the current requirement to pay a dividend to its shareholder, the Government of Canada, permitting the Corporation to reinvest all its profits in service and innovation.
4. The Corporation will promote its remittance services to Canadians who send money overseas to support family members, in an effort to increase market share.
5. The government is renewing leadership at Canada Post, including the Chair, the Board of Directors and the President and Chief Executive Officer. The new Chair and Board of Directors will help build more collaborative relationships with communities, employees, labour and other stakeholders.

In implementing the new vision, the Corporation will consider the applicability of world trends and innovations in the postal industry to Canada, examine parcel delivery options, and explore partnerships with the federal government and other jurisdictions to leverage Canada Post's unique retail network to enhance government services, particularly in rural and remote areas.

### Purolator

Purolator's strategic imperatives are focused on strengthening its core business – while also building capabilities to address the needs of the markets it serves. It continually stands out in the competitive landscape through premium products, service excellence and customer experience, while maintaining its cost competitiveness and flexibility. It is also well positioned to take advantage of emerging trends that favour faster transit times, time-definite delivery services, high levels of reliability and a greater focus on customer experience. Purolator's implementation of its long-term strategic plan progressed in 2017. The core business improved, and the focus on launching new services, technologies and processes that drive network efficiencies continued. Through these efforts, Purolator is reinforcing its position as one the leading providers of integrated business-to-business transportation, delivery and logistics solutions within, to and from Canada.

Purolator also continued to target attractive sectors by providing augmented and premium services specific to each industries' needs. Moreover, with the significance and large potential of cross-border trade, the company is capitalizing on growth opportunities by streamlining transportation, distribution and information flow between Canada and the rest of world.

In 2017, Purolator continued to demonstrate its reputation for corporate stewardship and as a company focused on sustainability. As usual, a particular highlight of Purolator's corporate social responsibility program was the Purolator Tackle Hunger™ campaign. Along with setting new records for food donation to Canadian food banks, the campaign also won the *Canadian HR Reporter* 2017 National HR Award for Best Corporate Social Responsibility Program. In addition, Purolator continued its efforts toward environmental sustainability with significant R&D activities focusing on reducing its carbon footprint.

### 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. SCI's strategy will be to continue to focus on profitable growth from targeted verticals such as retail, health care and technology and expand on proven capabilities including omni-channel fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. In 2018, SCI will strengthen key foundational elements, while building for the future through its key verticals, focusing on mid-market and new services that will enhance SCI's value to customers.

## 3 Key Performance Drivers

*A discussion of our key achievements in 2017*

As discussed in Section 2.3 – Our strategy and strategic priorities, our main strategic priorities in 2017 were focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and providing superior customer experience through greater levels of convenience, speed and network optimization.

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 is a summary of our key achievements in 2017.

**Achieving leadership in e-commerce through delivery excellence and innovation**

- Parcels revenue increased to over $2 billion for the first time in 2017 (an increase of 23.1%[1] over 2016), and Parcels revenue from our top 25 e-commerce customers grew by more than 42.1%[1] over 2016. This was achieved by attracting new business and increasing revenue and volumes from our existing customers.
- Revenue and volumes of international inbound Tracked Packet™ items totalled $77 million and 17.5 million pieces in 2017. This represents a growth of 199%[1] and 254.4%[1] respectively from the prior year. The significant increase was mainly due to the fast growing e-commerce market from Asia-Pacific countries, as Canadians are ordering items from abroad in record numbers, using Tracked Packet, which meets their evolving need for trackability and service.
- We enhanced our global trade platform by adding a direct ship solution. This platform, developed in 2016 with Purolator to integrate parcel content information flow between customers, suppliers and regulatory agencies, facilitates the movement of inbound and outbound goods in the lucrative international market for parcels.
- In March 2017, we launched the mobile app for our FlexDelivery™ service. FlexDelivery allows customers to direct items they order online to any post office, providing choice, flexibility and control over where, when and how they pick up their parcels. In 2017, registrations in FlexDelivery increased by approximately 100,000 and shipments increased by over 300,000 from 2016.
- On September 20, 2017, we hosted the sixth annual Canada Post E-commerce Innovation Awards™ in Toronto honouring leading retailers in Canada. Eight retailers were celebrated out of 32 finalists from across the country and a variety of industries.
- Our Ship From Store service is used by approximately 30 merchants at over 1,500 pickup locations, with volumes of over 16 million pieces (up over 45% from 2016). The service allows business customers to ship their products to their online customers from the merchant's nearest available retail location.
- For customers of the Canada Post Solutions for Small Business™, we launched Canada Post Snap Ship™ allowing them to request an on-demand pickup when preparing a shipment. In addition, we offered them the Free Shipping Tuesdays promotion for all five weeks in October.
- We installed almost 1,000 additional parcel lockers in apartment buildings and condominiums across Canada, bringing the total installed base to more than 4,300, serving over one million customers. They allow parcels and packages to be delivered safely and securely, even when residents are not home to receive them. Our parcel volumes for buildings with these lockers grew at a higher rate than our overall parcel volumes, demonstrating the appeal of this safe and convenient delivery method.
- Revenue and volumes for medicinal cannabis shipments increased compared to 2016, in part from our consultations and work with Health Canada to accept more shipping options, such as FlexDelivery and Card (Hold) for Pickup. In addition, we are preparing for the proposed legalization of recreational cannabis by engaging stakeholders, including Health Canada and Purolator, to develop strategy and actions plans.
- Our digital assets remain a source of competitive advantage. The Canada Post app is a highly ranked business app and ended the year ranked third of free business apps on iTunes™. We had over 450,000 downloads in 2017 alone, bringing the total downloads to three million since the launch in 2010. New features were launched in 2017 for customers to track parcels on their phones and to turn on push notifications. We also implemented a fingerprint sensor on Android™ and a touch ID for iPad™, and optimized the app for iPhone™ X. Multiple improvements were made to canadapost.ca to improve self-serve, usability and support. Visits to canadapost.ca increased by 22% and transactions using key online tools increased by 71% compared to the prior year.

1. Adjusted for trading days.

### Developing winning marketing solutions

- Innovation is a high priority for Smartmail Marketing™ and will continue to be over the coming years. In early 2017, we introduced a new service, Postal Code Targeting, to meet marketer demand for a more targeted customer acquisition solution. We introduced changes to Neighbourhood Mail™ in early 2018 to help us better meet the advertising needs of retailers and win a larger share of the print flyer distribution market. We piloted various new marketing concepts, including a calendar offering within our smartmoves™ marketing program that provides an innovative way for marketers to reach consumers who have recently moved.
- We made improvements to the data and campaign planning tools that power marketing mail's precise audience targeting capabilities. For example, we simplified the user experience of our Precision Targeter™ tool for small businesses and our post-campaign response analysis service for medium-sized to large enterprises.
- We worked to improve the effectiveness of our direct and indirect Smartmail Marketing sales channels. We developed and introduced a comprehensive new advertising sales training curriculum for sales executives, and we equipped our partners with specialized educational and marketing tools.
- We continued our efforts to improve the customer experience with the introduction of a new how-to video series for machineable mail and simplifications to the mailing deposit experience.
- Neighbourhood Mail™ saw revenue growth of $25 million or 6.9%[1] and volume growth of 238 million pieces or 7.5%[1] compared to 2016. This growth resulted from new mailings.

### Creating a more engaged and commercially oriented workforce

- We delivered over 900,000 hours of training to employees through digital learning and other means. Our investment in digital learning has enabled greater outreach to employees across the country in urban and rural locations.
- Held face-to-face meetings with almost 1,000 mid-managers to bring awareness to safety, leadership habits and business updates.
- Accelerated the grievance response rates and reduced the grievance backlog. These improvements helped resolve employee concerns.
- Introduced an online equity survey, making it easier for employees to self-declare an affiliation with one of four designated groups and help Canada Post ensure its programs meet changing demographic needs.
- Modernized the human resources organization through the creation of human resources business partner roles. These resources are intended to provide greater visibility and improved employee relations, as well as end-to-end HR support to team leaders.
- Continued the HR focus on creating a healthy work environment through the delivery of mental health training to team leaders and HR professionals.
- Fostered safe workplace practices and habits through the creation of a national campaign entitled "Make It Safe. Make It Home." The campaign involves a wide range of stakeholders and will be formally launched in the spring of 2018 to all front-line team leaders.

### Enhancing the brand through service performance and customer experience

- We exceeded our on-time service performance targets in 2017 for Lettermail™ and Personalized Mail™. Targets were also exceeded for domestic and international parcels, despite a 24.5% increase in volumes.
- We created our Canada 150 stamp program to celebrate the 150th year of Canada's Confederation with a set of 10 commemorative stamps – each honouring a major achievement or moment over the past 50 years, since the centennial in 1967.
- In response to the flooding in eastern Ontario, Quebec and New Brunswick, and wildfires in British Columbia in 2017, we had solutions in place within 48 hours, including mobile post office trucks to help residents retrieve mail and parcels that we were unable to deliver, and made special arrangements for delivery. We also restored delivery of mail to displaced residents by offering free Mail Forwarding service for up to 12 months.
- We successfully negotiated a new two-year bilateral agreement with the United States Postal Service, which includes more competitive settlement rates to help increase northbound and southbound tracked shipments.
- We renewed the technology for our customer service call centres by modernizing our infrastructure to benefit from the latest technological advances, including automated customer call-back capability, automated post-call survey functionality and a new chat infrastructure, which will go live in 2018.

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1. Adjusted for trading days.

# 4 Capabilities

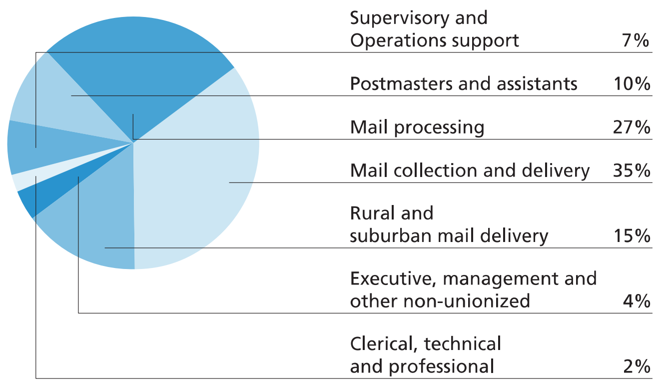
*A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results*

## 4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with close to 64,000[1] people, the majority of them employed by Canada Post Corporation. Our workforce is diverse and is found in every urban, rural and remote community across Canada.

**Canada Post segment**

**Workforce by type of work – 2017**




### Talent management, learning and development

**Canada Post segment**

Canada Post Corporation continues to improve recruitment strategies aimed at hiring a talented and diverse workforce. This approach ensures that the future business and operating environments of the Corporation are well supported and reflect the diversity of the Canadian communities being served. Over the past year, the number of women and members of visible minorities employed by the Corporation[2] continued to exceed Canadian Labour Market Availability.[3] Additionally, workforce representation of Aboriginal peoples and persons with disabilities increased for the first time in seven years. Strategic recruitment through direct outreach efforts to these groups will continue in 2018.

Once hired, our talent management processes are focused on ensuring the right people are working in the right roles safely and productively. Leadership development is also very important at Canada Post, and the Corporation aims to develop leaders in a way that educates them on the changing business context and the role they play in delivering an excellent employee experience.

We marked a significant milestone in 2017 as we extended our leadership development program to middle management. Teams of leaders worked on learning projects assigned by senior management, which were related to business and cultural issues for Canada Post. In total, over 180 leaders participated in this intensive development program and the organization benefited from each team's research, analysis and recommendations on contemporary issues such as drones, self-driving vehicles and digital authentication. The Corporation is targeting approximately 200 managers to participate in the program in 2018.

1. Employment figures include full-time and part-time paid employees, and excludes temporary, casual and term employees.
2. Employment equity statistics do not include employees classified as casual who work less than 12 weeks in a calendar year.
3. Canadian Labour Market Availability is derived from Census Canada data and is unique to each employer based on worker skills required and employment location.

To align with the requirements of the parcels market and the agility it requires, the Corporation expanded its deployment of a progressive performance management system. The model features a more dynamic objective setting process, increased team leader touch points and coaching with employees, the elimination of performance ratings and increased team leader accountability for performance and compensation decisions. It is designed to be more forward-looking, agile, and growth and development-oriented.

Over 900,000 hours of training were delivered in 2017. Digital learning continues to provide greater reach to all employees and offers access to quality training in both urban and rural Canada. It also provides a tracking system to ensure training is deployed in an effective and efficient manner. This year we also implemented a new pre-planning feature to ensure employees receive safety and job readiness training on a timely basis.

There was a continued focus on the delivery of health and safety training, anti-money laundering training to all Retail employees, as well as deployment to expanded geographies for next-generation mobile computers (NGMC). In total, over 105,000 hours were delivered on health and safety training on key programs such as Dangerous Goods, Safety on the Move and Respect in the Workplace – Violence Prevention. During the NGMC project, over 25,000 employees were trained in approximately 1,400 sites. This mobile device greatly enhances the parcel visibility throughout our network for an improved customer experience.

Innovative employee learning experiences continue to be piloted in new training programs. In 2017, we launched a refreshed version of our National Delivery Employee (NDE) Training Program, which includes a mix of in-class, digital learning and on-the-job training to drive employee success. The program has received positive reviews from employees who have indicated they have benefited from the in-class simulations, on-the-job training activities with peer mentors and focus on health and safety. Another significant investment in learning in 2017 was in our Sales division. As our markets are evolving, two intensive training programs, reflecting market trends and customer expectations, were designed and delivered.

In 2017, Canada Post automated talent management to better manage succession risk, understand employee aspirations and career goals and ultimately lead to more effective talent development across the organization. This is an important workforce management tool, particularly since it is forecasted that close to 9,000 employees will leave Canada Post over the next three years, largely through retirement.

#### Purolator

The three-year human resources strategic plan created in 2015 aligned with the overall organizational strategy, identifying key initiatives to motivate, engage, retain and recognize employees in a diverse, continuously changing environment. A new three-year people strategy will kick off in 2018 to continue the momentum, with an added focus on leadership development, lean culture and competency-based performance management.

Our annual MyVoice employee engagement survey confirmed once more that our employees take pride in the organization and are engaged. Another survey will take place in 2018.

In 2017, Purolator focused on developing a winning culture and building a high performance leadership team. A number of new senior leaders were appointed in 2017, with a combination of internal and external appointments.

### Health and safety

#### Canada Post segment

Canada Post continues to place a high priority on providing a safe and healthy workplace. We are committed to identifying, preventing and controlling hazards. We are also recognizing and rewarding safety leadership and making continuous improvements. In 2017, total injury frequency decreased by 2% to a historic low.

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 78% of all injuries. We continue to raise awareness of these risks in the workplace through workplace hazard prevention programs, annual campaigns and injury prevention programs. Coaching on safe practices to avoid these injuries is a fundamental element of our ongoing plans and work habits.

## 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] | 33,582 | January 31, 2018 |
| CUPW-RSMC[3] | 7,672 | December 31, 2017 |
| CPAA[4] | 5,243 | December 31, 2018 |
| APOC[5] | 3,553 | March 31, 2018 |
| PSAC/UPCE[6] | 1,253 | August 31, 2020 |
| **Total** | **51,303** | |

1. All full-time and part-time employees including those on unpaid leave, as at December 31, 2017; 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.

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

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. CUPW provided notice to bargain on November 14, 2017, for both bargaining units and, the same day, advised that they had submitted a written request for mediation assistance to the Minister of Employment, Workforce Development and Labour. The Corporation agreed with the request for both bargaining processes. On November 28, 2017, the Minister appointed three mediators to the negotiations processes. The first meetings between the parties began in December 2017 and remain ongoing. Although the collective agreements have expired, they will continue to apply as per the *Canada Labour Code*. The collective agreements for CUPW-UPO and CUPW-RSMC both provide for strike or lockout.

As a part of the previous collective agreement, the Corporation and CUPW-UPO established a Labour-Management Relationship Committee with the objective of promoting more effective open and continuous involvement between the parties and enhancing communication – all to improve labour relations. The committee, which is composed of representatives from each party and the Federal Mediation and Conciliation Service, has met regularly starting in 2017.

On September 1, 2016, the parties signed a memorandum of understanding in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for the RSMC occupational groups. The study was coordinated by a committee made up of representatives from both Canada Post and CUPW and their respective pay equity consultants. On October 16, 2017, the pay equity consultants issued separate reports. The parties began discussions on October 17, 2017, in an attempt to resolve the differences in the reports. As the arbitrator appointed by the Minister of Labour in February 2017 was unable to mediate a settlement, arbitration commenced on February 18, 2018. Any adjustments would be retroactive to January 1, 2016.

#### Canadian Postmasters and Assistants Association (CPAA)

The CPAA represents rural post office postmasters and assistants. The current collective agreement expires December 31, 2018, and notice to bargain can be provided as early as September 2018. This collective agreement provides for final offer selection.

#### Association of Postal Officials of Canada (APOC)

The current collective agreement with APOC expires March 31, 2018. The parties successfully negotiated a new three-year agreement, which takes effect on April 1, 2018. This is a significant event, as the Corporation has never reached and signed a new collective agreement with any bargaining agent four months prior to the expiry of the current agreement. This new agreement provides for wage increases, benefit improvements and other enhancements. The Association represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

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

The collective agreement between Canada Post and PSAC/UPCE expired August 31, 2016. Following 13 months of negotiations, without third-party assistance or the threat of a labour disruption, the Corporation and PSAC/UPCE reached an agreement on November 26, 2017. PSAC/UPCE ratified the agreement on February 23, 2018. This four-year agreement is retroactive to September 1, 2016, and provides for wage increases, changes to post-retirement contributions, benefit improvements and other enhancements. 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.

### Purolator

**Number of employees covered by collective agreements**

| Bargaining agent | Number of represented employees[1] | Expiry date of the collective agreement |
|---|---|---|
| Teamsters[2] | 7,518 | December 31, 2021 |
| Teamsters[3] | 488 | December 31, 2017 |
| Other[4] | 346 | December 31, 2017 |
| **Total** | **8,352** | |

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2017; excludes temporary, casual and term employees.
2. Teamsters represent employees in operations.
3. Teamsters represent clerical and administrative employees.
4. Unifor & PSAC Clerical & Administrative employees.

A new five-year national collective agreement with the Canada Council of Teamsters for all hourly operations employees was ratified on April 28, 2017. This agreement will remain in force until December 31, 2021.

All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have collective agreements that expired December 31, 2017. One agreement was ratified in the third quarter of 2017. In early 2018, additional agreements were ratified and tentative agreements were reached. Bargaining continues for other units.

### 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 | 323 | December 31, 2019 |
| Unifor – Laval | 25 | November 30, 2021 |
| **Total** | **348** | |

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2017; excludes temporary, casual and term employees.

On December 22, 2016, SCI and Unifor – Laval signed a new collective agreement for five years, expiring November 30, 2021.

## 4.2 Our network and infrastructure

The Canada Post segment delivers to 16.2 million addresses and its vast operating network requires significant investment and coordination between collection activities, mail processing plants, transportation links and delivery agents. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. In 2017, almost 8.3 billion pieces of mail and parcels were processed in our plants, which represents on average 33 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network includes the following:

- 21 mail processing plants
- 6,183 post offices, corporately owned or managed by authorized dealers
- 484 letter carrier depots
- 13,075 letter carrier routes
- 1,110 mail service carrier routes
- 22,519 street letter boxes
- 202,678 community mailbox sites
- 1.7 million post office boxes (including general delivery)
- 7,577 rural and suburban mail carrier routes
- 4,300 parcel lockers

To serve the changing needs of Canadians, our business must continuously adapt. In the past few years, we have modified our plants, depots and equipment, with a significant focus on modernizing parcel sortation and delivery to improve parcel tracking and overall customer experience. As Canadians increase their online shopping, Canada Post is investing to increase its capacity to meet consumer demands, with an emphasis on creating an end-to-end positive customer experience. To do so, we have realigned portions of our network to relieve volume growth, increasing capacity where it is most needed, and we added operating equipment to more efficiently prepare us for the 2017 peak holiday season.

To support the growing demand for parcels delivery, we have increased our use of weekend delivery throughout the year, not just during the holiday season. To address the ongoing challenge of the rising number of delivery points, we added delivery capacity to key markets in Montréal and the Greater Toronto Area through a series of investments in new delivery facilities that increase the space required for growth in parcels and in the number of points of call and make operations more cost effective through the motorization of routes. We are moving ahead with plans to test new, more parcel-centric depots by designing new depot operations concepts that satisfy the needs of e-commerce customers. Looking forward to the next generation of technology, we have gone to market to procure packet automation equipment that is more advanced than any other parcel sortation equipment currently in our network.

In 2017, we installed approximately 1,000 additional parcel lockers in apartment buildings and condominiums across Canada to bring the total installed base to more than 4,300, serving over one million customers. They provide a key advantage to tenants who previously had to pick up parcels from their nearest post office when not home to receive them, offering the convenience that busy online shoppers require.

