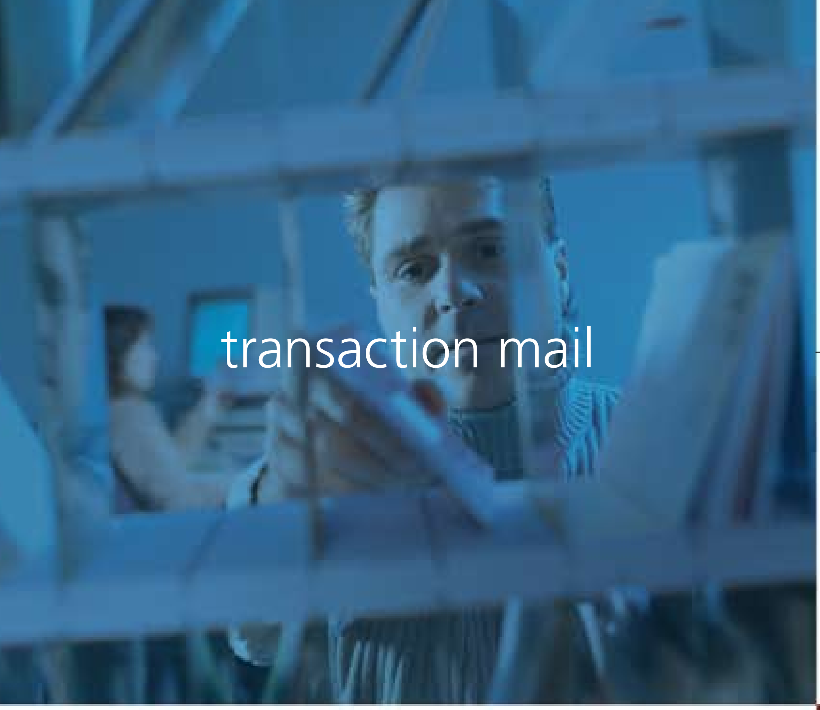
annual report 2005

We succeed by
delivering success
to our customers

CANADA POST POSTES CANADA

From anywhere... to anyone



Transaction mail, which includes bills, invoices, notices and statements, accounts for more than half of our business. By partnering with our customers and becoming integrated into their business chains, we will be able to provide efficient, cost-effective multi-channel offerings that meet their needs.

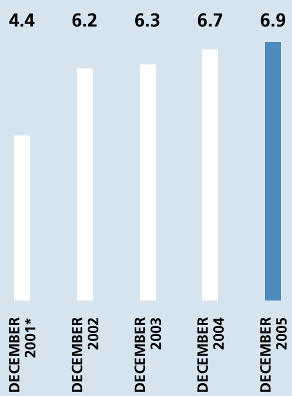
The parcels business is one of the most competitive in the world. By establishing parcels as a separate line of business, we have demonstrated that we are focused on excellence. We will leverage our current market advantage and upgrade our infrastructure to deliver parcel services that are second to none.

We believe that our direct mail and advertising line of business holds great promise, and also great opportunity. We are committed to building our capabilities and expertise in this sector, and look forward to providing leading-edge services and delivering stellar results that far exceed our customers' expectations.

Highlights