We also addressed the challenges of a dramatic volume increase of inbound packets from China Post. We were highly successful in the continued execution of a plan to migrate inbound volumes from China Post to new featured services that allow for better sortation, tracking and delivery. This product shift provided improvements to customer experience, Canada Post's profitability and ability to process inbound volumes from China Post.

Canada Post and the Canada Border Services Agency have worked together to improve inbound postal clearance operations, which has caused a material reduction in inbound foreign post product inventory.

Canada Post was accepted into full membership with Kahala Posts Group (KPG) on April 25, 2017. KPG is an international alliance of the postal administrations of Australia, Canada, China, France, Hong Kong, Japan, Korea, Spain, Thailand, the United Kingdom and the United States. Through collaboration with these postal administrations, KPG seeks to promote customer choice and improve service options for postal express and package services.

Canada Post was a founding member of the International Post Corporation (IPC), a cooperative association focused on driving service quality, interoperability and standardization predominantly in Letterpost services. With the decline in traditional mail business and the increased emphasis on parcel services as a means for sustainable growth, Canada Post gave notice of its withdrawal from the IPC effective July 2018.

### Capital investments

Capital asset expenditures in the Canada Post segment reached $250 million in 2017 and focused on implementing solutions to address immediate capacity challenges, and on making modifications to our network required to meet long-term parcel growth projections. Capital investments were also made to support the replenishment of our aging vehicle fleet and street furniture, along with required investments to business improvement initiatives. The year-over-year increase of $35 million was driven by the additional capital expenditures required to address our infrastructure capacity challenges due to parcel growth.

In 2018, we anticipate making additional investments to address infrastructure capacity challenges, replenish assets and upgrade facilities. We will also continue to invest in initiatives that support e-commerce growth and enhance the customer experience in key strategic areas, upgrade information technology systems that are reaching their end of life and continue to improve operational service, quality and processes. We will closely monitor our financial position on an ongoing basis and change the pace of capital spending where necessary to mitigate the impact of any financial pressures.

**Purolator**

In 2016, Purolator began reorganizing its operations processes and plans to enhance focus and execution. In 2017, a full review of its strategic initiatives has been completed, specifically identifying solutions for further development and alignment to meet market needs. Priorities include route optimization, transportation management and mobility. Part of this assessment is understanding the end-of-life cycle of existing legacy systems and the competitive advantage of proposed future technologies.

Purolator is in its second year of a three-year full network redesign and optimization, which is focused on three main areas:

- assessing and optimizing the facilities footprint in alignment with future distribution patterns,
- optimizing service offerings in Canada to better align with customer needs,
- enhancing the final mile courier delivery model.

Purolator will remain focused on improving operational efficiencies in 2018.

## 4.3 Sales channels

**Retail network**

To serve consumers and businesses across the country, Canada Post has an extensive retail network of approximately 6,200 post offices, of which 3,700 are corporately owned and close to 2,500 are operated by private dealers. In addition, it sells products and services through thousands of private establishments known as stamp shops. To serve our rural clients across Canada, our retail network includes just over 3,400 locations in diverse and remote areas across Canada. When the operation of a post office in one of those communities is affected by an unforeseen event, 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 on how best to retain postal service are made on a case-by-case basis as we seek practical and sustainable solutions that satisfy the needs of the affected community.

As e-commerce continues to have an impact on the retail world, our retail business is evolving from traditional revenue generation in the Lettermail™ era to an increased focus on parcel delivery. Dealer outlets are particularly convenient as Canadians change the way they shop. The outlets provide convenient access, parking and parcel pickup solution with evening and weekend hours of operation. They offer a cost-effective way to reach and serve Canadians and are critical for our e-commerce strategy. As for the post office network, we have maximized savings in the last few years, by adjusting post office hours to customer traffic.

To enhance our retail network, we continued to invest in our systems and tools. Our aim is to derive 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. Online surveys are available for customers to offer feedback on their recent post office experience. Handheld devices were installed at more post offices in 2017 to reduce parcel handling time, and further expansion is under way in 2018. We continued to leverage our point-of-sale system to help clerks sell products. We provided direct shipment to our customers' homes and maintained the sales program that ensures timely promotion of products. Training videos and web training modules continue to be used to support clerk knowledge and to ultimately better serve customers.

As customer requirements evolve with e-commerce, so do the demands on post offices. New post office models, beyond the traditional ones, have been developed in the last few years. Our concept stores, first introduced in 2015, focus on customer convenience with self-serve technology, a 24/7 service area, a drive-thru for picking up parcels and a fitting room to try online purchases. In 2017, we added five more locations with self-serve devices. To handle the increase in volumes, smaller mail and parcel pickup post offices were opened in 2017. Plans are to further implement these types of post offices as demand increases in the future. Also, we added/modified shelving in a large number of post offices and implemented a new storage methodology, both to increase parcel holding capacity, with plans to do the same in more post offices in 2018.

We are committed to enhancing the customer experience by providing busy Canadians with the cost-effective and convenient services they demand. For example, our different sizes of flat rate (prepaid) shipping boxes launched in 2016 and now available in 50 locations have surpassed sales expectations, as customers enjoy the convenience of buying the boxes and taking them home for future use. We plan to offer the boxes in 150 locations during the first portion of 2018.

### Online network

Customers should be able to reach Canada Post through their channel of choice, be it in person, by telephone, on paper or digitally. Customers can choose to use the digital channel, through the website, or our mobile app to find information, conduct business transactions, manage orders and interact with the Corporation. Among the many conveniences available to customers are information tools (e.g. to find a postal code, a post office, a rate or track a package), order entry systems (e.g. Electronic Shipping Tools, Canada Post Snap Ship, Express Order Entry), direct marketing tools (e.g. Precision Targeter™), and business solutions (e.g. pickup and return services, AddressComplete™, epost™).

We continue to improve and heighten the digital channel by simplifying the user experience online, developing and releasing improvements, reducing customer irritants and introducing new tools and services to ensure that our digital properties are a source of sustainable competitive advantage.

### 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 Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2017.

### 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, 2017, 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, 2017. 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

There were no changes in internal control over financial reporting during the year ended December 31, 2017, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

## 5 Risks and Risk Management

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

Canada Post has a well-established and rigorous enterprise risk management (ERM) framework that considers risks and opportunities at all levels of decision making. The ERM framework helps Canada Post understand and manage the most significant risks to the business and to the brand as 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, the Audit Committee of the Board of Directors and 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

**Financial self-sustainability**

Canada Post has a mandate from the Government of Canada to fund its operations with revenue from the sale of products and services, rather than with taxpayer funding, and to conduct its operations on a financially self-sustaining basis. Rapidly declining Lettermail™ volumes and the financial obligations of the Corporation have put its long-term self-sustainability at risk.

Canada Post's financial position has improved in the short term as a result of operational efficiency initiatives undertaken since 2013, and strong, sustained growth in the Parcels business.

In announcing its new vision for Canada Post the government confirmed its expectation that Canada Post be efficient and financially self-sustaining.

*Risk mitigation*

Canada Post is continuing to grow its Parcels business, strengthen its Direct Marketing business, and pursue improved efficiency, productivity and cost-competitiveness in its operations.

**Significant core volume declines**

Canada Post is experiencing significant competitive pressures across its mail lines of business – an experience shared by postal administrations around the world.

The legislated exclusive privilege, or monopoly, that protects Lettermail from direct competition does not carry much weight in a digital world. Lettermail – which largely comprises business-to-consumer household finance-related communications – experienced its 11th consecutive year of volume declines in 2017 as businesses in the financial, telecommunications and utilities sectors have opted to deliver their bills, statements and invoices electronically. We expect Lettermail erosion to continue, but the pace of that erosion remains uncertain. Patterns in past digital disruptions – such as in film, digital cameras and compact disks – show that volume declines rarely follow a smooth trend and can drop precipitously in a very short period of time.

Marketing mail (Canada Post Smartmail Marketing™) is also facing strong competitive pressure from digital advertising, as well as private companies that distribute flyers and other print material to households at a much lower cost. To many businesses, mail is no longer considered a relevant part of the marketing mix.

*Risk mitigation*

Canada Post's primary focus for Lettermail is on strategically managing this declining product line by reducing costs while maximizing revenue.

Despite competitive pressures, we believe marketing mail presents a growth opportunity for Canada Post because it remains a highly effective driver of marketing results for businesses of all sizes. We have implemented a new growth strategy designed to reposition our offering for greater relevance in today's advertising market. As part of this endeavour, we have published various studies that demonstrate that the physical impact of mail influences consumer behaviour and complements digital advertising in the marketing mix. We are also innovating our offering. Postal Code Targeting, introduced in 2017, meets marketer demand for a more targeted customer acquisition solution. And in 2018, changes to Neighbourhood Mail™ will help us better meet the advertising needs of retailers and compete for a larger share of the flyer market. Over the coming years, we will also make improvements to our address-based data asset, the engine that powers marketing mail's audience targeting capabilities.

**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 $25 billion in market value at December 31, 2017. The scale of the RPP – given its size relative to the Corporation's revenue and earnings, and its funding volatility – pose an ongoing financial risk to the Corporation. The RPP has two primary risk factors:

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

These risk factors could lead to significant going-concern or solvency deficits, which could require special pension funding contributions, posing a risk to the Corporation's cash flow and its ability to fund needed investments in modernization and growth.

As of December 31, 2017, the going-concern surplus was estimated at $2.9 billion, and the solvency deficit to be funded was estimated at $6.4 billion. The final actuarial valuations for the RPP will be filed by the end of June 2018, and results may differ significantly. 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 57.

*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 is in place to lower investment volatility.

On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985,* were amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations Canada Post will not have to make special payments in 2018. Canada Post intends to work with its bargaining agents to address the Registered Pension Plan's long-term challenges in order to secure its future for all plan members.

**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 as rising parcel volumes could exceed Canada Post's sorting and delivery capacity, hindering its ability to fully capitalize on the growth opportunity. From a delivery perspective, traditional global competitors, which 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. These global competitors may be further advantaged in the event of an increase in the duty-exempt level (*de minimis)* for imported goods. New parcel and courier market entrants may deploy asset-light delivery platforms for rapid delivery and do not have to contend with legacy networks, pension obligations, or significant capital investments. Further, 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. Margin and revenue compression may also become a factor as a greater proportion of shipments are made locally, as retailers look to reduce shipping time and improve customer experience by locating inventory in advance or building their own delivery force. Internally, the design of Canada Post's operational network has traditionally 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 the FlexDelivery™ service, delivery instructions, apartment parcel lockers, Sunday delivery in the weeks before Christmas, 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. Canada Post has also strengthened its pickup offering to better serve small and medium-sized businesses, invested in a robust performance reporting tool with larger commercial customers, and continues to invest in consumer delivery preferences to maintain Canada Post's delivery experience.

**Labour agreements**

Roughly 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex collective agreements continue to constrain 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.

The most recent collective agreements with both bargaining units of the Canadian Union of Postal Workers (CUPW), Urban Postal Operations and Rural and Suburban Mail Carriers, that expired January 31, 2018, and December 31, 2017, respectively, were for a period of two years, rather than the typical previous four-year contracts. Negotiations between the Corporation and CUPW began in 2017 and will intensify in 2018. The issues facing the Corporation, with declining mail volumes, a growing pension obligation, and a significant increase in parcel volumes, are complex. The two-year contracts have provided time for analysis and thoughtful discussions through various avenues on how to best address these issues without the ongoing threat of a work disruption. The impact or threat of labour disruption (in the event that collective agreements are not reached) could accelerate Lettermail erosion from customers and lead to loss of revenue from businesses that switch to competitors for their mail and parcel delivery needs.

*Risk mitigation*

Negotiations are under way on a collaborative basis, with a mediator already part of the process. Canada Post's objective during collective bargaining is to build a framework for growth, while protecting its financial self-sustainability, in a manner that supports its workforce and the service it provides to Canadians. The Corporation's approach for all its bargaining agents is to work with them and ensure a shared understanding of the structural challenges and opportunities facing the Corporation. Our collective agreements with the Canadian Postmasters and Assistants Association and the Association of Postal Officials of Canada have binding arbitration in the form of a final offer selection process instead of a strike or lockout. This process has helped to mitigate our risk.

### Information systems and information technology

Canada Post's information systems and information technology (IS/IT) are facing some emerging internal and external risks. As Canada becomes more digitally connected, Canada Post requires even greater technological agility and responsiveness to remain competitive. Technology is a strong enabler of operations and a key success factor in service delivery quality. Similarly, the Corporation understands that, in general, the performance of applications such as shipping systems and tracking can have an impact on customer loyalty and company reputation. Externally, the threat of cyber-attacks and occurrences of data breaches due to malevolent acts being reported worldwide are taken very seriously by the Corporation. A significant cyber-attack could hamper the Corporation's ability to maintain and secure customer relationships. It may also expose the Corporation to legal action in the event of a data breach.

*Risk mitigation*

The corporate governance structure helps align the IS/IT objectives with existing and future requirements of the Group of Companies. Canada Post is investing in critical systems supporting parcels to ensure information systems performance is aligned with business and customer needs. Industry standard security controls such as business continuity and disaster recovery plans are in place in the event of a critical systems failure. Investments in the next generation of mobile computing devices have provided updated scan events in near-real time. Detection, prevention and remediation measures are implemented as part of the information security framework to reduce the threat of cyber-attacks and maintain business continuity. Canada Post continues to work closely with the Government of Canada to address these risks.

### 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. A supplier's ability to fulfil its contractual obligations will also have a significant impact on Canada Post's ability to serve its customers.

*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, requirements for and the assessment of transition and contingency plans in bid evaluation, overlapping of contracts during ramp-up periods, and extended windows for transition periods, when appropriate. Special attention is paid to where a supplier's execution or failure of contractual obligations presents a material impact to the Corporation's ability to serve its customers at a national level. As well, procurement strategies, which are approved by the Board of Directors, include a contract management and risk mitigation strategy to ensure active oversight for the duration of the contract.

### Brand

Canada Post is recognized as the national leader in parcel delivery and an e-commerce enabler in Canada. It also has redefined its value proposition in the marketing space. Maintaining strong brand equity is essential to ensure business viability and successfully grow the business. Key to supporting this goal is changing the way we do business to meet the needs of Canadians, being innovative and agile to compete in a fast evolving marketplace. This will ensure that Canada Post remains a trusted, relevant and reliable intermediary enabling critical communication and commerce for all Canadians. Brand equity could be adversely affected by disruptions, a poor customer experience and failure to deliver innovative product and service offerings that meet the needs of the growing e-commerce market.

*Risk mitigation*

Canada Post is adapting its business operations to meet the growing needs of the market. It is also investing in improving the consumer receiving experience by launching new delivery products and services, improving customer communications and adapting its retail network. Canada Post is also dedicated to engaging brand ambassadors within the organization and to provide a consistent brand experience across all the company touchpoints. These actions will ensure that the Corporation maintains its role of delivery leader and facilitator of connections for all Canadians.

## 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 two major risks associated with attrition and overall talent management:

- a failure to attract, engage, train and retain high caliber talent;
- a loss of specialized knowledge for key roles or poor knowledge transfer within critical areas of the business;
- ineffective management of key and vulnerable roles that could have an impact on business continuity.

*Risk mitigation*

The Corporation is managing attrition risks and opportunities. Canada Post is recruiting, developing and retaining the 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; examining and updating hiring and training practices to reflect business needs, market realities and competitive pressures and closely monitoring short- and long-term operational requirements to ensure ongoing alignment with resource planning. Specific initiatives include a leadership development program to prepare and develop those with potential to assume additional responsibilities, an HR Business Partner model to support the leadership team, 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 in its custody. Data breaches could result in negative impacts for customers and employees and cause serious damage to the Corporation's financial position and brand. Fraudulent use of the Corporation's products and services could cause financial harm to Canadians.

*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. The Corporation has established incident management process to escalate breaches of sensitive information and has incorporated security and privacy language with third party contractors to ensure that adequate protection and controls are in place should security breaches occur. Canada Post has also deployed e-records management for stronger access and security controls. In addition to established security policies and guidelines, security clearance is required for all new employees and contractors. Furthermore, Canada Post is targeting role based awareness and education to manage sensitive customer and employee personal information. 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. Additionally, 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 also 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*

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. The Corporation and its partners continuously monitor threats to the business environment.

#### Health and safety

Canada Post is committed to creating and maintaining a healthy and safe environment for all employees, visitors and contractors. Canada Post is committed to the highest safety standards and believes that all occupational injuries, illnesses and incidents are preventable. 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 and as parcel volumes continue to grow.

*Risk mitigation*

The health and safety team works with management teams in priority areas through a safety partnering program to establish safety action plans. On-site occupational health and safety officers support the plans with coaching and monitoring of safe practices for employees and supervisors. Compliance audits are also conducted throughout the year to identify gaps and establish remediation plans.

The Operations leadership team and the senior management team are launching a national campaign to enhance safety awareness and promote basic safety, life safety and safety leadership. This campaign will be deployed in April and will be shared at face-to-face meetings with all frontline leaders. It will be reinforced throughout the year through various programs and communication strategies. Our goal is to shift from incident management to incident prevention and to reduce our total injury frequency and lost-time injury frequency.

For further information, see Health and safety in Section 4.1 page 44.

#### Service quality

As the Corporation shifts focus toward the more competitive parcel market, with increasing international trade volumes depending on non-domestic partners delivering outbound products and foreign inbound suppliers procuring volume for Canada Post final delivery, maintaining a high level of service quality remains a priority to ensure customer satisfaction and retention. Increasing inbound international volumes and associated border security activities may also have an impact on service.

*Risk mitigation*

Canada Post uses business intelligence and analytics to actively monitor operational performance to identify issues and root causes, and to resolve service problems. Continuous improvement in our exchange offices and procurement of new resources and technology will facilitate inbound postal channel product flow.

Where there's a need to grow inbound commercial market share, the Corporation is securing access to inbound alternative (non-postal) networks.

#### Environmental sustainability

The possibility that customers and consumers might perceive Canada Post as not environmentally responsible could have negative consequences on its brand reputation and customer loyalty. Customers may turn to other suppliers that offer more sustainable solutions as they begin assessing their own environmental footprint.

*Risk mitigation*

Canada Post continues to proactively and transparently disclose its environmental performance through the annual Social Responsibility Report. Canada Post is committed to the sustainable, energy efficient design of new buildings. To date, 29 new major building projects have achieved LEED® (Leadership in Energy and Environmental Design) certification, including two depot projects in 2017 (in Burnaby, British Columbia, and Airdrie, Alberta). Canada Post continues to explore ways to improve the operating efficiency of its buildings and has pursued investments in more energy efficient lighting and mechanical systems in existing buildings. We continue replacing existing delivery vehicles with more fuel-efficient ones, which account for more than 50% of our fleet. We have contracted our main air network to a supplier with more fuel-efficient aircraft and transferred some shipments to less intensive ground networks. We are committed to continuously improving the way we conduct our business by following leading environmental and ethical business practices.

### Legal risk

Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). Where appropriate, Canada Post has recorded provisions for some of 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.

*CPAA pay equity complaint*

The Canadian Postmasters and Assistants Association (CPAA) initially filed a complaint with the Canadian Human Rights Commission (Commission) in 1982, alleging discrimination by the Corporation concerning work of equal value. That complaint was settled in 1985, after which a second identical complaint was filed by the CPAA in 1992. The 1992 complaint was settled by the parties in 1997. Nonetheless, in 2012, the CPAA requested its reactivation. In 2014, the Commission investigator concluded that, while agreements between the parties resolved pay equity issues for the period subsequent to 1997, the prior period (1992-97) remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. In early 2015, the Commission rendered a decision, agreeing with the investigator, that the matter should proceed to the Tribunal on its merits. Canada Post's application for judicial review of that decision was dismissed by the Federal Court in July 2016. In August 2015, Canada Post also brought forward a motion to the Tribunal to dismiss the complaint. In a decision released September 1, 2016, the Tribunal ruled that Canada Post's motion for dismissal was premature. In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, for the arguments from the parties on this issue. By decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability.

*Federal Court review of Canada Post's decision to convert door-to-door delivery to CMB delivery*

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. The matter was put in abeyance pending the results of the government review of Canada Post. In January 2018, the Government of Canada announced that it was ending the program to convert door-to door delivery to community mailboxes. The impact of this announcement on CUPW's pursuit of its application has not yet been determined.

*Class action lawsuit regarding drug plan benefits for Canada Post employees and retirees in Quebec*

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 1, 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation regulating the Régie de l'assurance maladie du Québec. The outcome of this class action is currently not determinable.

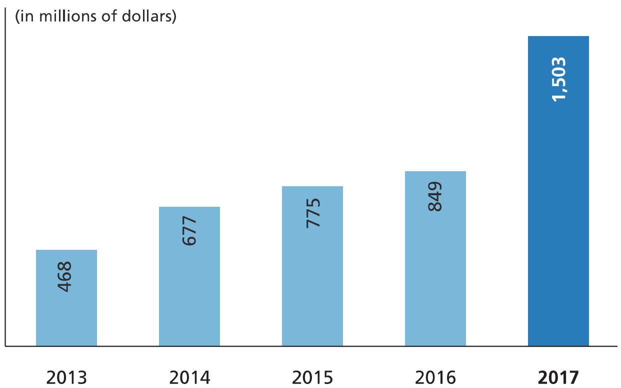
*Health and safety obligation under the Canada Labour Code – Burlington points of call*

The Federal Court of Appeal reinstated the original direction of a Health and Safety Officer from Employment and Social Development Canada, which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No monetary award was granted. The Corporation has filed an application for leave to appeal the decision to the Supreme Court of Canada and is awaiting a decision.

# 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 $1,503 million as at December 31, 2017 – an increase of $654 million compared to December 31, 2016. The increase in 2017 was mainly due to cash provided by operating activities and net proceeds from the sale of securities, partially offset by acquisitions of capital assets and payments on finance lease obligations. 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.

## 6.2 Operating activities

| (in millions of dollars) | 2017 | 2016 | Change |
|---|---|---|---|
| Cash provided by operating activities | 748 | 597 | 151 |

Cash generated from operating activities was $748 million in 2017, an increase of $151 million when compared to 2016, primarily due to improved profits and lower taxes paid.

## 6.3 Investing activities

| (in millions of dollars) | 2017 | 2016 | Change |
|---|---|---|---|
| Cash used in investing activities | (68) | (443) | 375 |

Cash used in investing activities decreased by $375 million in 2017 compared to 2016, primarily due to higher proceeds from the sale of securities, partially offset by higher acquisitions of capital assets and securities.

**Capital expenditures**

| (in millions of dollars) | 2017 | 2016 | Change |
|---|---|---|---|
| Canada Post | 249 | 215 | 34 |
| Purolator | 46 | 39 | 7 |
| Logistics | 10 | 7 | 3 |
| Innovapost and intersegment | (6) | (8) | 2 |
| **Canada Post Group of Companies** | **299** | **253** | **46** |

Capital expenditures for the Group of Companies increased by $46 million in 2017, when compared to 2016. The increase was mainly due to increased spending in the Canada Post segment.

## 6.4 Financing activities

| (in millions of dollars) | 2017 | 2016 | Change |
|---|---|---|---|
| Cash used in financing activities | (24) | (80) | 56 |

Cash used in financing activities was $24 million in 2017, a decrease of $56 million over 2016 mainly due to the repayment of non-redeemable bonds that matured in March 2016.

## 6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $25 billion as at December 31, 2017, 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. Significant going-concern or solvency deficits requiring special payments could pose a risk to the Corporation's cash flow.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation was exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation will revert back to the regulations in the *Pension Benefits Standards Act, 1985*.

On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985,* were amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities; beyond that threshold, Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. Canada Post has notified and received no objection from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce special solvency contributions for 2018. Canada Post will not have to make special payments in 2018.

The actuarial valuation for the RPP as at December 31, 2016, filed in June 2017, disclosed a going-concern surplus of $1.8 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, 2017, is a going-concern surplus of approximately $2.9 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.4 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, 2017, will be filed by the end of June 2018 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 10.4% (gross of administrative and management fees) and the recognition of investment gains from previous years in the smoothed value of assets. The solvency deficit, measured using both the market value of plan assets and the three-year average solvency ratio basis, improved during the year. This was mainly due to positive investment returns, partially offset by the negative effect of a decrease in the discount rate.

In 2017, the employer's current service contributions to the defined benefit pension plan amounted to $259 million, compared to $241 million in 2016. The employer's current service contributions for 2018 are estimated at $258 million.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2017, remeasurement losses, net of tax, for the RPP amounted to $39 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, 2016, was $6.5 billion.

2 The solvency deficit when using market value of plan assets, as at December 31, 2017, was estimated at $5.8 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, 2017, and during 2017, 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 $2,032 million of unrestricted liquid investments on hand as at December 31, 2017, 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. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. This change is expected to delay upcoming special payments for Canada Post. Based on the relief provided by the revised regulations, Canada Post will not have to make special payments in 2018 and 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 $292 million of unrestricted cash on hand and undrawn credit facilities of $79 million as at December 31, 2017, 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 $997 million of borrowings as at December 31, 2017, the Canada Post segment had $1,503 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, 2017, amounted to $41 million, resulting in consolidated borrowings of $1,038 million as at December 31, 2017. This represents a decrease of $21 million over the 2016 year-end level of $1,059 million. The Corporation funded itself primarily through the use of cash on hand, funds generated from operations during 2017 and the pension plan funding relief permitted by legislation.

### Dividend

The declaration, amount and payment of a dividend to the Government of Canada are subject to the *Canada Post Corporation Act* and the *Financial Administration Act*. 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 2017-2021 Corporate Plan its intention not to pay a dividend in 2017. No dividend has been paid to the shareholder since 2008. In January 2018, the government announced its intention to remove Canada Post from the section of the *Financial Administration Act* which includes an expectation that a dividend will be paid to the government in order to allow the Corporation to reinvest all of its profits in service.

## 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 | 2017 | | | | |
|---|---|---|---|---|---|
| | 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 | – | 1,503 | – | – | 1,503 |
| Marketable securities | – | 821 | – | – | 821 |
| Trade and other receivables | – | – | 944 | – | 944 |
| Segregated securities | 526 | – | – | – | 526 |
| Risk management financial assets | – | 1 | – | – | 1 |
| **Total financial assets** | **526** | **2,325** | **944** | **–** | **3,795** |
| **Financial liabilities** | | | | | |
| Non-interest bearing[2] | – | – | – | 721 | 721 |
| Bonds | – | – | – | 997 | 997 |
| Other loans and borrowings | – | – | – | 41 | 41 |
| **Total financial liabilities** | **–** | **–** | **–** | **1,759** | **1,759** |

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, 2017, (2016 – 13 years).

Based on a sensitivity analysis of interest rate risk, it is expected that an increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities by $68 million (2016 – $68 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2017, and on other comprehensive income or loss.

Loans and borrowings of $1,038 million (2016 – $1,059 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$), euro, British pound, Japanese yen and Chinese renminbi, whereas payment is usually denominated in US$.

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 five 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 $6 million in net losses in 2017 (2016 – $9 million net gains). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2017, all other variables held constant, would have been an increase or decrease in net profit for the year by $13 million (2016 – $11 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 (2016 – nil), and impairment losses on trade and other receivables were $4 million (2016 – $5 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 58.

For further details on risk associated with financial instruments, see Note 19 to the consolidated financial statements page 121 and Section 6.6 – Liquidity and capital resources page 58.

## 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 (c) and 20 to the consolidated financial statements pages 124 and 125, respectively.

| (in millions of dollars) | Total | Less than 1 year | 1-5 years | More than 5 years |
|---|---|---|---|---|
| Bonds[1] | 1,000 | – | – | 1,000 |
| Interest on bonds | 664 | 42 | 169 | 453 |
| Finance lease obligations | 43 | 14 | 29 | – |
| Operating leases[2] | 821 | 133 | 354 | 334 |
| **Total** | **2,528** | **189** | **552** | **1,787** |

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. Interest is paid semi-annually with a coupon rate ranging from 4.08% to 4.36%.
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 $528 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 57.

## 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 $272 million (2016 – $300 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 (2016 – $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, 2017, and 2016, which included compensation related to short-term benefits and post-employment benefits. See Note 24 (b) to the consolidated financial statements page 127 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 16 to the consolidated financial statements page 118 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, 2017, and December 31, 2016*

(in millions of dollars)

| ASSETS | 2017 | 2016 | Change | % | Explanation of change |
|---|---|---|---|---|---|
| Cash and cash equivalents | 1,503 | 849 | 654 | 77.0 | Refer to Section 6 – Liquidity and Capital Resources page 56. |
| Marketable securities | 821 | 1,038 | (217) | (20.9) | Mainly due to timing of the maturation of short-term investments. |
| Trade and other receivables | 944 | 829 | 115 | 13.8 | Mainly due to increased trade and international settlement receivables in the Canada Post segment receivables. |
| Other assets | 126 | 110 | 16 | 15.0 | Mainly due to an increase in assets held for sale in the Canada Post segment in 2017. |
| **Total current assets** | **3,394** | **2,826** | **568** | **20.1** | |
| Property, plant and equipment | 2,627 | 2,672 | (45) | (1.7) | Mainly due to depreciation exceeding acquisitions in the Canada Post segment. |
| Intangible assets | 119 | 117 | 2 | 2.3 | No material change. |
| Segregated securities | 526 | 523 | 3 | 0.6 | No material change. |
| Pension benefit assets | 116 | 135 | (19) | (14.1) | Mainly due to remeasurement losses attributable to a decrease in discount rates, partially offset by positive investment returns in excess of interest income on plan assets. |
| Deferred tax assets | 1,562 | 1,384 | 178 | 12.8 | Mainly due to the increase of temporary differences from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits. |
| Goodwill | 130 | 130 | – | – | No change. |
| Other assets | 7 | 5 | 2 | 34.6 | No material change. |
| **Total non-current assets** | **5,087** | **4,966** | **121** | **2.5** | |
| **Total assets** | **8,481** | **7,792** | **689** | **8.8** | |

(in millions of dollars)

| LIABILITIES | 2017 | 2016 | Change | % | Explanation of change |
|---|---|---|---|---|---|
| Trade and other payables | 583 | 548 | 35 | 6.4 | Mainly due to higher expenses and timing. |
| Salaries and benefits payable and related provisions | 600 | 487 | 113 | 23.3 | Primarily due to an increase in accrued salaries and benefits in the Canada Post segment. |
| Provisions | 77 | 70 | 7 | 10.1 | Mainly attributable to an increase in grievance provisions in the Canada Post segment. |
| Income tax payable | 38 | 3 | 35 | – | Mainly due to an expected tax liability for the Canada Post segment. |
| Deferred revenue | 114 | 115 | (1) | (1.1) | No material change. |
| Loans and borrowings | 13 | 22 | (9) | (40.9) | Mainly due to repayment of finance lease obligations in the Purolator segment. |
| Other long-term benefit liabilities | 63 | 62 | 1 | 0.5 | No material change. |
| **Total current liabilities** | **1,488** | **1,307** | **181** | **13.9** | |
| Loans and borrowings | 1,025 | 1,037 | (12) | (1.2) | Mainly due to the repayment of finance lease obligations in the Purolator segment. |
| Pension, other post-employment and other long-term benefit liabilities | 6,297 | 5,726 | 571 | 10.0 | Mainly due to remeasurement losses attributable to a decrease in discount rates, partially offset by positive investment returns in excess of interest income on plan assets. |
| Other liabilities | 25 | 26 | (1) | (3.7) | No material change. |
| **Total non-current liabilities** | **7,347** | **6,789** | **558** | **8.2** | |
| **Total liabilities** | **8,835** | **8,096** | **739** | **9.1** | |

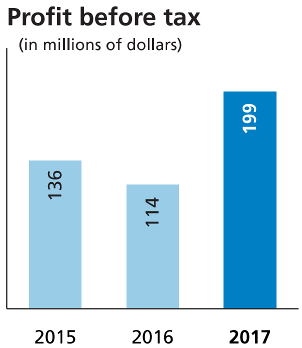
(in millions of dollars)

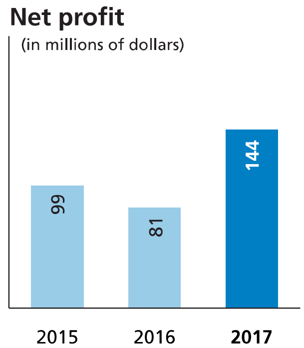
| EQUITY | 2017 | 2016 | Change | % | Explanation of change |
|---|---|---|---|---|---|
| Contributed capital | 1,155 | 1,155 | – | – | No change. |
| Accumulated other comprehensive income | 54 | 44 | 10 | 22.9 | No material change. |
| Accumulated deficit | (1,595) | (1,530) | (65) | (4.3) | Mainly due to remeasurement losses on pension and other post-employment plans, offset by 2017 profit. |
| **Equity of Canada** | **(386)** | **(331)** | **(55)** | **(16.7)** | |
| Non-controlling interests | 32 | 27 | 5 | 19.9 | |
| **Total equity** | **(354)** | **(304)** | **(50)** | **(16.4)** | |
| **Total liabilities and equity** | **8,481** | **7,792** | **689** | **8.8** | |

# 8 Discussion of Operations

*A detailed discussion of our financial performance in 2017*

## 8.1 Consolidated trends




## 8.2 Consolidated results from operations

**Consolidated results**

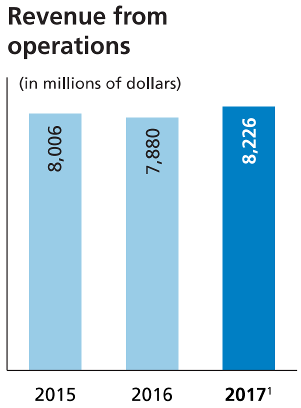
| (in millions of dollars) | 2017 | 2016 | Change | % |
|---|---|---|---|---|
| Revenue from operations | 8,226 | 7,880 | 346 | 4.8[1] |
| Cost of operations | 8,000 | 7,731 | 269 | 3.9[1] |
| **Profit from operations** | **226** | **149** | **77** | **51.8** |
| Investing and financing income (expense), net | (27) | (35) | 8 | 23.3 |
| **Profit before tax** | **199** | **114** | **85** | **74.9** |
| Tax expense | 55 | 33 | 22 | 67.7 |
| **Net profit** | **144** | **81** | **63** | **77.8** |
| Other comprehensive income (loss) | (193) | 741 | (934) | (126.0) |
| **Comprehensive income** | **(49)** | **822** | **(871)** | **(105.9)** |

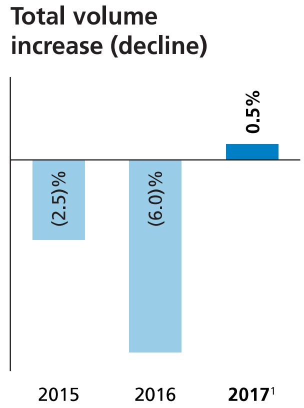
1. Adjusted for trading or paid days, where applicable.

The Canada Post Group of Companies had a profit before tax of $199 million in 2017, an increase of $85 million when compared to 2016. The rise was due to increased revenue from parcels growth in the Canada Post and Purolator segments. This was partially offset by continuing Transaction Mail volume erosion, higher labour and transportation in the Canada Post segment and higher employee benefit costs in the Canada Post and Purolator segments. A detailed discussion by segment is provided in sections 8.4 to 8.6.

Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In 2017 there was one less business day and one less paid day than in 2016.

### Consolidated revenue from operations




Revenue from operations totalled $8,226 million in 2017, an increase year-over-year of $346 million or 4.8%[1] compared to 2016. The increase was due to growth in Parcels revenue in the Canada Post and Purolator segments, partially offset by ongoing Transaction Mail volume erosion.

### Consolidated cost of operations

Cost of operations increased by $269 million or 3.9%[1] in 2017 compared to 2016, primarily from increased labour and transportation costs in the Canada Post segment and increased employee benefit costs in the Canada Post and Purolator segments, partially offset by reduced program expenses in the Canada Post segment.

### Consolidated investing and financing income (expense), net

Net investing and financing expenses were $27 million in 2017, compared to $35 million in 2016. The change was primarily due to increased interest income and lower interest expense on bonds in the Canada Post segment.

### Consolidated tax expense

The consolidated tax expense for 2017 increased by $22 million compared to 2016, primarily driven by higher profits in the Canada Post and Purolator segments.

### Consolidated other comprehensive income

The consolidated other comprehensive loss amounted to $193 million in 2017, mainly due to remeasurement losses on pension and other post-employment plans, primarily due to a decrease in discount rates, partially offset by positive investment returns in excess of interest income on plan assets. Volatility, caused by fluctuations in the various factors and assumptions used to remeasure these plans, had a significant impact on the Group of Companies' other comprehensive income throughout 2017.

## 8.3 Operating results by segment

### Segmented results – Profit (loss) from operations

| (in millions of dollars) | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Canada Post | (269) | 204 | 92 | 63 | 82 |
| Purolator | 65 | 80 | 57 | 69 | 124 |
| Logistics | 10 | 14 | 20 | 20 | 21 |
| Other | 1 | 1 | – | (3) | (1) |
| **Canada Post Group of Companies** | **(193)** | **299** | **169** | **149** | **226** |

### Segmented results – Profit (loss) before tax

| (in millions of dollars) | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Canada Post | (125) | 194 | 63 | 55 | 74 |
| Purolator | 66 | 74 | 56 | 67 | 120 |
| Logistics | 12 | 14 | 20 | 20 | 21 |
| Other | (11) | (13) | (3) | (28) | (16) |
| **Canada Post Group of Companies** | **(58)** | **269** | **136** | **114** | **199** |

1. Adjusted for trading or paid days, where applicable

## 8.4 Canada Post segment

The Canada Post segment remained profitable in 2017, recording a profit before tax of $74 million, which is an increase of $19 million compared to 2016.

### Canada Post summary

| (in millions of dollars) | 2017 | 2016 | Change | % |
|---|---|---|---|---|
| Revenue from operations | 6,417 | 6,186 | 231 | 4.1[1] |
| Cost of operations | 6,335 | 6,123 | 212 | 3.8[1] |
| **Profit from operations** | **82** | **63** | **19** | **32.0** |
| Investing and financing income (expense), net | (8) | (8) | – | – |
| **Profit before tax** | **74** | **55** | **19** | **35.1** |

### Revenue from operations

Canada Post generated revenue from operations of $6,417 million in 2017, an increase of $231 million or 4.1%[1] when compared to 2016. Revenues in 2017 increased mainly due to Parcels growth. This increase was partially offset by ongoing volume erosion in Transaction Mail (from electronic substitution), and declines in Direct Marketing.

### 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) | | | |
|---|---|---|---|---|---|---|---|---|
| | **2017** | **2016** | **Change** | **%** | **2017** | **2016** | **Change** | **%** |
| Transaction Mail | | | | | | | | |
| Domestic Lettermail | 2,645 | 2,754 | (109) | (3.6) | 2,988 | 3,169 | (181) | (5.3) |
| Outbound Letter-post | 113 | 119 | (6) | (4.5) | 56 | 61 | (5) | (9.1) |
| Inbound Letter-post | 155 | 164 | (9) | (5.8) | 161 | 175 | (14) | (7.3) |
| **Total Transaction Mail** | **2,913** | **3,037** | **(124)** | **(3.7)** | **3,205** | **3,405** | **(200)** | **(5.5)** |
| Parcels | | | | | | | | |
| Domestic Parcels | 1,564 | 1,255 | 309 | 25.1 | 176 | 144 | 32 | 22.3 |
| Outbound Parcels | 228 | 223 | 5 | 2.5 | 10 | 11 | (1) | (3.0) |
| Inbound Parcels | 309 | 241 | 68 | 28.5 | 56 | 40 | 16 | 39.8 |
| Other | 30 | 19 | 11 | 62.3 | – | – | – | – |
| **Total Parcels** | **2,131** | **1,738** | **393** | **23.1** | **242** | **195** | **47** | **24.5** |
| Direct Marketing | | | | | | | | |
| Personalized Mail™ | 508 | 534 | (26) | (4.5) | 954 | 994 | (40) | (3.6) |
| Neighbourhood Mail™ | 415 | 390 | 25 | 6.9 | 3,600 | 3,362 | 238 | 7.5 |
| **Total Smartmail Marketing™** | **923** | **924** | **(1)** | **0.4** | **4,554** | **4,356** | **198** | **5.0** |
| Publications Mail™ | 162 | 180 | (18) | (9.3) | 250 | 281 | (31) | (10.6) |
| Business Reply Mail™ and Other Mail | 22 | 22 | – | (3.4) | 18 | 19 | (1) | (6.0) |
| Other | 14 | 12 | 2 | 16.9 | – | – | – | – |
| **Total Direct Marketing** | **1,121** | **1,138** | **(17)** | **(1.1)** | **4,822** | **4,656** | **166** | **4.0** |
| Other Revenue | 252 | 273 | (21) | (7.3) | – | – | – | – |
| **Total** | **6,417** | **6,186** | **231** | **4.1** | **8,269** | **8,256** | **13** | **0.6** |

1. Adjusted for trading or paid days, where applicable.

### *Transaction Mail*

Total Transaction Mail revenue amounted to $2,913 million in 2017 and was made up of the following three product categories: Domestic Lettermail ($2,645 million), Outbound Letter-post ($113 million) and Inbound Letter-post ($155 million).

Total 2017 Transaction Mail revenue decreased by $124 million or 3.7%[1] compared to 2016 and volumes declined by 200 million pieces or 5.5%[1] compared to 2016, primarily due to ongoing volume erosion. Year-over-year changes by product category are as follows:

- Domestic Lettermail revenue decreased by $109 million or 3.6%,[1] while volumes declined by 181 million pieces or 5.3%[1] compared to 2016. Households and businesses increasingly choose digital methods over Lettermail. Added to this impact is the implementation of pay-for-paper initiatives by some of our largest customers.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) decreased by $6 million or 4.5%,[1] while volumes decreased by five million pieces or 9.1%[1] compared to the previous year. These declines were mostly in commercial and retail channels, and are also attributable to increased use of digital alternatives.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) decreased by $9 million or 5.8%[1] compared to 2016, while volumes were lower by 14 million pieces or 7.3%[1] as a result of decreased volumes from the United States and the rest of the world.

### *Parcels*

Total Parcels revenue was $2,131 million in 2017 and was made up of the following four product categories: Domestic Parcels ($1,564 million), Outbound Parcels ($228 million), Inbound Parcels ($309 million), and Other ($30 million).

Total 2017 Parcels revenue increased by $393 million or 23.1%[1] and volumes increased by 47 million pieces or 24.5%[1] compared to 2016. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue, the largest product category, increased by $309 million or 25.1%,[1] and volumes increased by 32 million pieces or 22.3%[1] over 2016. E-commerce continued to increase in 2017, and with our strong delivery performance we achieved growth in our Parcels business, meeting the needs of our major customers as they grew their online businesses. In this competitive market our focus is on maintaining our leadership position through continued investment in infrastructure and technology, while collaborating with our commercial customers to develop innovative services.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) increased by $5 million or 2.5%[1] compared to 2016, while volumes declined 3.0%[1] mainly due to a change in product and customer mix.
- Inbound Parcels revenue (fees paid to Canada Post by other postal administrations for delivering mail originating outside of Canada) increased by $68 million or 28.5%,[1] while volumes increased by 16 million or 39.8%[1] compared to 2016. Strong growth of the Tracked Packets™ product, from Asia-Pacific countries in particular and the rest of the world in general, fuelled this growth.
- Other Parcels revenue increased by $11 million or 62.3%[1] in 2017 compared to 2016.

### *Direct Marketing*

Total Direct Marketing revenue amounted to $1,121 million in 2017. Direct Marketing revenue was made up of the following four product categories: Personalized Mail ($508 million) and Neighbourhood Mail ($415 million), which together make up the Canada Post Smartmail Marketing solution, as well as Publications Mail ($162 million) and Business Reply Mail and Other Mail, and Other ($36 million).

Total 2017 Direct Marketing revenue decreased by $17 million or 1.1%,[1] while volumes increased by 166 million pieces or 4.0%[1] compared to 2016. Year-over-year changes by product category are summarized as follows:

- Personalized Mail revenue declined by $26 million or 4.5%[1] and volumes decreased by 40 million pieces or 3.6%[1] compared to 2016. Declining revenue resulted from erosion in our commercial market as customers reduced their spending or chose alternative media channels, particularly in the financial, retail and telecommunications segments.
- Neighbourhood Mail revenue increased by $25 million or 6.9%[1] compared to the previous year, and volumes similarly increased by 238 million pieces or 7.5%,[1] resulting from new mailings.
- Publications Mail revenue declined by $18 million or 9.3%[1] and volumes declined by 31 million pieces or 10.6%[1] compared to 2016. This segment continues to see erosion from decreasing mail publication subscriptions.
- Business Reply Mail and Other Mail and Other experienced an increase in revenue of 3.6%,[1] while volumes dropped by 6.0%[1] compared to 2016.

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1. Adjusted for trading days.

### *Other Revenue*

Other Revenue totalled $252 million in 2017 – a decrease of $21 million or 7.3%[1] when compared to 2016. The revenue decrease was mainly due to a loss in foreign exchange and a decrease in consumer products and services.

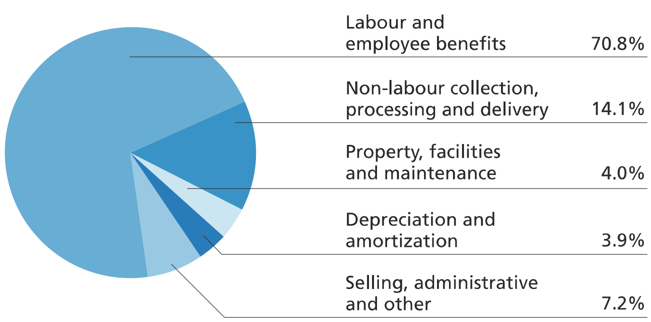
### Cost of operations

In 2017, the Canada Post segment's cost of operations was $6,335 million, an increase of $212 million or 3.8%[1] when compared compared to 2016.

| (in millions of dollars) | 2017 | 2016 | Change | %[1] | Cost as % of revenue from operations 2017 | Cost as % of revenue from operations 2016 |
|---|---|---|---|---|---|---|
| Labour | 3,222 | 3,093 | 129 | 4.5 | 50.2 | 50.0 |
| Employee benefits | 1,262 | 1,228 | 34 | 3.1 | 19.7 | 19.9 |
| **Total labour and employee benefits** | **4,484** | **4,321** | **163** | **4.1** | **69.9** | **69.9** |
| Non-labour collection, processing and delivery | 891 | 827 | 64 | 8.2 | 13.9 | 13.4 |
| Property, facilities and maintenance | 253 | 250 | 3 | 1.4 | 3.9 | 4.0 |
| Selling, administrative and other | 459 | 476 | (17) | 3.4 | 7.2 | 7.7 |
| **Total other operating costs** | **1,603** | **1,553** | **50** | **3.6** | **25.0** | **25.1** |
| Depreciation and amortization | 248 | 249 | (1) | 0.3 | 3.9 | 4.0 |
| **Total** | **6,335** | **6,123** | **212** | **3.8** | **98.7** | **99.0** |

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 70.8% of the total cost of operations in 2017, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2017




| Cost of operations | 2015 | 2016 | 2017[1] |
|---|---|---|---|
| Labour and employee benefits | 69.7% | 70.6% | 70.8% |
| Non-labour collection, processing and delivery | 13.3% | 13.5% | 14.1% |
| Property, facilities and maintenance | 4.0% | 4.1% | 4.0% |
| Depreciation and amortization | 4.1% | 4.0% | 3.9% |
| Selling, administrative and other | 8.9% | 7.8% | 7.2% |

### *Labour*

Labour costs increased by $129 million or 4.5%[1] when compared to 2016. The increase was primarily due to wage increases and parcels volume growth, as well as lower costs in 2016 due to the threat of a labour disruption.

1. Adjusted for trading or paid days, where applicable.

#### *Employee benefits*

| (in millions of dollars) | 2017 | 2016 | Change | %[1] |
|---|---|---|---|---|
| Pension expense | 540 | 560 | (20) | (3.2) |
| Post-employment health benefits | 141 | 118 | 23 | 19.6 |
| Other post-employment and other long-term benefits | 117 | 119 | (2) | (0.7) |
| Interest on segregated assets | (19) | (20) | 1 | (3.5) |
| **Total post-employment and other long-term benefits** | **779** | **777** | **2** | **0.7** |
| Active employee benefits and other | 483 | 451 | 32 | 7.3 |
| **Employee benefits** | **1,262** | **1,228** | **34** | **3.1** |

Employee benefits increased by $34 million or 3.1%[1] when compared to 2016, as detailed below:

- The non-cash pension expense decreased by $20 million or 3.2%[1] in 2017 mainly due to strong returns on plan assets experienced in 2016, a decrease in the inflation assumption in 2016 and a drop in the discount rate.
- The non-cash post-employment health benefits expense increased by $23 million or 19.6%,[1] mainly due to the 2016 non-recurring accounting gain for plan amendments as a result of union negotiations, partially offset by a drop in the discount rate.
- The benefits expense for active employees and other increased by $32 million or 7.3%[1] in 2017, when compared to 2016, due to increased labour costs.

#### *Non-labour collection, processing and delivery*

Contracted collection, processing and delivery costs increased by $64 million or 8.2%[1] in 2017 when compared to 2016, mainly due to higher transportation costs resulting from increased parcel volumes.

#### *Property, facilities and maintenance*

The cost of facilities remained relatively unchanged for 2017 when compared to 2016.

#### *Selling, administrative and other*

Selling, administrative and other expenses decreased by $17 million or 3.4%[1] for 2017 when compared to 2016, mainly due to lower program expenses.

#### *Depreciation and amortization*

The depreciation and amortization expense remained relatively unchanged for 2017 when compared to 2016.

## 8.5 Purolator segment

The Purolator segment contributed $120 million to the 2017 consolidated profit before tax, an increase of $53 million when compared to 2016.

#### Purolator summary

| (in millions of dollars) | 2017 | 2016 | Change | % |
|---|---|---|---|---|
| Revenue from operations | 1,630 | 1,528 | 102 | 7.1[1] |
| Cost of operations | 1,506 | 1,459 | 47 | 3.6[1] |
| **Profit from operations** | **124** | **69** | **55** | **79.3** |
| Investing and financing income (expense), net | (4) | (2) | (2) | (60.8) |
| **Profit before tax** | **120** | **67** | **53** | **79.8** |

#### Revenue from operations

Revenue from operations increased by $102 million or 7.1%[1] in 2017 compared to 2016, primarily driven by higher volumes from new and existing business.

1. Adjusted for trading or paid days, where applicable.

### Cost of operations

#### *Total labour costs*

Labour costs were $766 million in 2017, an increase of $7 million or 0.9%[1] compared to 2016, mainly due to an increase in employee benefit costs resulting from a remeasurement of the pension liability.

#### *Total non-labour costs*

Non-labour costs were $740 million in 2017, an increase of $40 million or 6.2%[1] compared to 2016, primarily driven by increased transportation expense resulting from increased volumes.

## 8.6 Logistics segment – SCI Group

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

### Logistics summary

| (in millions of dollars) | 2017 | 2016 | Change | % |
|---|---|---|---|---|
| Revenue from operations | 283 | 259 | 24 | 9.7[1] |
| Cost of operations | 262 | 239 | 23 | 10.4[1] |
| **Profit from operations** | **21** | **20** | **1** | **1.0** |
| Investing and financing income (expense), net | – | – | – | – |
| **Profit before tax** | **21** | **20** | **1** | **2.0** |

### SCI Group

SCI's financial performance remained stable in 2017 when compared to 2016, with profit before tax of $21 million.

### Revenue from operations

Revenue from operations increased by $24 million or 9.7%[1] compared to 2016. The revenue increase was driven mainly by volume growth from current clients as well as revenue from new services and new clients.

### Cost of operations

#### *Total labour costs*

Labour costs were $136 million in 2017, $12 million or 10.6%[1] higher than 2016, mainly due to growth in volumes and new business.

#### *Total non-labour costs*

Non-labour cost were $126 million, an increase of $11 million or 10.2%[1] in 2017 when compared to 2016. This increase was primarily due to growth from existing clients and new business.

## 8.7 Consolidated results to plan

While an interim 2018-2022 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the Government's review of Canada Post that was then under way. A Corporate Plan for 2019-2023 will be developed over the coming months and submitted in the fall, according to the usual process. Any residual approvals required for the 2018-2022 Plan will be dealt with in the context of Treasury Board consideration of the new Plan.

1. Adjusted for trading or paid days, where applicable.

## 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 2017 and future years*

### 9.1 Critical accounting estimates

Our significant accounting policies are described in Note 3 to the consolidated financial statements on page 94. 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 3 and 4 to the consolidated financial statements pages 94 and 100, 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 3 to the consolidated financial statements page 94. 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 12 to the consolidated financial statements page 116.

### Provisions and contingent liabilities

A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Closely tied to the concept of a provision is a contingent liability, which is a possible legal or constructive obligation that arises from a past event, or a present legal or constructive obligation that arises from a past event but is not recognized because it is either not probable that an outflow of resources will be required to settle the obligation, or a reliable estimate of the obligation cannot be made. As such, a contingent liability is not recognized and is instead disclosed in the notes to the 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 14, 15 and 16 to the consolidated financial statements pages 117 and 118.

### 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 corporate 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 a theoretic portfolio of corporate bonds with a cash flow pattern that resembles that of the plan being valued. The selected discount rate is the yield on that theoretical portfolio. 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. 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 on pages 111 and 112, respectively, 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 | (149) | (2,137) |
| 0.5% decrease in discount rates | 144 | 2,329 |
| **Consumer price index sensitivity** | | |
| 0.25% increase in consumer price index | 64 | 946 |
| 0.25% decrease in consumer price index | (61) | (914) |
| **Mortality tables sensitivity** | | |
| 10% increase in mortality tables | (31) | (575) |
| 10% decrease in mortality tables | 31 | 588 |

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 | (4) | (208) |
| 0.5% decrease in discount rates | 4 | 237 |
| **Health care cost trend rates sensitivity** | | |
| 1% increase in health care cost trend rates | 37 | 555 |
| 1% decrease in health care cost trend rates | (27) | (424) |
| **Mortality tables sensitivity** | | |
| 10% increase in mortality tables | (5) | (88) |
| 10% decrease in mortality tables | 5 | 100 |

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 107.

**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 115.

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 January 1, 2017. The following amendments were adopted by the Group of Companies January 1, 2017.

**Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) •** 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 for annual periods beginning on or after January 1, 2017. Early application is permitted. Although there was no change to the Corporation's consolidated financial statements, a reconciliation of liabilities arising from financing activities is disclosed in Note 17 page 119.

## 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 2018, as new or amended standards are issued by the IASB.

| Standard or amendment | Effective for annual periods beginning on or after |
|---|---|
| IFRS 15 "Revenue from Contracts with Customers" | January 1, 2018 |
| IFRS 9 "Financial Instruments" | January 1, 2018 |
| IFRS 16 "Leases" | January 1, 2019 |
| IFRIC 23 "Uncertainty over Income Tax Treatments" | January 1, 2019 |
| Annual Improvements to IFRS – 2015-2017 Cycle | January 1, 2019 |
| Amendments to IAS 19 Employee Benefits | January 1, 2019 |

**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. The Group of Companies intends to apply IFRS 15 retrospectively, effective January 1, 2018. The Group of Companies has identified some differences in how revenue will be recognized.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period will be less than one year and will, therefore, qualify under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs are currently netted against revenue and under IFRS 15 will be reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, it is expected that revenue and cost from operations will each increase by approximately $87 million for the year ended December 31, 2017, which will have no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue was appropriate. As a result, it is expected that deferred tax assets, deferred revenue and accumulated deficit will increase by approximately $7 million, $29 million and $22 million respectively, as at January 1, 2017, and will increase by approximately $7 million and $30 million and $23 million respectively, as at December 31, 2017. Revenue will decrease by approximately $1 million for the year ended December 31, 2017.

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, it is expected that the deferred tax assets, deferred revenue and accumulated deficit will decrease by approximately $1 million, $2 million and $1 million, respectively as at January 1, 2017, and will decrease by approximately $2 million, $6 million and $4 million, respectively, as at December 31, 2017. Revenue will increase by approximately $4 million and tax expense by approximately $1 million for the year ended December 31, 2017.

The overall impact of these changes on the consolidated financial statements is expected to be as follows:

**Consolidated statement of financial position**

| As at January 1, 2017 | As currently reported | IFRS 15 adjustments | Restated |
|---|---|---|---|
| Deferred tax asset | $ 1,384 | $ 6 | $ 1,390 |
| Deferred revenue | $ 115 | $ 27 | $ 142 |
| Accumulated deficit | $ (1,530) | $ (21) | $ (1,551) |

**Consolidated statement of financial position**

| As at December 31, 2017 | As currently reported | IFRS 15 adjustments | Restated |
|---|---|---|---|
| Deferred tax asset | $ 1,562 | $ 5 | $ 1,567 |
| Deferred revenue | $ 114 | $ 24 | $ 138 |
| Accumulated deficit | $ (1,595) | $ (19) | $ (1,614) |

**Consolidated statement of comprehensive income**

| For the year ended December 31, 2017 | As currently reported | IFRS 15 adjustments | Restated |
|---|---|---|---|
| Revenue from operations | $ 8,226 | $ 90 | $ 8,316 |
| Total cost of operations | 8,000 | 87 | 8,087 |
| Tax expense (income) | 55 | 1 | 56 |
| Net profit (loss) | $ 144 | $ 2 | $ 146 |

The Group of Companies is completing its assessment of the impact of the standard and does not expect other significant impacts from this standard on its consolidated financial statements.

**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." The Group of Companies will apply IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities currently classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets will be classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation will use the probability-of-default method, adjusted by using forward looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The Group of Companies is completing its assessment of the impact of the standard and does not expect other significant impacts from this standard on its consolidated financial statements.

**IFRS 16 "Leases" (IFRS 16) •** The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the 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 leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019 and intends to apply the full retrospective approach.

The Group of Companies continues to make progress in the review of IFRS 16 and its impact, including the implementation of a new lease accounting software. The impact on the consolidated statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of leases. The impact on the consolidated statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term or a change in future lease payments resulting from a lease renewal or extension). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. The Group of Companies expects to report more detailed information, including estimated quantitative financial effects once available.

**IFRIC 23 "Uncertainty Over Income Tax Treatments" •** This IFRIC clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group of Companies is not expecting any impact from adopting this interpretation.

**Annual Improvements to IFRS – 2015-2017 Cycle •** The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. These amendments are effective for annual reporting periods beginning on or after January 1, 2019. The standards and topics covered by the amendments were as follows: IFRS 3 "Business Combinations" clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; IFRS 11 "Joint Arrangements" clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 12 "Income Taxes" clarifies that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises and; IAS 23 "Borrowing Costs" clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The Group of Companies is currently evaluating the impact from adopting these amendments.

**Amendments to IAS 19 Employee Benefits (IAS 19) •** In February 2018, the IASB issued amendments to IAS 19 "Employee Benefits" addressing the accounting for a plan amendment, curtailment or settlement that occurs during a period. The use of updated actuarial assumptions is required to determine current service cost and net interest for the remainder of the reporting period after such events. The amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after January 1, 2019, with earlier adoption permitted. The Group of Companies is evaluating the impact from adopting these amendments.

## 10 Outlook for 2018

*Our prospects for 2018*

### 10.1 Economic outlook

Global economic growth increased from 2.4% to 3.0% in 2017 and is projected to edge up to 3.1% in 2018. The global economy is experiencing a cyclical recovery, reflecting a rebound in investment, manufacturing activity and trade against the backdrop of generally accommodative policies, rising confidence and firming commodity prices. However, a high level of uncertainty remains regarding economic policies of the new U.S. administration, the impacts of the United Kingdom's move to break with the EU, rising geopolitical tensions and expected interest rate increases in some major economies. The World Bank now forecasts global economic growth around 3.0% from 2019 to 2020.

Canada's economic growth in 2017 was 3.0%, up from 1.4% in 2016. As consumption growth retreats to a more sustainable pace in 2018, overall economic growth is expected to moderate to 2.2% in 2018 and 1.6% in 2019-2021. The Canadian dollar exchange rate is projected to average US$0.78 in 2018 and 2019, although there remains significant uncertainty due to interest rates, negotiations of the North American Free Trade Agreement and U.S. tax reforms. Canadian growth is expected to be driven by government spending on infrastructure and business investments into capacity and technology. A partial recovery in spending by energy companies is also under way with long-term projects coming on line in the oil patch expected to boost production and energy exports. However, there is considerable risk in this forecast. A significant change in interest rates and exchange rates could have an impact on Canadian growth expectations and, in turn, on Canadian e-commerce parcel growth and mail volume erosion.

Inflation, as measured by the consumer price index (CPI), rose slowly during 2017 and finished the year at 1.6%. Recent economic growth and minimum wage increases in various provinces may further fuel inflation. Economists expect both core and total CPI to return to the target level of 2% by the end of 2019.

Canada's 30-year bond rate is rising very gradually and is forecasted to return to 3% by the end of 2019. Continued low long-term rates will maintain pressure on Canada Post's pension liability past the end of the period of relief from solvency deficit payments.

Housing starts are expected to continue to add an average of almost 200,000 addresses per year. Address growth is a cost pressure on Canada Post's delivery operations as mail volumes continue to decline.

| | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|---|---|---|---|---|
| Economic (% change) | | | | | |
| Real gross domestic product (GDP) | 3.0 | 2.2 | 1.6 | 1.6 | 1.6 |
| Inflation (consumer price index [CPI]) | 1.6 | 1.8 | 2.1 | 2.0 | 2.0 |
| Demographic (% change) | | | | | |
| Total population growth | 1.0 | 1.0 | 1.0 | 0.9 | 0.9 |
| Household growth | 1.4 | 1.2 | 1.2 | 1.2 | 1.2 |

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 segment

Success in the highly competitive parcel business will be vital to the future of Canada Post. Our Parcels line of business is expected to continue to grow strongly in 2018, as we continue to benefit from our strategies and solidify our leadership in the e-commerce business-to-consumer delivery space. To be successful, we must remain focused on being customer-centric, cost-competitive, innovative and operationally flexible to keep achieving positive results.

As the Corporation continues to evolve into more of a parcel-centric business, it must assess its infrastructure capacity and ability to compete in the growing e-commerce market. Additional investments are anticipated in 2018, including upgrading facilities and replenishing assets that support e-commerce growth.

There is an opportunity for growth in our Direct Marketing line of business, which generates about $1.1 billion or about 18% of Canada Post's revenue, as marketers and their clients look for new ways to stand out in the competitive digital marketing space. Direct mail holds the unique advantage over other advertising media of putting a company's message directly into the hands of prospective customers. Although our Direct Marketing line of business continues to present a challenge, Canada Post sees growth potential in direct marketing as a smart complement to digital advertising, and will continue to create new product offerings that are better targeted and more personalized.

In 2017, our collective agreements with the Association of Postal Officials of Canada and the Public Service Alliance of Canada / Union of Postal Communications Employees were renegotiated. The collective agreements with both bargaining units of the Canadian Union of Postal Workers, Urban Postal Operations and Rural and Suburban Mail Carriers, that expired January 31, 2018, and December 31, 2017, respectively, are in negotiations with the assistance of a mediator. During this process we will focus on a shared understanding of the Corporation's structural challenges and the main constraints faced by the Corporation, namely the growing pension obligations and the need for operational flexibilities and cost competitiveness. Recognizing that current and future negotiations will play an important role in our ability to achieve financial self-sustainability in the medium and long term, our goal is to reach settlements that balance employee expectations and cost competitiveness. The collective agreement with the Canadian Postmasters and Assistants Association expires December 31, 2018.

Lettermail™ erosion is difficult to predict and the expectation that it will continue presents a significant risk to the Corporation. Based on the pattern of digital disruptions in other sectors, such as the move to digital cameras or the downloading and streaming of music, volumes may drop dramatically and earlier than expected, rather than decline steadily and predictably. We are working hard to address this challenge and ensure that we remain financially self-sustaining.

On January 24, 2018, the Government of Canada released its vision for renewal for Canada Post with five concrete actions, including termination of the program to convert home delivery to community mailboxes and an enhancement to the accessible delivery program. Canada Post will work with all stakeholders to implement all of the action points that will deliver the services Canadians expect today and in the future, while ensuring Canada Post remains financially strong.

On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985* were amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, Canada Post will not have to make special payments in 2018. However, pension obligations are substantial compared to the financial position and income of the Corporation, and fluctuations in investment returns, variations in discount rates and changes in other assumptions have caused considerable volatility. Deteriorations in Registered Pension Plan (RPP) solvency could require special payments that would easily exceed any increase in cash from corporate earnings or cost savings, and threaten the sustainability of the Corporation and the RPP beyond 2018.

Canada Post intends to work with its bargaining agents to address the Registered Pension Plan's long-term challenges in an effort to secure its future for all plan members.

### Purolator segment

In 2018, building on its strong reputation and reliability, Purolator will continue to emphasize differentiation through customer experience, service quality and operational efficiency. Purolator will augment its efforts on profitable growth in high-value vertical segments and continually enhance service offerings adjacent to its core business, including cross-border and international trade. It will also focus on network, revenue management and technology initiatives that enhance overall efficiency and augment the customer experience.

### Logistics segment – SCI Group

In 2018, SCI will continue to focus on growing revenue and driving operational savings through continuous improvement initiatives, while investing in strategic initiatives to support future profitable growth. This growth is expected to come from contract logistics and transportation services within targeted verticals in Canada. As well, SCI will continue to work with Canada Post and Purolator on opportunities to capitalize on existing capabilities within the Group of Companies.

# Historical Financial Information

| (unaudited, in millions of Canadian dollars unless otherwise indicated) | **2017** | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| **OPERATIONS** | | | | | |
| Revenue from operations | **8,226** | 7,880 | 8,006 | 7,982 | 7,563 |
| Cost of operations | **8,000** | 7,731 | 7,837 | 7,683 | 7,756 |
| Profit (loss) from operations | **226** | 149 | 169 | 299 | (193) |
| Percentage of revenue from operations | **2.7 %** | 1.9 % | 2.1 % | 3.7 % | (2.6) % |
| Investing and financing income (expense), net | **(27)** | (35) | (33) | (30) | 135 |
| Profit (loss) before tax | **199** | 114 | 136 | 269 | (58) |
| Tax expense (income) | **55** | 33 | 37 | 71 | (29) |
| Net profit (loss) | **144** | 81 | 99 | 198 | (29) |
| Other comprehensive income (loss) | **(193)** | 741 | 788 | (1,843) | 2,279 |
| Comprehensive income (loss) | **(49)** | 822 | 887 | (1,645) | 2,250 |
| Net profit (loss) attributable to | | | | | |
| Government of Canada | **138** | 78 | 96 | 194 | (32) |
| Non-controlling interests | **6** | 3 | 3 | 4 | 3 |
| | **144** | 81 | 99 | 198 | (29) |
| Comprehensive income (loss) attributable to | | | | | |
| Government of Canada | **(55)** | 820 | 884 | (1,644) | 2,242 |
| Non-controlling interests | **6** | 2 | 3 | (1) | 8 |
| | **(49)** | 822 | 887 | (1,645) | 2,250 |
| **STATEMENT OF FINANCIAL POSITION** | | | | | |
| **Assets** | | | | | |
| Current | **3,394** | 2,826 | 2,505 | 2,260 | 1,915 |
| Segregated securities | **526** | 523 | 539 | 551 | 510 |
| Capital assets | **2,746** | 2,789 | 2,845 | 2,793 | 2,836 |
| Pension benefit assets | **116** | 135 | 157 | 141 | 177 |
| Deferred tax assets | **1,562** | 1,384 | 1,540 | 1,706 | 1,093 |
| Other assets | **137** | 135 | 134 | 133 | 136 |
| Total assets | **8,481** | 7,792 | 7,720 | 7,584 | 6,667 |
| **Liabilities and equity** | | | | | |
| Current | **1,488** | 1,307 | 1,356 | 1,413 | 1,521 |
| Pension, other post-employment and other long-term benefit liabilities | **6,297** | 5,726 | 6,398 | 7,037 | 4,382 |
| Other liabilities | **1,050** | 1,063 | 1,090 | 1,145 | 1,129 |
| Non-controlling interests | **32** | 27 | 27 | 24 | 26 |
| Equity of Canada | **(386)** | (331) | (1,151) | (2,035) | (391) |
| Total liabilities and equity | **8,481** | 7,792 | 7,720 | 7,584 | 6,667 |
| **ADDITIONS TO CAPITAL ASSETS** | | | | | |
| Land and buildings | **80** | 40 | 35 | 55 | 61 |
| Other capital assets | **221** | 215 | 339 | 238 | 312 |
| | **301** | 255 | 374 | 293 | 373 |

# Historical Financial Information

| | 2017 | % Change | 2016 | % Change | 2015 | % Change | 2014 | % Change | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **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 | **2,645** | **(3.6) %** | 2,754 | (5.2) % | 2,905 | 0.1 % | 2,902 | 7.9 % | 2,688 |
| Outbound Letter-post (to other postal administrations) | **113** | **(4.5) %** | 119 | (9.5) % | 132 | (9.5) % | 145 | (7.1) % | 157 |
| Inbound Letter-post (from other postal administrations) | **155** | **(5.8) %** | 164 | 7.7 % | 153 | (2.2) % | 156 | 30.1 % | 120 |
| Canada Post segment | **2,913** | **(3.7) %** | 3,037 | (4.8) % | 3,190 | (0.4) % | 3,203 | 8.0 % | 2,965 |
| Elimination of intersegment | **(2)** | | (3) | | (3) | | (3) | | (3) |
| Canada Post Group of Companies | **2,911** | **(3.7) %** | 3,034 | (4.8) % | 3,187 | (0.4) % | 3,200 | 8.0 % | 2,962 |
| **Parcels** | | | | | | | | | |
| Domestic Parcels | **1,564** | **25.1 %** | 1,255 | 7.6 % | 1,167 | 10.7 % | 1,054 | 8.7 % | 969 |
| Outbound Parcels (to other postal administrations) | **228** | **2.5 %** | 223 | (2.5) % | 229 | 4.3 % | 220 | 5.2 % | 209 |
| Inbound Parcels (from other postal administrations) | **309** | **28.5 %** | 241 | 3.0 % | 234 | 7.4 % | 218 | 13.2 % | 193 |
| Total – Parcels | **2,101** | **22.7 %** | 1,719 | 5.5 % | 1,630 | 9.3 % | 1,492 | 8.8 % | 1,371 |
| Other | **30** | **62.3 %** | 19 | 17.3 % | 16 | (3.7) % | 17 | (6.0) % | 18 |
| Canada Post segment | **2,131** | **23.1 %** | 1,738 | 5.6 % | 1,646 | 9.1 % | 1,509 | 8.6 % | 1,389 |
| Purolator segment | **1,632** | **7.3 %** | 1,527 | (0.7) % | 1,537 | (8.7) % | 1,683 | 3.7 % | 1,623 |
| Logistics segment | **283** | **9.7 %** | 259 | (1.1) % | 262 | 17.1 % | 223 | 25.3 % | 179 |
| Elimination of intersegment | **(102)** | | (90) | | (110) | | (138) | | (117) |
| Canada Post Group of Companies | **3,944** | **15.4 %** | 3,434 | 3.0 % | 3,335 | 1.7 % | 3,277 | 6.7 % | 3,074 |
| **Direct Marketing** | | | | | | | | | |
| Personalized Mail™ | **508** | **(4.5) %** | 534 | (5.5) % | 565 | (0.7) % | 569 | (2.8) % | 586 |
| Neighbourhood Mail™ | **415** | **6.9 %** | 390 | (4.2) % | 407 | 2.7 % | 397 | (0.5) % | 398 |
| Total – Smartmail Marketing™ | **923** | **0.4 %** | 924 | (5.0) % | 972 | 0.7 % | 966 | (1.8) % | 984 |
| Publications Mail™ | **162** | **(9.3) %** | 180 | (8.6) % | 197 | (7.3) % | 212 | (8.2) % | 231 |
| Business Reply Mail™ and Other mail | **22** | **(3.4) %** | 22 | (6.1) % | 24 | (4.0) % | 25 | (1.9) % | 25 |
| Total – Mail | **1,107** | **(1.3) %** | 1,126 | (5.6) % | 1,193 | (0.8) % | 1,203 | (3.0) % | 1,240 |
| Other | **14** | **16.9 %** | 12 | 0.3 % | 12 | (6.4) % | 12 | 51.3 % | 8 |
| Canada Post segment / Group of Companies | **1,121** | **(1.1) %** | 1,138 | (5.6) % | 1,205 | (0.9) % | 1,215 | (2.7) % | 1,248 |
| **Other revenue** | | | | | | | | | |
| Canada Post segment | **252** | **(7.3) %** | 273 | (0.9) % | 275 | (3.7) % | 287 | 2.2 % | 281 |
| Purolator segment | **(2)** | **(294.7) %** | 1 | (78.7) % | 5 | 50.6 % | 4 | 1,247.7 % | – |
| Innovapost and elimination of intercompany | **–** | | – | | (1) | | (1) | | (2) |
| Canada Post Group of Companies | **250** | **(8.4) %** | 274 | (2.1) % | 279 | (3.0) % | 290 | 3.4 % | 279 |
| **Revenue from operations** | | | | | | | | | |
| Canada Post segment | **6,417** | **4.1 %** | 6,186 | (2.1) % | 6,316 | 1.7 % | 6,214 | 5.6 % | 5,883 |
| Purolator segment | **1,630** | **7.1 %** | 1,528 | (1.0) % | 1,542 | (8.6) % | 1,687 | 4.0 % | 1,623 |
| Logistics segment | **283** | **9.7 %** | 259 | (1.1) % | 262 | 17.1 % | 223 | 25.3 % | 179 |
| Innovapost and elimination of intercompany | **(104)** | | (93) | | (114) | | (142) | | (122) |
| Canada Post Group of Companies | **8,226** | **4.8 %** | 7,880 | (1.6) % | 8,006 | 0.3 % | 7,982 | 5.5 % | 7,563 |

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

# Historical Financial Information

| | 2017 | % Change | 2016 | % Change | 2015 | % Change | 2014 | % Change | 2013 |
|---|---|---|---|---|---|---|---|---|---|
| **LINE OF BUSINESS DIMENSIONS** | | | | | | | | | |
| **VOLUME[1]** (unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage) | | | | | | | | | |
| **Transaction Mail** | | | | | | | | | |
| Domestic Lettermail | **2,988** | **(5.3) %** | 3,169 | (7.6) % | 3,430 | (5.2) % | 3,617 | (5.4) % | 3,824 |
| Outbound Letter-post (to other postal administrations) | **56** | **(9.1) %** | 61 | (11.5) % | 69 | (11.9) % | 79 | (14.0) % | 92 |
| Inbound Letter-post (from other postal administrations) | **161** | **(7.3) %** | 175 | (9.1) % | 192 | (18.0) % | 234 | 2.5 % | 228 |
| Canada Post segment | **3,205** | **(5.5) %** | 3,405 | (7.8) % | 3,691 | (6.1) % | 3,930 | (5.2) % | 4,144 |
| Elimination of intersegment | **(2)** | | (3) | | (3) | | (3) | | (4) |
| Canada Post Group of Companies | **3,203** | **(5.5) %** | 3,402 | (7.8) % | 3,688 | (6.0) % | 3,927 | (5.2) % | 4,140 |
| **Parcels** | | | | | | | | | |
| Domestic Parcels | **176** | **22.3 %** | 144 | 9.0 % | 133 | 13.5 % | 117 | 9.2 % | 107 |
| Outbound Parcels (to other postal administrations) | **10** | **(3.0) %** | 11 | (8.7) % | 11 | 2.8 % | 11 | 2.0 % | 11 |
| Inbound Parcels (from other postal administrations) | **56** | **39.8 %** | 40 | 8.4 % | 37 | (0.4) % | 37 | (6.9) % | 40 |
| Canada Post segment | **242** | **24.5 %** | 195 | 7.7 % | 181 | 9.7 % | 165 | 4.6 % | 158 |
| Purolator segment | **122** | **0.8 %** | 122 | 1.0 % | 120 | (9.1) % | 133 | (0.7) % | 133 |
| Elimination of intersegment | **(6)** | | (4) | | (3) | | (3) | | (2) |
| Canada Post Group of Companies | **358** | **14.8 %** | 313 | 4.9 % | 298 | 1.2 % | 295 | 1.9 % | 289 |
| **Direct Marketing** | | | | | | | | | |
| Personalized Mail | **954** | **(3.6) %** | 994 | (7.1) % | 1,070 | (3.1) % | 1,105 | (5.9) % | 1,174 |
| Neighbourhood Mail | **3,600** | **7.5 %** | 3,362 | (4.3) % | 3,514 | 2.3 % | 3,434 | (0.1) % | 3,439 |
| Total – Smartmail Marketing | **4,554** | **5.0 %** | 4,356 | (5.0) % | 4,584 | 1.0 % | 4,539 | (1.6) % | 4,613 |
| Publications Mail | **250** | **(10.6) %** | 281 | (9.6) % | 311 | (10.1) % | 346 | (9.5) % | 382 |
| Business Reply Mail and Other mail | **18** | **(6.0) %** | 19 | (11.5) % | 22 | (3.8) % | 22 | (5.3) % | 24 |
| Canada Post segment / Group of Companies | **4,822** | **4.0 %** | 4,656 | (5.3) % | 4,917 | 0.2 % | 4,907 | (2.2) % | 5,019 |
| **Total volume** | | | | | | | | | |
| Canada Post segment | **8,269** | **0.6 %** | 8,256 | (6.1) % | 8,789 | (2.4) % | 9,002 | (3.4) % | 9,321 |
| Purolator segment | **122** | **0.8 %** | 122 | 1.0 % | 120 | (9.1) % | 133 | (0.7) % | 133 |
| Elimination of intersegment | **(8)** | | (7) | | (6) | | (6) | | (6) |
| Canada Post Group of Companies | **8,383** | **0.5 %** | 8,371 | (6.0) % | 8,903 | (2.5) % | 9,129 | (3.4) % | 9,448 |
| **EMPLOYMENT[2]** | | | | | | | | | |
| Canada Post segment | **50,995** | **0.6 %** | 50,711 | 0.7 % | 50,348 | (2.0) % | 51,365 | (2.0) % | 52,433 |
| Purolator segment | **9,907** | **(3.9) %** | 10,304 | (4.7) % | 10,814 | (5.0) % | 11,389 | (2.1) % | 11,633 |
| Logistics segment | **1,991** | **10.6 %** | 1,800 | 1.2 % | 1,778 | 23.7 % | 1,437 | 29.8 % | 1,107 |
| Innovapost business unit | **876** | **(2.3) %** | 897 | (1.0) % | 906 | 3.1 % | 879 | 8.8 % | 808 |
| Canada Post Group of Companies | **63,769** | **0.1 %** | 63,712 | (0.2) % | 63,846 | (1.9) % | 65,070 | (1.4) % | 65,981 |
| **MAIL NETWORK** | | | | | | | | | |
| Post offices | **6,183** | **(0.5) %** | 6,217 | (0.6) % | 6,252 | (0.7) % | 6,296 | (0.3) % | 6,317 |
| Points of delivery (in thousands) | **16,185** | **1.1 %** | 16,006 | 1.2 % | 15,814 | 0.9 % | 15,677 | 1.2 % | 15,495 |
| Pickup points (in thousands)[3] | **948** | **0.2 %** | 946 | 0.2 % | 944 | 2.0 % | 925 | (0.8) % | 933 |

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. Includes rural mailboxes (RMBs), which are collection points for customers with this mode of delivery.

# 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, 2017, 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, 2017. 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, 2017 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, 2017.

*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 22, 2018
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, 2017**
(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 62% 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 | $ 3,145 | $ 2,973 | $ 24 | $ 275 | $ 6,417 |
| Long-run incremental costs | (1,738) | (2,022) | (16) | (148) | (3,924) |
| **Long-run incremental contribution** | **$ 1,407** | **$ 951** | **$ 8** | **$ 127** | **$ 2,493** |
| Percentage of revenue | 45 % | 32 % | 33 % | 46 % | 39 % |
| Unallocated fixed costs | | | | | $ (2,411) |
| **Contribution before the undernoted items** | | | | | **$ 82** |
| Investment and other income | | | | | 34 |
| Finance costs and other expense | | | | | (42) |
| **Profit before tax – Canada Post segment** | | | | | **$ 74** |

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, 2017

## 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, 2017.

## 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 for most of the year 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, 2017, 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 22, 2018

# 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, 2017, 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, 2017, 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*.

Marise Bédard

KPMG LLP

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

Chartered Professional Accountants
Licensed Public Accountants

March 22, 2018
Ottawa, Canada

# Consolidated Statement of Financial Position

| **As at December 31**<br>(in millions of Canadian dollars) | **Notes** | **2017** | 2016 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | $ 1,503 | $ 849 |
| Marketable securities | 6 | 821 | 1,038 |
| Trade and other receivables | 19 | 944 | 829 |
| Other assets | 7 | 126 | 110 |
| Total current assets | | 3,394 | 2,826 |
| **Non-current assets** | | | |
| Property, plant and equipment | 8 | 2,627 | 2,672 |
| Intangible assets | 8 | 119 | 117 |
| Segregated securities | 6 | 526 | 523 |
| Pension benefit assets | 10 | 116 | 135 |
| Deferred tax assets | 11 | 1,562 | 1,384 |
| Goodwill | 12 | 130 | 130 |
| Other assets | | 7 | 5 |
| Total non-current assets | | 5,087 | 4,966 |
| Total assets | | $ 8,481 | $ 7,792 |
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | $ 583 | $ 548 |
| Salaries and benefits payable and related provisions | 15 | 600 | 487 |
| Provisions | 14 | 77 | 70 |
| Income tax payable | | 38 | 3 |
| Deferred revenue | | 114 | 115 |
| Loans and borrowings | 17 | 13 | 22 |
| Other long-term benefit liabilities | 10 | 63 | 62 |
| Total current liabilities | | 1,488 | 1,307 |
| **Non-current liabilities** | | | |
| Loans and borrowings | 17 | 1,025 | 1,037 |
| Pension, other post-employment and other long-term benefit liabilities | 10 | 6,297 | 5,726 |
| Other liabilities | | 25 | 26 |
| Total non-current liabilities | | 7,347 | 6,789 |
| Total liabilities | | 8,835 | 8,096 |
| **Equity** | | | |
| Contributed capital | | 1,155 | 1,155 |
| Accumulated other comprehensive income | | 54 | 44 |
| Accumulated deficit | | (1,595) | (1,530) |
| Equity of Canada | | (386) | (331) |
| Non-controlling interests | | 32 | 27 |
| Total equity | | (354) | (304) |
| Total liabilities and equity | | $ 8,481 | $ 7,792 |
| Contingent liabilities | 16 | | |
| Commitments | 20 | | |

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

**Approved on behalf of the Board of Directors:**

Chair of the Board of Directors

Chair of the Audit Committee

# Consolidated Statement of Comprehensive Income

| For the year ended December 31 (in millions of Canadian dollars) | Notes | 2017 | 2016 |
|---|---|---|---|
| **Revenue from operations** | | **$ 8,226** | $ 7,880 |
| **Cost of operations** | | | |
| Labour | | **4,034** | 3,890 |
| Employee benefits | **9** | **1,456** | 1,414 |
| | | **5,490** | 5,304 |
| Other operating costs | **21** | **2,205** | 2,120 |
| Depreciation and amortization | **8** | **305** | 307 |
| Total cost of operations | | **8,000** | 7,731 |
| **Profit from operations** | | **226** | 149 |
| **Investing and financing income (expense)** | | | |
| Investment and other income | **6, 22** | **19** | 11 |
| Finance costs and other expense | **17, 22** | **(46)** | (46) |
| Investing and financing expense, net | | **(27)** | (35) |
| Profit before tax | | **199** | 114 |
| **Tax expense** | **11** | **55** | 33 |
| **Net profit** | | **$ 144** | $ 81 |
| **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 | **23** | **$ 12** | $ (4) |
| Foreign currency translation adjustment | **23** | **(2)** | – |
| **Item never reclassified to net profit (loss)** | | | |
| Remeasurements of defined benefit plans | **23** | **(203)** | 745 |
| **Other comprehensive income (loss)** | | **(193)** | 741 |
| **Comprehensive income (loss)** | | **$ (49)** | $ 822 |
| **Net profit attributable to** | | | |
| Government of Canada | | **$ 138** | $ 78 |
| Non-controlling interests | | **6** | 3 |
| | | **$ 144** | $ 81 |
| **Comprehensive income (loss) attributable to** | | | |
| Government of Canada | | **$ (55)** | $ 820 |
| Non-controlling interests | | **6** | 2 |
| | | **$ (49)** | $ 822 |

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

# Consolidated Statement of Changes in Equity

| **For the year ended December 31, 2017** (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, 2016** | **$ 1,155** | **$ 44** | **$ (1,530)** | **$ (331)** | **$ 27** | **$ (304)** |
| **Net profit** | **–** | **–** | **138** | **138** | **6** | **144** |
| **Other comprehensive income (loss)** | **–** | **10** | **(203)** | **(193)** | **–** | **(193)** |
| **Comprehensive income (loss)** | **–** | **10** | **(65)** | **(55)** | **6** | **(49)** |
| **Transactions with shareholders – Dividend** | **–** | **–** | **–** | **–** | **(1)** | **(1)** |
| **Balance at December 31, 2017** | **$ 1,155** | **$ 54** | **$ (1,595)** | **$ (386)** | **$ 32** | **$ (354)** |

| For the year ended December 31, 2016 (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, 2015 | $ 1,155 | $ 48 | $ (2,354) | $ (1,151) | $ 27 | $ (1,124) |
| Net profit | – | – | 78 | 78 | 3 | 81 |
| Other comprehensive income (loss) | – | (4) | 746 | 742 | (1) | 741 |
| Comprehensive income (loss) | – | (4) | 824 | 820 | 2 | 822 |
| Transactions with shareholders – Dividend | – | – | – | – | (2) | (2) |
| Balance at December 31, 2016 | $ 1,155 | $ 44 | $ (1,530) | $ (331) | $ 27 | $ (304) |

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** | **2017** | 2016 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net profit | | **$ 144** | $ 81 |
| Adjustments to reconcile net profit to cash provided by operating activities: | | | |
| Depreciation and amortization | **8** | **305** | 307 |
| Pension, other post-employment and other long-term benefit expense | **10** | **868** | 861 |
| Pension, other post-employment and other long-term benefit payments | **10** | **(547)** | (518) |
| Loss on sale of capital assets and assets held for sale | **22** | **3** | 4 |
| Tax expense | **11** | **55** | 33 |
| Net interest expense | **22** | **22** | 30 |
| Change in non-cash operating working capital: | | | |
| Increase in trade and other receivables | | **(113)** | (37) |
| Increase in trade and other payables | | **35** | 17 |
| Increase in salaries and benefits payable and related provisions | | **114** | 53 |
| Increase in provisions | | **8** | 5 |
| Net increase in other non-cash operating working capital | | **(7)** | (5) |
| Other income not affecting cash, net | | **(20)** | (26) |
| Cash provided by operations before interest and tax | | **867** | 805 |
| Interest received | | **43** | 35 |
| Interest paid | | **(44)** | (48) |
| Tax paid | | **(118)** | (195) |
| Cash provided by operating activities | | **748** | 597 |
| **Cash flows from investing activities** | | | |
| Acquisition of securities | | **(2,180)** | (1,817) |
| Proceeds from sale of securities | | **2,407** | 1,626 |
| Acquisition of capital assets | | **(299)** | (253) |
| Proceeds from sale of capital assets | | **4** | 1 |
| Cash used in investing activities | | **(68)** | (443) |
| **Cash flows from financing activities** | | | |
| Repayment of loans and borrowings | **17** | **–** | (55) |
| Payments on finance lease obligations | **17** | **(22)** | (22) |
| Dividend paid to non-controlling interests | | **(1)** | (2) |
| Other financing activities, net | | **(1)** | (1) |
| Cash used in financing activities | | **(24)** | (80) |
| **Net increase in cash and cash equivalents** | | **656** | 74 |
| Cash and cash equivalents, beginning of year | | **849** | 775 |
| Effect of exchange rate changes on cash and cash equivalents | | **(2)** | – |
| **Cash and cash equivalents, end of year** | | **$ 1,503** | $ 849 |

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

# Notes to Consolidated Financial Statements

December 31, 2017

## 1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation 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 *Canada Post Corporation 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 *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada.

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.

The Corporation is subject to a directive that was issued in December 2013, and a related subsequent directive that was issued in June 2016, pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board approval 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, where necessary.

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 travel, hospitality, conference and event expenditure policies, guidelines and practices to align them with those of the Treasury Board. The Corporation is also detailing business processes and system requirements for an overall solution that will ensure compliance with the travel directive, good governance and the efficiencies required to achieve the commercial and core mandate of the Corporation. The Corporation expects to achieve full compliance in 2018.

## 2. 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* (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 9% (2016 – 9%) 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 24 [a]).

The fact that postage rates of certain products and services are subject to regulation does not affect the application of International Financial Reporting Standards (IFRS) to these consolidated financial statements.

## 3. Basis of Presentation and Significant Accounting Policies

**Statement of compliance** • The Corporation has prepared its consolidated financial statements in compliance with 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 22, 2018.

**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 Group of Companies.

**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."

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, 2017** | December 31, 2016 |
| 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 % |

**(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.

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 earning return on investment.

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

## 3. Basis of Presentation and Significant Accounting Policies (continued)

**(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 the 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 be settled 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. The interest expense on loans and borrowings is recognized in finance costs and other expense.

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

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

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.

## 3. Basis of Presentation and Significant Accounting Policies (continued)

**(c.3)** **Depreciation and amortization** • Depreciation or amortization commences when assets are available for use and is calculated on the cost of an asset, less residual value. Depreciation or amortization is 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 | 3 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 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 or amortization methods and estimates of useful lives and residual values is assessed on an annual basis and revised on a prospective basis, where appropriate.

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

**(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.

## 3. Basis of Presentation and Significant Accounting Policies (continued)

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

**(c.6) Capital assets to be disposed of by sale •** When the Group of Companies intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in 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 the asset's fair value less costs to sell subsequently increases, the gain is recognized, 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.

**(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™, Neighbourhood Mail™ 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.

## 3. Basis of Presentation and Significant Accounting Policies (continued)

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.

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. The 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.

## 3. Basis of Presentation and Significant Accounting Policies (continued)

**(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).

**(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.

## 3. Basis of Presentation and Significant Accounting Policies (continued)

### (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 revenue 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.

## 4. 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.

**(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 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 3 (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.

## 4. Critical Accounting Estimates and Judgments (continued)

Capital assets are tested for impairment as described in Note 3 (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 3 (d). Performing goodwill impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to Note 12.

**(b.3)** **Deferred revenue •** The Group of Companies estimates deferred revenue at the end of the reporting period relating to parcels deposited but not yet delivered, stamps distributed to dealers but not yet resold to customers, and meters filled but not yet used by customers. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by the Group of Companies. 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. 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.

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.

## 4. Critical Accounting Estimates and Judgments (continued)

**(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.

## 5. 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 January 1, 2017.

The following amendments, were adopted by the Group of Companies January 1, 2017.

**Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7)** • 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 for annual periods beginning on or after January 1, 2017. Early application is permitted. Although there was no change to the Corporation's consolidated financial statements, a reconciliation of liabilities arising from financing activities is disclosed in Note 17.

### (b) Standards, amendments and interpretations not yet in effect

The following standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee have been assessed as having a possible effect on the Group of Companies in the future.

**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. The Group of Companies intends to apply IFRS 15 retrospectively, effective January 1, 2018. The Group of Companies has identified some differences in how revenue will be recognized.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period will be less than one year and will, therefore, qualify under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs are currently netted against revenue and under IFRS 15 will be reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, it is expected that revenue and cost from operations will each increase by approximately $87 million for the year ended December 31, 2017, which will have no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue was appropriate. As a result, it is expected that deferred tax assets, deferred revenue and accumulated deficit will increase by approximately $7 million, $29 million and $22 million respectively, as at January 1, 2017, and will increase by approximately $7 million and $30 million and $23 million respectively, as at December 31, 2017. Revenue will decrease by approximately $1 million for the year ended December 31, 2017.

*(in millions of Canadian dollars, unless otherwise indicated)*

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

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, it is expected that the deferred tax assets, deferred revenue and accumulated deficit will decrease by approximately $1 million, $2 million and $1 million, respectively as at January 1, 2017 and will decrease by approximately $2 million, $6 million and $4 million, respectively, as at December 31, 2017. Revenue will increase by approximately $4 million and the tax expense by approximately $1 million for the year ended December 31, 2017.

The overall impact of these changes on the consolidated financial statements is expected to be as follows:

**Consolidated statement of financial position**

| **As at January 1, 2017** | **As currently reported** | **IFRS 15 adjustments** | **Restated** |
|---|---|---|---|
| Deferred tax asset | $ 1,384 | $ 6 | $ 1,390 |
| Deferred revenue | $ 115 | $ 27 | $ 142 |
| Accumulated deficit | $ (1,530) | $ (21) | $ (1,551) |

**Consolidated statement of financial position**

| **As at December 31, 2017** | **As currently reported** | **IFRS 15 adjustments** | **Restated** |
|---|---|---|---|
| Deferred tax asset | $ 1,562 | $ 5 | $ 1,567 |
| Deferred revenue | $ 114 | $ 24 | $ 138 |
| Accumulated deficit | $ (1,595) | $ (19) | $ (1,614) |

**Consolidated statement of comprehensive income**

| **For the year ended December 31, 2017** | **As currently reported** | **IFRS 15 adjustments** | **Restated** |
|---|---|---|---|
| Revenue from operations | $ 8,226 | $ 90 | $ 8,316 |
| Total cost of operations | 8,000 | 87 | 8,087 |
| Tax expense | 55 | 1 | 56 |
| Net profit | $ 144 | $ 2 | $ 146 |

The Group of Companies is completing its assessment of the impact of the standard and does not expect other significant impacts from this standard on its consolidated financial statements.

**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." The Group of Companies will apply IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities currently classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets will be classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation will use the probability-of-default method, adjusted by using forward looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, marketable and segregated securities, as these investments qualify under the low credit risk simplification approach. The Group of Companies is completing its assessment of the impact of the standard and does not expect other significant impacts from this standard on its consolidated financial statements.

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

**IFRS 16 "Leases" (IFRS 16)** • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the 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 leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019, and intends to apply the full retrospective approach.

The Group of Companies continues to make progress in the review of IFRS 16 and its impact, including the implementation of a new lease accounting software. The impact on the consolidated statement of financial position is expected to be significant due to the addition of right-of-use assets and the associated lease liability for a large number of leases. The impact on the consolidated statement of comprehensive income will be quantitatively less significant, but will result in a shifting of some costs from cost of operations to financing expense, given that the existing rent expense will be replaced by depreciation and interest for right-of-use assets. Lessees will also be required to remeasure the lease liability when certain events occur (e.g. a change in the lease term or a change in future lease payments resulting from a lease renewal or extension). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17. The Group of Companies expects to report more detailed information, including estimated quantitative financial effects once available.

**IFRIC 23 "Uncertainty Over Income Tax Treatments" (IFRIC 23)**• This IFRIC clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group of Companies is not expecting any impact from adopting this interpretation.

**Annual Improvements to IFRS – 2015-2017 Cycle** • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. These amendments are effective for annual reporting periods beginning on or after January 1, 2019. The standards and topics covered by the amendments were as follows: IFRS 3 "Business Combinations" clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; IFRS 11 "Joint Arrangements" clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 12 "Income Taxes" clarifies that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises; and IAS 23 "Borrowing Costs" clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The Group of Companies is currently evaluating the impact from adopting these amendments.

**Amendments to IAS 19 Employee Benefits (IAS 19)** • In February 2018, the IASB issued amendments to IAS 19 "Employee Benefits" addressing the accounting for a plan amendment, curtailment or settlement that occurs during a period. The use of updated actuarial assumptions is required to determine current service cost and net interest for the remainder of the reporting period after such events. The amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after January 1, 2019, with earlier adoption permitted. The Group of Companies is currently evaluating the impact from adopting these amendments.

*(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 | 2017 | | 2016 | |
|---|---|---|---|---|
| **Cash and cash equivalents** | | | | |
| Cash | $ 1,100 | 73 % | $ 713 | 84 % |
| Money market instruments issued by | | | | |
| Government of Canada | 30 | 2 % | 20 | 2 % |
| Provincial governments | 35 | 2 % | 20 | 2 % |
| Financial institutions | 182 | 12 % | 58 | 7 % |
| Corporations | 156 | 11 % | 38 | 5 % |
| Total cash and cash equivalents | **$ 1,503** | **100 %** | $ 849 | 100 % |
| **Marketable securities** | | | | |
| Money market instruments issued by | | | | |
| Government of Canada | $ 172 | 21 % | $ 161 | 15 % |
| Provincial governments | 305 | 37 % | 350 | 34 % |
| Financial institutions | 110 | 13 % | 210 | 20 % |
| Corporations | 234 | 29 % | 317 | 31 % |
| Total marketable securities | **$ 821** | **100 %** | $ 1,038 | 100 % |
| **Segregated securities** | | | | |
| Cash | $ 10 | 2 % | $ 9 | 2 % |
| Bonds issued by | | | | |
| Government of Canada | 111 | 21 % | 111 | 21 % |
| Provincial governments | 208 | 40 % | 199 | 38 % |
| Corporations | 197 | 37 % | 204 | 39 % |
| Total segregated securities | **$ 526** | **100 %** | $ 523 | 100 % |

The remaining term to maturity at December 31, 2017, is 12 months or less with the exception of segregated bond securities that, if held to maturity, have terms expiring over a 25-year period.

All money market instruments and bonds held as at December 31, 2017, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2017, was 1.4% for money market instruments (2016 – 0.8%) and 2.8% for bonds (2016 – 3.0%).

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

### (b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $20 million (2016 – $14 million). Interest income and gains and losses on segregated securities amounted to $19 million (2016 – $20 million).

## 7. Other Current Assets

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Income tax receivable | $ – | $ 18 |
| Prepaid expenses | 94 | 90 |
| Assets held for sale | 32 | 2 |
| Total other current assets | **$ 126** | $ 110 |

As at December 31, 2017, all 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, 2015 | $ 315 | $ 2,018 | $ 273 | $ 1,315 | $ 524 | $ 421 | $ 904 | $ 89 | $ 5,859 |
| Additions | – | 40 | 13 | 30 | 30 | 23 | 9 | 60 | 205 |
| Reclassified as held for sale | – | (4) | – | – | – | – | – | – | (4) |
| Retirements | – | (5) | (1) | (17) | (7) | (36) | (15) | – | (81) |
| Transfers | – | 8 | 1 | 2 | – | 1 | 46 | (58) | – |
| December 31, 2016 | $ 315 | $ 2,057 | $ 286 | $ 1,330 | $ 547 | $ 409 | $ 944 | $ 91 | $ 5,979 |
| Additions | 39 | 41 | 16 | 38 | 39 | 14 | 18 | 50 | 255 |
| Reclassified as held for sale | (23) | (8) | – | – | – | – | – | – | (31) |
| Retirements | – | (11) | (5) | (119) | (5) | (98) | (3) | – | (241) |
| Transfers | – | 3 | 8 | 18 | – | (1) | 34 | (62) | – |
| **December 31, 2017** | **$ 331** | **$ 2,082** | **$ 305** | **$ 1,267** | **$ 581** | **$ 324** | **$ 993** | **$ 79** | **$ 5,962** |
| **Accumulated depreciation** | | | | | | | | | |
| December 31, 2015 | $ – | $ 1,013 | $ 210 | $ 764 | $ 305 | $ 351 | $ 478 | $ – | $ 3,121 |
| Depreciation | – | 57 | 14 | 80 | 51 | 22 | 43 | – | 267 |
| Reclassified as held for sale | – | (3) | – | – | – | – | – | – | (3) |
| Retirements | – | (4) | (1) | (17) | (7) | (35) | (14) | – | (78) |
| December 31, 2016 | $ – | $ 1,063 | $ 223 | $ 827 | $ 349 | $ 338 | $ 507 | $ – | $ 3,307 |
| Depreciation | – | 60 | 13 | 76 | 50 | 21 | 43 | – | 263 |
| Reclassified as held for sale | – | (1) | – | – | – | – | – | – | (1) |
| Retirements | – | (9) | (5) | (117) | (4) | (96) | (3) | – | (234) |
| **December 31, 2017** | **$ –** | **$ 1,113** | **$ 231** | **$ 786** | **$ 395** | **$ 263** | **$ 547** | **$ –** | **$ 3,335** |
| **Carrying amounts** | | | | | | | | | |
| December 31, 2016 | $ 315 | $ 994 | $ 63 | $ 503 | $ 198 | $ 71 | $ 437 | $ 91 | $ 2,672 |
| **December 31, 2017** | **$ 331** | **$ 969** | **$ 74** | **$ 481** | **$ 186** | **$ 61** | **$ 446** | **$ 79** | **$ 2,627** |

As at December 31, 2017, the Group of Companies held assets under finance leases in two asset classes: vehicles with net book value of $35 million (2016 – $54 million) and plant equipment with net book value of $3 million (2016 – $4 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, 2015 | $ | 684 | $ | 21 | $ | 30 | $ | 735 |
| Additions | | 2 | | 48 | | – | | 50 |
| Retirements | | – | | – | | (5) | | (5) |
| Transfers | | 48 | | (48) | | – | | – |
| December 31, 2016 | $ | 734 | $ | 21 | $ | 25 | $ | 780 |
| Additions | | 4 | | 42 | | – | | 46 |
| Retirements | | (1) | | (2) | | (2) | | (5) |
| Transfers | | 30 | | (30) | | – | | – |
| **December 31, 2017** | **$** | **767** | **$** | **31** | **$** | **23** | **$** | **821** |
| **Accumulated amortization** | | | | | | | | |
| December 31, 2015 | $ | 601 | $ | – | $ | 27 | $ | 628 |
| Amortization | | 39 | | – | | 1 | | 40 |
| Retirements | | – | | – | | (5) | | (5) |
| December 31, 2016 | $ | 640 | $ | – | $ | 23 | $ | 663 |
| Amortization | | 41 | | – | | 1 | | 42 |
| Retirements | | (1) | | – | | (2) | | (3) |
| **December 31, 2017** | **$** | **680** | **$** | **–** | **$** | **22** | **$** | **702** |
| **Carrying amounts** | | | | | | | | |
| December 31, 2016 | $ | 94 | $ | 21 | $ | 2 | $ | 117 |
| **December 31, 2017** | **$** | **87** | **$** | **31** | **$** | **1** | **$** | **119** |

## 9. Employee Benefits

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

| **For the year ended December 31** | | **2017** | | 2016 |
|---|---|---|---|---|
| Active and other employee benefits | $ | 607 | $ | 573 |
| Pension, other post-employment and other long-term benefit expense (Note 10 [e]) | | 849 | | 841 |
| Employee benefits | **$** | **1,456** | $ | 1,414 |

## 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.

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

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, 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.

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 (Note 10 [h]).

*(in millions of Canadian dollars, unless otherwise indicated)*

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

### (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 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Pension benefit plans** | **Other benefit plans** | Pension benefit plans | Other benefit plans |
| **Present value of benefit obligations** | | | | |
| Balance, beginning of year | $ 26,500 | $ 3,612 | $ 25,848 | $ 3,640 |
| Current service cost | 498 | 104 | 489 | 106 |
| Interest cost | 1,052 | 146 | 1,052 | 151 |
| Employee contributions | 235 | – | 230 | – |
| Benefits paid | (1,036) | (156) | (989) | (157) |
| Actuarial (gains) losses (Note 10 [f]) | 1,541 | 212 | (130) | (97) |
| (Gains) losses from plan amendments | – | 1 | – | (31) |
| Balance, end of year | $ 28,790 | $ 3,919 | $ 26,500 | $ 3,612 |
| **Fair value of plan assets** | | | | |
| Balance, beginning of year | $ 24,459 | – | $ 23,185 | $ – |
| Interest income on plan assets | 969 | – | 942 | – |
| Return on plan assets, excluding interest income on plan assets | 1,475 | – | 755 | – |
| Employer regular contributions | 319 | – | 297 | – |
| Employer special contributions | 58 | – | 52 | – |
| Employee contributions | 235 | – | 230 | – |
| Other administration costs | (14) | – | (13) | – |
| Benefits paid | (1,036) | – | (989) | – |
| Balance, end of year | $ 26,465 | – | $ 24,459 | $ – |
| Net defined benefit liability | **$ 2,325** | **$ 3,919** | $ 2,041 | $ 3,612 |

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no resulting decrease in the pension benefit assets and no resulting increase in the pension benefit liabilities as at December 31, 2017, and 2016.

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

| As at December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **Pension benefit plans** | **Other benefit plans** | Pension benefit plans | Other benefit plans |
| Net defined benefit liability, beginning of the year | $ 2,041 | $ 3,612 | $ 2,663 | $ 3,640 |
| Remeasurements of defined benefit plans (Note 10 [e]) | 66 | 204 | (885) | (108) |
| Benefits paid directly to beneficiaries | – | (156) | – | (157) |
| Employer regular contributions paid | (319) | – | (297) | – |
| Employer special contributions paid | (58) | – | (52) | – |
| Defined benefit expense (Note 10 [e]) | 595 | 259 | 612 | 237 |
| Net defined benefit liability, end of the year | **$ 2,325** | **$ 3,919** | $ 2,041 | $ 3,612 |

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

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Pension benefit assets | **$ 116** | $ 135 |
| Pension benefit liabilities | $ 2,441 | $ 2,176 |
| Other post-employment and other long-term benefit liabilities | 3,919 | 3,612 |
| Total pension, other post-employment and other long-term benefit liabilities | $ 6,360 | $ 5,788 |
| Current other long-term benefit liabilities | **$ 63** | $ 62 |
| Non-current pension, other post-employment and other long-term benefit liabilities | **$ 6,297** | $ 5,726 |

*(in millions of Canadian dollars, unless otherwise indicated)*

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

### (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 19 for the Group of Companies were as follows:

**As at December 31, 2017**

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| Cash and short-term securities | $ 237 | 1 % | $ 253 | 1 % | $ – | – % | $ 490 | 2 % |
| Fixed income | 5 | – % | 9,710 | 37 % | – | – % | 9,715 | 37 % |
| Equities | 11,528 | 44 % | 116 | – % | 5 | – % | 11,649 | 44 % |
| Real estate | – | – % | – | – % | 2,512 | 10 % | 2,512 | 10 % |
| Private equity | – | – % | – | – % | 847 | 3 % | 847 | 3 % |
| Infrastructure | – | – % | – | – % | 812 | 3 % | 812 | 3 % |
| Derivatives | – | – % | 39 | – % | – | – % | 39 | – % |
| Other | – | – % | – | – % | 203 | 1 % | 203 | 1 % |
| **Total investment assets** | **$ 11,770** | **45 %** | **$ 10,118** | **38 %** | **$ 4,379** | **17 %** | **$ 26,267** | **100 %** |
| Non-investment assets less liabilities | | | | | | | $ 198 | |
| Fair value of plan assets | | | | | | | **$ 26,465** | |

As at December 31, 2016

| | Level 1 | | Level 2 | | Level 3 | | Total | |
|---|---|---|---|---|---|---|---|---|
| Cash and short-term securities | $ 300 | 1 % | $ 132 | 1 % | $ – | – % | $ 432 | 2 % |
| Fixed income | 28 | – % | 8,682 | 36 % | – | – % | 8,710 | 36 % |
| Equities | 11,697 | 48 % | 94 | – % | 5 | – % | 11,796 | 48 % |
| Real estate | – | – % | – | – % | 2,088 | 9 % | 2,088 | 9 % |
| Private equity | – | – % | – | – % | 651 | 3 % | 651 | 3 % |
| Infrastructure | – | – % | – | – % | 514 | 2 % | 514 | 2 % |
| Derivatives | – | – % | (11) | – % | – | – % | (11) | – % |
| Other | – | – % | – | – % | 72 | – % | 72 | – % |
| Total investment assets | $ 12,025 | 49 % | $ 8,897 | 37 % | $ 3,330 | 14 % | $ 24,252 | 100 % |
| Non-investment assets less liabilities | | | | | | | $ 207 | |
| Fair value of plan assets | | | | | | | $ 24,459 | |

Total plan assets included $3,422 million (2016 – $2,688 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $166 million (2016 – $162 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.

*(in millions of Canadian dollars, unless otherwise indicated)*

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

### (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 | | | 2017 | | | 2016 |
|---|---|---|---|---|---|---|
| | **Pension benefit plans** | **Other benefit plans** | **Total** | Pension benefit plans | Other benefit plans | Total |
| Current service cost | $ 498 | $ 104 | $ 602 | $ 489 | $ 106 | $ 595 |
| Interest cost | 1,052 | 146 | 1,198 | 1,052 | 151 | 1,203 |
| Interest income on plan assets | (969) | – | (969) | (942) | – | (942) |
| Actuarial losses (Note 10 [f])[1] | – | 8 | 8 | – | 11 | 11 |
| Other administration costs | 14 | – | 14 | 13 | – | 13 |
| (Gains) losses from plan amendments | – | 1 | 1 | – | (31) | (31) |
| Defined benefit expense (Note 10 [c]) | 595 | 259 | 854 | 612 | 237 | 849 |
| Defined contribution expense | 14 | – | 14 | 12 | – | 12 |
| Total expense | 609 | 259 | 868 | 624 | 237 | 861 |
| Return on segregated securities (Note 6b) | – | (19) | (19) | – | (20) | (20) |
| **Component included in employee benefits expense (Note 9)** | **$ 609** | **$ 240** | **$ 849** | $ 624 | $ 217 | $ 841 |
| Remeasurement (gains) losses: | | | | | | |
| Return on plan assets, excluding interest income on plan assets | $ (1,475) | $ – | $ (1,475) | $ (755) | $ – | $ (755) |
| Actuarial (gains) losses (Note10 [f]) | 1,541 | 204 | 1,745 | (130) | (108) | (238) |
| **Component included in other comprehensive income (Note 10 [c])** | **$ 66** | **$ 204** | **$ 270** | $ (885) | $ (108) | $ (993) |

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

In November 2017, the Corporation ratified a new three-year collective agreement with the employees represented by the Association of Postal Officials of Canada (APOC). The new collective agreement is effective April 1, 2018. The new terms and conditions led to modifications to the post-employment health plan arrangement. The resulting loss from the plan amendment of $1 million was recorded in net profit for 2017.

*(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 consolidated statement of comprehensive income were as follows:

| **For the year ended December 31** | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Pension benefit plans** | **Other benefit plans** | **Total** | Pension benefit plans | Other benefit plans | Total |
| Actuarial (gains) losses on other long-term benefit obligations: | | | | | | |
| Actuarial losses arising from changes in demographic assumptions | $ – | $ 4 | $ 4 | $ – | $ 7 | $ 7 |
| Actuarial (gains) losses arising from changes in financial assumptions | – | 2 | 2 | – | (11) | (11) |
| Actuarial losses arising from experience adjustments | – | 2 | 2 | – | 15 | 15 |
| **Actuarial losses included in net profit (Note10 [e])** | **$ –** | **$ 8** | **$ 8** | $ – | $ 11 | $ 11 |
| Actuarial (gains) losses on defined benefit obligations: | | | | | | |
| Actuarial (gains) losses arising from changes in demographic assumptions | $ (2) | $ 1 | $ (1) | $ 521 | $ (2) | $ 519 |
| Actuarial (gains) losses arising from changes in financial assumptions | 1,663 | 204 | 1,867 | (510) | (108) | (618) |
| Actuarial (gains) losses arising from experience adjustments | (120) | (1) | (121) | (141) | 2 | (139) |
| **Actuarial (gains) losses included in other comprehensive income (Note 10 [e])** | **$ 1,541** | **$ 204** | **$ 1,745** | $ (130) | $ (108) | $ (238) |
| **Total actuarial (gains) losses (Note 10 [c])** | **$ 1,541** | **$ 212** | **$ 1,753** | $ (130) | $ (97) | $ (227) |

### (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** | **2017** | | 2016 | |
|---|---|---|---|---|
| | **Pension benefit plans** | **Other benefit plans** | Pension benefit plans | Other benefit plans |
| Present value of defined benefit obligations: | | | | |
| Discount rate | 3.6 % | 3.6 % | 4.0 % | 4.1 % |
| Consumer price index | 2.0 % | 2.0 % | 2.0 % | 2.0 % |
| Defined benefit expense: | | | | |
| Discount rate | 4.0 % | 4.1 % | 4.1 % | 4.2 % |
| Consumer price index | 2.0 % | 2.0 % | 2.25 % | 2.25 % |
| Health care cost trend rate[1] | N/A | 5.2 % | N/A | 5.3 % |

1. For 2017, the health care cost trend rate was 5.2%, decreasing progressively to a rate of 4.5% by 2029. For 2016, the health care cost trend rate was 5.3%, 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 used in the measurement of the defined benefit obligations for the significant plans were as follows:

| **As at December 31** | **2017** | 2016 |
|---|---|---|
| Life expectancy[1] at age 60 at December 31, 2017, and 2016 (in years): | | |
| Males | 28 | 27 |
| Females | 30 | 29 |
| Life expectancy[1] at age 60 at December 31, 2037, and 2036 (in years): | | |
| Males | 29 | 29 |
| Females | 30 | 30 |

1. 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. A study of Canada Post pension plan experience was performed in 2016, the results of which show that the unadjusted tables give the best agreement with past experience.

### (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, 2017**

| | **Pension benefit plans** | **Other benefit plans** | **Total** |
|---|---|---|---|
| Discount rate sensitivity: | | | |
| 0.5% increase in discount rates | $ (2,253) | $ (309) | $ (2,562) |
| 0.5% decrease in discount rates | $ 2,462 | $ 351 | $ 2,813 |
| Consumer price index (CPI) sensitivity: | | | |
| 0.25% increase in CPI | $ 949 | $ 42 | $ 991 |
| 0.25% decrease in CPI | $ (920) | $ (40) | $ (960) |
| Mortality tables sensitivity: | | | |
| 10% increase in mortality tables | $ (590) | $ (83) | $ (673) |
| 10% decrease in mortality tables | $ 603 | $ 97 | $ 700 |
| Health care cost trend rates sensitivity: | | | |
| 1% increase in health care trend rates | N/A | $ 560 | $ 560 |
| 1% decrease in health care trend rates | N/A | $ (429) | $ (429) |

As at December 31, 2016

| | Pension benefit plans | Other benefit plans | Total |
|---|---|---|---|
| Discount rate sensitivity: | | | |
| 0.5% increase in discount rates | $ (2,033) | $ (276) | $ (2,309) |
| 0.5% decrease in discount rates | $ 2,217 | $ 313 | $ 2,530 |
| Consumer price index (CPI) sensitivity: | | | |
| 0.25% increase in CPI | $ 871 | $ 38 | $ 909 |
| 0.25% decrease in CPI | $ (845) | $ (36) | $ (881) |
| Mortality tables sensitivity: | | | |
| 10% increase in mortality tables | $ (504) | $ (69) | $ (573) |
| 10% decrease in mortality tables | $ 514 | $ 80 | $ 594 |
| Health care cost trend rates sensitivity: | | | |
| 1% increase in health care trend rates | N/A | $ 469 | $ 469 |
| 1% decrease in health care trend rates | N/A | $ (363) | $ (363) |

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 in 2016.

*(in millions of Canadian dollars, unless otherwise indicated)*

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

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

The weighted-average duration of the pension plans, other post-employment plans and other long-term employee benefit plan obligations for the Group of Companies ranges from 15 to 23, 14 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** | **2017** | 2016 |
|---|---|---|
| Benefits paid directly to beneficiaries for other benefit plans | $ 156 | $ 157 |
| Employer regular contributions to pension benefit plans | 319 | 297 |
| Employer special contributions to pension benefit plans | 58 | 52 |
| Cash payments for defined benefit plans | 533 | 506 |
| Contributions to defined contribution plans | 14 | 12 |
| Total cash payments | **$ 547** | $ 518 |

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations.* Under these regulations, the Corporation was exempt from making special contributions into the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation will revert back to the regulations in the *Pension Benefits Standard Act, 1985*.

On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. The *Pension Benefits Standards Regulations, 1985*, were amended to change the solvency reduction limit applicable to the pension plans of Crown corporations from 15% of plan assets to 15% of a plan's solvency liabilities. Under these revised regulations, the aggregate amount of relief is limited to 15% of the plan's solvency liabilities; beyond that threshold, Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. Canada Post has notified and received no objections from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce special solvency contributions for 2018. Canada Post will not have to make special payments in 2018.

Without relief as outlined in the regulations under the *Pensions Benefits Standards Act, 1985* and the *Canada Post Corporation Pension Plan Funding Regulations* significant special contributions would have been required in 2017 as well as in 2018.

### (j) Future expected contributions

In 2018, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $374 million, including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $258 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, 2016 | **Recognized in net profit** | **Recognized in OCI** | **December 31, 2017** |
|---|---|---|---|---|
| **Net deferred tax assets (liabilities)** | | | | |
| Capital assets | $ (63) | $ – | $ – | $ (63) |
| Salaries and benefits payable and related provisions | 40 | 31 | – | 71 |
| Pension, other post-employment and other long-term benefit liabilities | 1,393 | 217 | (67) | 1,543 |
| Other | 12 | (6) | 4 | 10 |
| Net deferred tax assets | $ 1,382 | **$ 242** | **$ (63)** | **$ 1,561** |

| | December 31, 2015 | Recognized in net profit | Recognized in OCI | December 31, 2016 |
|---|---|---|---|---|
| Net deferred tax assets (liabilities) | | | | |
| Capital assets | $ (58) | $ (5) | $ – | $ (63) |
| Salaries and benefits payable and related provisions | 37 | 3 | – | 40 |
| Pension, other post-employment and other long-term benefit liabilities | 1,549 | 92 | (248) | 1,393 |
| Other | 10 | 1 | 1 | 12 |
| Net deferred tax assets | $ 1,538 | $ 91 | $ (247) | $ 1,382 |

As presented in the consolidated statement of financial position:

| **As at December 31** | **2017** | 2016 |
|---|---|---|
| Deferred tax assets | **$ 1,562** | $ 1,384 |
| Deferred tax liabilities, included in non-current other liabilities | **1** | 2 |
| | **$ 1,561** | $ 1,382 |

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, 2017, was $351 million (2016 – $262 million).

The major components of tax expense were as follows:

| **For the year ended December 31** | **2017** | 2016 |
|---|---|---|
| Current tax expense relating to | | |
| Current tax expense | $ 171 | $ 128 |
| Adjustments for prior years | (1) | (4) |
| | 170 | 124 |
| Deferred tax expense (income) relating to | | |
| Origination and reversal of temporary differences | (115) | (95) |
| Adjustments for prior years | – | 4 |
| | (115) | (91) |
| Tax expense | **$ 55** | $ 33 |

*(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% (2016 – 25%) to profit before tax. The reasons for the differences were as follows:

| **For the year ended December 31** | **2017** | 2016 |
|---|---|---|
| Profit before tax | $ 199 | $ 114 |
| Federal tax at Corporation's statutory rate | 50 | 29 |
| Subsidiaries' provincial tax less federal tax abatement | 2 | 1 |
| Other | 3 | 3 |
| Tax expense | **$ 55** | $ 33 |

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2017 (2016 – 25%).

## 12. Goodwill

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

| **As at December 31** | | | **2017** | 2016 |
|---|---|---|---|---|
| | **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% (2016 – 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 18% (2016 – 15%), which is based on Purolator's weighted-average cost of capital.

## 13. Trade and Other Payables

| **As at December 31** | **2017** | 2016 |
|---|---|---|
| Trade payables | $ 158 | $ 117 |
| Accruals and other payables | 263 | 264 |
| Payables to foreign postal administrations | 68 | 78 |
| Outstanding money orders | 20 | 20 |
| Taxes payable | 74 | 69 |
| Total | **$ 583** | $ 548 |

Market and liquidity risks relating to trade and other payables are disclosed in Note 19.

*(in millions of Canadian dollars, unless otherwise indicated)*

## 14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2017:

| | Claims | Other | Total |
|---|---|---|---|
| Balance at December 31, 2016 | $ 48 | $ 23 | $ 71 |
| Additional provisions recognized | 20 | 19 | 39 |
| Provisions used during the year | (7) | (19) | (26) |
| Reduction from remeasurement of provisions | (4) | (1) | (5) |
| Balance at December 31, 2017 | **$ 57** | **$ 22** | **$ 79** |
| Current provisions | **$ 57** | **$ 20** | **$ 77** |
| Non-current provisions, included in non-current other liabilities | **$ –** | **$ 2** | **$ 2** |

**Claims**
The provision for claims is management's best estimate of the probable cash outflows related to legal claims, as well as non-litigated disputes. The timing of cash outflows related to these claims is uncertain, as it often depends on the outcome of specific events including, but not limited to, the length of legal proceedings.

**Other**
The December 31, 2017, and 2016 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 ten 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 16.

## 15. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved over the year ended December 31, 2017:

**(a)** The implementation of the 2013 memorandum of agreement between the Public Service Alliance of Canada (PSAC) and the Corporation regarding the decision of the Canadian Human Rights Tribunal (Tribunal) related to PSAC's pay equity complaint continues. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement under the memorandum of agreement. The five-year time frame started July 28, 2016.

**(b)** In 2012, the Corporation received notice from the Canadian Human Rights Commission (CHRC) 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 CHRC's investigator, which was released in 2014, found that pay equity issues for the period from 1992 to 1997 remained unresolved. The CHRC then referred this matter to the Tribunal without further investigation. Although the Corporation sought to have the matter dismissed for lack of evidence, the Federal Court and the Tribunal determined that the matter should move forward to its merits. In 2017, the CPAA raised the issue that the applicable time period for the complaint should not be from 1992 to 1997, but rather from 1992 to the present. The parties appeared before the Tribunal in June 2017 to make representations on the issue of the time period of the complaint. Both the Corporation and CHRC made representations that the timeframe was limited to the period from 1992 to 1997. By decision in January 2018, the Tribunal agreed that the complaint is limited to the period from September 1992 to March 1997 and does not include ongoing liability.

**(c)** In September 2016, Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender-based wage gap exists for the female predominant occupational groups of rural and suburban mail carriers. The study was coordinated by a committee comprising representatives of Canada Post and CUPW. In October 2017, the committee received dual reports on the potential wage gap under the *Canadian Human Rights Act.* Discussions between the parties, in an attempt to resolve any inconsistencies between the reports and to reach agreement on the amount of the wage gap and actions to rectify, did not result in agreement. Binding arbitration commenced in February 2018. Any wage gap adjustment will be retroactive to January 1, 2016.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions, and such a provision is measured at management's best estimate of the expenditure to be incurred. The Corporation may adjust any such provision in its net profit for subsequent periods, as required. These matters will continue to evolve, but further detailed information will not be provided as it could be prejudicial to the Corporation.

## 16. Contingent Liabilities

**(a)** 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. The matter was placed in abeyance pending the results of the government review of Canada Post. In January 2018, the government announced that it was ending the program to convert door-to door delivery to community mailboxes. The impact of this announcement on CUPW's pursuit of its application has not yet been determined. The outcome of this challenge is currently not determinable, and as a result no provision has been recorded in the consolidated financial statements.

**(b)** In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 1, 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). The outcome of this class action is currently not determinable.

**(c)** In 2017, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. The Corporation has filed with the Supreme Court of Canada an application for leave to appeal the decision of the Federal Court of Appeal and is waiting for a decision.

**(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.

**(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, and as a result no provision has been recorded in the consolidated financial statements. 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)*

## 17. Loans and Borrowings

| As at December 31 | 2017 | | 2016 | |
|---|---|---|---|---|
| | **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] | $ 615 | $ 498 | $ 629 | $ 498 |
| Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2] | 558 | 499 | 571 | 499 |
| Finance lease obligations, maturing on various dates through 2022, net of implicit interest at rates varying from 2.4% to 4.1%[3] | 41 | 41 | 62 | 62 |
| Total loans and borrowings | **$ 1,214** | **$ 1,038** | $ 1,262 | $ 1,059 |
| Current loans and borrowings | **$ 13** | **$ 13** | $ 22 | $ 22 |
| Non-current loans and borrowings | **$ 1,201** | **$ 1,025** | $ 1,240 | $ 1,037 |

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. The leasing facility of a subsidiary, which allows for borrowings of up to $80 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.

Additional information regarding the Group of Companies' externally imposed capital requirements and borrowing capacity is disclosed in notes 18 and 19 (c).

Interest expense on loans and borrowings amounted to $44 million (2016 – $45 million).

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

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Maturity: | | |
| 2025 | $ 500 | $ 500 |
| 2040 | 500 | 500 |
| | **$ 1,000** | $ 1,000 |

Finance lease obligations at December 31, 2017, were as follows:

| | **Minimum payments** | **Unamortized interest expense** | **Present value of minimum payments** |
|---|---|---|---|
| Not later than one year | $ 14 | $ 1 | $ 13 |
| Later than one year and not later than five years | 29 | 1 | 28 |
| Later than five years | – | – | – |
| Finance lease obligations | **$ 43** | **$ 2** | **$ 41** |
| Current finance lease obligations | **$ 14** | **$ 1** | **$ 13** |
| Non-current finance lease obligations | **$ 29** | **$ 1** | **$ 28** |

Finance lease obligations at December 31, 2016, were as follows:

| | Minimum payments | Unamortized interest expense | Present value of minimum payments |
|---|---|---|---|
| Not later than one year | $ 24 | $ 2 | $ 22 |
| Later than one year and not later than five years | 40 | 2 | 38 |
| Later than five years | 2 | – | 2 |
| Finance lease obligations | $ 66 | $ 4 | $ 62 |
| Current finance lease obligations | $ 24 | $ 2 | $ 22 |
| Non-current finance lease obligations | $ 42 | $ 2 | $ 40 |

*(in millions of Canadian dollars, unless otherwise indicated)*

## 17. Loans and Borrowings (continued)

Changes in liabilities arising from financing activities:

| | December 31, 2016 | Cash flows | Other | **December 31, 2017** |
|---|---|---|---|---|
| Loans and borrowings | $ 997 | $ – | $ – | **$ 997** |
| Finance lease obligations | 62 | (22) | 1 | **41** |
| **Total** | $ 1,059 | $ (22) | $ 1 | **$ 1,038** |

| | December 31, 2015 | Cash flows | Other | December 31, 2016 |
|---|---|---|---|---|
| Loans and borrowings | $ 1,051 | $ (55) | $ 1 | $ 997 |
| Finance lease obligations | 84 | (22) | – | 62 |
| Total | $ 1,135 | $ (77) | $ 1 | $ 1,059 |

$1 million of dividends were paid to non-controlling interests in 2017 (2016 - $2 million). Interest is accrued to Trade and other payables. Interest paid is included in cash flows from operating activities in the consolidated statement of cash flows.

## 18. 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 $1,038 million at December 31, 2017, compared to $1,059 million at December 31, 2016. The decrease of $21 million in 2017 was due to a decrease in finance lease obligations. Non-current other liabilities decreased by $1 million in 2017, primarily due to a decline in long-term deferred revenue. The decrease in the equity of Canada was primarily attributable to the remeasurements of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit. The equity of Canada was in a deficit position of $386 million at December 31, 2017, compared to a deficit position of $331 million as at December 31, 2016.

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. While an interim 2018-2022 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the government's review of Canada Post, results of which were announced in January 2018.

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 2017-2021 Corporate Plan its intention not to pay a dividend in 2017. No dividend has been paid to the shareholder since 2008.

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 19 (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 19 (c).

*(in millions of Canadian dollars, unless otherwise indicated)*

## 18. Capital Management (continued)

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.

## 19. 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, 2017** | **Level 1[1]** | **Level 2[2]** | **Level 3[3]** | **Total** |
|---|---|---|---|---|
| **Assets measured at fair value** | | | | |
| Cash and cash equivalents | $ 1,100 | $ 403 | $ – | **$ 1,503** |
| Marketable securities | $ – | $ 821 | $ – | **$ 821** |
| Segregated securities | $ – | $ 526 | $ – | **$ 526** |
| Risk management financial assets | $ – | $ 1 | $ – | **$ 1** |
| **Liabilities measured at amortized cost** | | | | |
| Loans and borrowings | $ – | $ 1,214 | $ – | **$ 1,214** |

| As at December 31, 2016 | Level 1[1] | Level 2[2] | Level 3[3] | Total |
|---|---|---|---|---|
| Assets measured at fair value | | | | |
| Cash and cash equivalents | $ 713 | $ 136 | $ – | $ 849 |
| Marketable securities | $ – | $ 1,038 | $ – | $ 1,038 |
| Segregated securities | $ – | $ 523 | $ – | $ 523 |
| Liabilities measured at amortized cost | | | | |
| Loans and borrowings | $ – | $ 1,262 | $ – | $ 1,262 |

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, 2017.

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.

**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 derivative contracts 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.

*(in millions of Canadian dollars, unless otherwise indicated)*

## 19. Financial Instruments and Risk Management (continued)

**(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, 2017 (2016 – 13 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities and other comprehensive income or loss by $68 million at December 31, 2017 (2016 – $68 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$), euro (€), British pound (£), Japanese yen (JP¥) and Chinese renminbi (CN¥) whereas payment is usually denominated in US$.

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 five 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, 2017**

| **Currency** | **Notional value** | **Canadian equivalent** | **Average contract rate** | **Maturity** | **Type** | **Fair value** |
|---|---|---|---|---|---|---|
| U.S. dollar | US$37 | $ 47 | $1.28/US$ | January 11, 2018 | Sell forward | $ 1 |
| Euro | €25 | 37 | $1.51/€ | January 12, 2018 | Sell forward | – |
| British pound | £6 | 9 | $1.71/£ | January 12, 2018 | Sell forward | – |
| Japanese yen | JP¥750 | 9 | $0.011/JP¥ | January 12, 2018 | Sell forward | – |
| Chinese renminbi | CN¥65 | 13 | $0.192/CN¥ | January 12, 2018 | Sell forward | – |
| Total | | **$ 115** | | | | **$ 1** |

As at December 31, 2016

| Currency | Notional value | Canadian equivalent | Average contract rate | Maturity | Type | Fair value |
|---|---|---|---|---|---|---|
| U.S. dollar | US$21 | $ 28 | $1.32/US$ | January 12, 2017 | Sell forward | $ – |
| Euro | €14 | 20 | $1.43/€ | January 13, 2017 | Sell forward | – |
| British pound | £3 | 5 | $1.67/£ | January 13, 2017 | Sell forward | – |
| Japanese yen | JP¥430 | 5 | $0.012/JP¥ | January 13, 2017 | Sell forward | – |
| Chinese renminbi | CN¥36 | 7 | $0.191/CN¥ | January 13, 2017 | Sell forward | – |
| Total | | $ 65 | | | | $ – |

*(in millions of Canadian dollars, unless otherwise indicated)*

## 19. Financial Instruments and Risk Management (continued)

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

| **For the year ended December 31** | | | **2017** | | | 2016 |
|---|---|---|---|---|---|---|
| | **Foreign exchange gains (losses)** | **Derivative gains** | **Total** | Foreign exchange gains (losses) | Derivative gains | Total |
| Unrealized | $ 1 | $ 1 | $ 2 | $ (6) | $ 1 | $ (5) |
| Realized | (8) | – | (8) | 2 | 12 | 14 |
| Total | **$ (7)** | **$ 1** | **$ (6)** | $ (4) | $ 13 | $ 9 |

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2017, all other variables held constant, would have been an increase or decrease in net profit for the year by $13 million (2016 – $11 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 and as a result, does not require derivative instruments to manage the remaining exposure to commodity 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 (2016 – 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.

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.

*(in millions of Canadian dollars, unless otherwise indicated)*

## 19. Financial Instruments and Risk Management (continued)

The age of receivables and the allowance for doubtful accounts for trade and other receivables were as follows:

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Trade receivables: | | |
| Current | $ 501 | $ 441 |
| 1-15 days past due | 102 | 89 |
| 16-30 days past due | 35 | 32 |
| Over 30 days past due | 41 | 46 |
| Allowance for doubtful accounts | (7) | (8) |
| Trade receivables – net | 672 | 600 |
| Trade receivables from foreign postal administrations | 246 | 191 |
| Other receivables | 26 | 38 |
| Trade and other receivables | **$ 944** | $ 829 |

Impairment losses on trade and other receivables recognized during the year were $4 million (2016 – $5 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 the Canada Post Corporation Registered Pension Plan from 2014 to 2017. In 2018, the Corporation will revert back to the regulations in the *Pension Benefits Standard Act, 1985*. On June 23, 2017, regulatory changes came into force to ease the burden of solvency deficit payments for federally regulated defined benefit pension plans. See Note 10 [i] for additional information. 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 18). 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 (2016 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2017.

The Corporation's loans and borrowings amounted to $997 million (2016 – $997 million), and letters of credit of $12 million (2016 – $12 million) were issued at December 31, 2017. No amounts were drawn on the short-term borrowing facilities as of December 31, 2017.

As at December 31, 2017, the Corporation's subsidiaries had access to financing facilities totalling $120 million (2016 – $175 million), of which $41 million (2016 – $62 million) was drawn at year-end. The subsidiaries also had letters of credit issued in the amount of $7 million (2016 – $8 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 17.

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, 2017**

| | 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 | $ 721 | $ – | $ – | $ 721 |
| Bonds, Series 1 | 4.39% | 22 | 87 | 892 | 1,001 |
| Bonds, Series 2 | 4.12% | 20 | 82 | 561 | 663 |
| Finance lease obligations | 2.4%-4.1% | 14 | 29 | – | 43 |
| | | **$ 777** | **$ 198** | **$ 1,453** | **$ 2,428** |

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

*(in millions of Canadian dollars, unless otherwise indicated)*

## 19. Financial Instruments and Risk Management (continued)

As at December 31, 2016

| | 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 | $ 719 | $ 1 | $ – | $ 720 |
| Bonds, Series 1 | 4.39% | 22 | 87 | 914 | 1,023 |
| Bonds, Series 2 | 4.12% | 20 | 82 | 582 | 684 |
| Finance lease obligations | 2.4%-5.5% | 24 | 40 | 2 | 66 |
| | | $ 785 | $ 210 | $ 1,498 | $ 2,493 |

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 18.

## 20. 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** | **2017** | 2016 |
|---|---|---|
| Not later than one year | $ 133 | $ 138 |
| Later than one year and not later than five years | 354 | 400 |
| Later than five years | 334 | 341 |
| Total | **$ 821** | $ 879 |

Included in the above table are lease payments to be made to related parties, in the normal course of business, in the amount of $38 million for premises used in postal operations and transportation services (2016 – $52 million).

The Group of Companies leases a number of properties, including industrial buildings, retail stores, offices and land, as well as operating equipment under operating leases. 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, 2017, $126 million was recognized as an expense in net profit in respect of operating leases (2016 – $129 million). This amount is net of lease revenue of $11 million (2016 – $10 million).

**(b)** The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $528 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.

## 21. Other Operating Costs

| **For the year ended December 31** | **2017** | 2016 |
|---|---|---|
| Non-labour collection, processing and delivery | $ 1,346 | $ 1,252 |
| Property, facilities and maintenance | 375 | 353 |
| Selling, administrative and other | 484 | 515 |
| Other operating costs | **$ 2,205** | $ 2,120 |

*(in millions of Canadian dollars, unless otherwise indicated)*

## 22. Investing and Financing Income (Expense)

| **For the year ended December 31** | **2017** | 2016 |
|---|---|---|
| Interest revenue | $ 22 | $ 15 |
| Loss on sale of capital assets and assets held for sale | (3) | (4) |
| Investment and other income | **$ 19** | $ 11 |
| Interest expense | $ (44) | $ (45) |
| Other expense | (2) | (1) |
| Finance costs and other expense | **$ (46)** | $ (46) |
| Investing and financing expense, net | **$ (27)** | $ (35) |

## 23. Other Comprehensive Income

| | 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 | Cumulative foreign currency translation adjustment | Accumulated other comprehensive income | Remeasurements of defined benefit plans | Other comprehensive income (loss) |
| Accumulated balance as at December 31, 2015 | $ 43 | $ 5 | $ 48 | | |
| Gains (losses) arising | $ (5) | $ – | $ (5) | $ 993 | $ 988 |
| Income taxes | 1 | – | 1 | (248) | (247) |
| Net | $ (4) | $ – | $ (4) | $ 745 | $ 741 |
| Accumulated balance as at December 31, 2016 | $ 39 | $ 5 | $ 44 | | |
| Gains (losses) arising | $ 16 | $ (2) | $ 14 | $ (270) | $ (256) |
| Income taxes | (4) | – | (4) | 67 | 63 |
| **Net** | **$ 12** | **$ (2)** | **$ 10** | **$ (203)** | **$ (193)** |
| **Accumulated balance as at December 31, 2017** | **$ 51** | **$ 3** | **$ 54** | | |

## 24. 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** | **2017** | 2016 |
|---|---|---|
| **Related party revenue** | **$ 250** | $ 278 |
| **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** | **$ 23** | $ 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 2).

*(in millions of Canadian dollars, unless otherwise indicated)*

## 24. Related Party Transactions (continued)

| As at December 31 | 2017 | 2016 |
|---|---|---|
| **Due to/from related parties** | | |
| Included in trade and other receivables | **$ 15** | $ 20 |
| Included in trade and other payables | **$ 10** | $ 11 |
| **Deferred revenue from related parties** | **$ 1** | $ 2 |

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

| As at December 31 | 2017 | 2016 |
|---|---|---|
| Not later than one year | $ 6 | $ 6 |
| Later than one year and not later than five years | 6 | 12 |
| Total | **$ 12** | $ 18 |

### (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 | 2017 | 2016 |
|---|---|---|
| Short-term employee benefits | $ 9 | $ 9 |
| Post-employment benefits | 1 | 1 |
| Total compensation | **$ 10** | $ 10 |

The 2017 KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.4 million (2016 – $0.3 million).

In addition to the amounts in the table, KMP remuneration relating to one-time termination benefits of $1 million was incurred in 2017 (2016 – $1 million). There were no transactions with the KMP other than compensation.

### (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 are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2017, 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 $11 million (2016 – $10 million). 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 $12 million (2016 – $11 million). As at December 31, 2017, $14 million (2016 – $4 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).

*(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 3 [m]). The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3). 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 revenue.

For the year ended December 31, 2017, the IT business unit earned intersegment revenue of $224 million (December 31, 2016 – $261 million), incurred cost of operations of $224 million (December 31, 2016 – $261 million), and earned net profit of nil (December 31, 2016 – nil). Total assets and liabilities at December 31, 2017, were $110 million and $60 million, respectively (December 31, 2016 – $120 million and $70 million, respectively).

**For the year ended and as at December 31, 2017**

| | **Canada Post** | **Purolator** | **Logistics** | **Other** | **Total** |
|---|---|---|---|---|---|
| Revenue from external customers | $ 6,368 | $ 1,609 | $ 249 | $ – | $ 8,226 |
| Intersegment revenue | 49 | 21 | 34 | (104) | – |
| Revenue from operations | $ 6,417 | $ 1,630 | $ 283 | $ (104) | $ 8,226 |
| Labour and employee benefits | $ 4,484 | $ 766 | $ 136 | $ 104 | $ 5,490 |
| Other operating costs | 1,603 | 687 | 118 | (203) | 2,205 |
| Depreciation and amortization | 248 | 53 | 8 | (4) | 305 |
| Cost of operations | $ 6,335 | $ 1,506 | $ 262 | $ (103) | $ 8,000 |
| Profit (loss) from operations | $ 82 | $ 124 | $ 21 | $ (1) | $ 226 |
| Investment and other income | $ 34 | $ – | $ – | $ (15) | $ 19 |
| Finance costs and other expense | (42) | (4) | – | – | (46) |
| Profit (loss) before tax | $ 74 | $ 120 | $ 21 | $ (16) | $ 199 |
| Tax expense | 17 | 32 | 6 | – | 55 |
| Net profit (loss) | $ 57 | $ 88 | $ 15 | $ (16) | $ 144 |
| Total assets | $ 7,735 | $ 918 | $ 142 | $ (314) | $ 8,481 |
| Additions to capital assets | $ 250 | $ 46 | $ 10 | $ (5) | $ 301 |
| Total liabilities | $ 8,450 | $ 344 | $ 58 | $ (17) | $ 8,835 |

For the year ended and as at December 31, 2016

| | Canada Post | Purolator | Logistics | Other | Total |
|---|---|---|---|---|---|
| Revenue from external customers | $ 6,153 | $ 1,509 | $ 218 | $ – | $ 7,880 |
| Intersegment revenue | 33 | 19 | 41 | (93) | – |
| Revenue from operations | $ 6,186 | $ 1,528 | $ 259 | $ (93) | $ 7,880 |
| Labour and employee benefits | $ 4,321 | $ 759 | $ 124 | $ 100 | $ 5,304 |
| Other operating costs | 1,553 | 647 | 106 | (186) | 2,120 |
| Depreciation and amortization | 249 | 53 | 9 | (4) | 307 |
| Cost of operations | $ 6,123 | $ 1,459 | $ 239 | $ (90) | $ 7,731 |
| Profit (loss) from operations | $ 63 | $ 69 | $ 20 | $ (3) | $ 149 |
| Investment and other income | $ 36 | $ – | $ – | $ (25) | $ 11 |
| Finance costs and other expense | (44) | (2) | – | – | (46) |
| Profit (loss) before tax | $ 55 | $ 67 | $ 20 | $ (28) | $ 114 |
| Tax expense | 9 | 19 | 5 | – | 33 |
| Net profit (loss) | $ 46 | $ 48 | $ 15 | $ (28) | $ 81 |
| Total assets | $ 7,163 | $ 861 | $ 122 | $ (354) | $ 7,792 |
| Additions to capital assets | $ 215 | $ 39 | $ 7 | $ (6) | $ 255 |
| Total liabilities | $ 7,743 | $ 362 | $ 52 | $ (61) | $ 8,096 |

*(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** | **2017** | 2016 |
|---|---|---|
| Canada | $ 7,542 | $ 7,281 |
| United States | 455 | 423 |
| Rest of the world | 229 | 176 |
| Total revenue | **$ 8,226** | $ 7,880 |

### (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, 2017**

| | **Total revenue** | **Intersegment and consolidation** | **Revenue from external customers** |
|---|---|---|---|
| **Revenue attributed on sale** | | | |
| Transaction Mail | $ 1,922 | $ (2) | $ 1,920 |
| Parcels | 4,069 | (101) | 3,968 |
| Direct Marketing | 1,121 | (1) | 1,120 |
| Other | 457 | (224) | 233 |
| | **$ 7,569** | **$ (328)** | **$ 7,241** |
| **Unattributed revenue** | | | |
| Stamp postage | $ 427 | $ – | $ 427 |
| Meter postage | 558 | – | 558 |
| | **$ 985** | **$ –** | **$ 985** |
| Total | **$ 8,554** | **$ (328)** | **$ 8,226** |

For the year ended December 31, 2016

| | Total revenue | Intersegment and consolidation | Revenue from external customers |
|---|---|---|---|
| Revenue attributed on sale | | | |
| Transaction Mail | $ 1,984 | $ (2) | $ 1,982 |
| Parcels | 3,538 | (90) | 3,448 |
| Direct Marketing | 1,140 | – | 1,140 |
| Other | 511 | (262) | 249 |
| | $ 7,173 | $ (354) | $ 6,819 |
| Unattributed revenue | | | |
| Stamp postage | $ 441 | $ – | $ 441 |
| Meter postage | 620 | – | 620 |
| | $ 1,061 | $ – | $ 1,061 |
| Total | $ 8,234 | $ (354) | $ 7,880 |

# Our size and scope

## PIECES DELIVERED

Almost

**8.4 billion**

pieces of mail, parcels and messages

Group of Companies

## FLEET

More than

**13,000**

Canada Post vehicles

## ITEM TRACKING

More than

**708 million**

online tracking events
(72 per cent on the mobile app)

## 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)

More than

**1M**

Canadians have a **parcel locker** in their building

## PLANTS AND DEPOTS

**21** processing plants

**484** letter carrier depots

## CANADAPOST.CA

**243 million**

visits to canadapost.ca in 2017
(includes visits to epost.ca)

**3M**

**mobile app** downloads since launch in 2010

## RETAIL POST OFFICES

Nearly

**6,200**

retail post offices across Canada

**90.8%**

of Canadians live within 5 km of a post office

## ADDRESSES SERVED

Residential

Almost

**15.2 million**

Businesses

More than

**1 million**

## AROUND THE WORLD

Service to

**192**

countries

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For more detailed information, visit our website at **canadapost.ca**.



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INSIDE – **12** Both: Pinpoint National Photography **13** Top: Canada Post | Terry Fox: Darryl Dyck/The Canadian Press **14** Top: Pinpoint National Photography | Middle: Denis Drever Photography | Bottom: Inuit woman and child: Lee Narraway **15** Top: Courtesy of Jill Andrew | Middle: Jonathan Hayward/The Canadian Press | Bottom: Pinpoint National Photography

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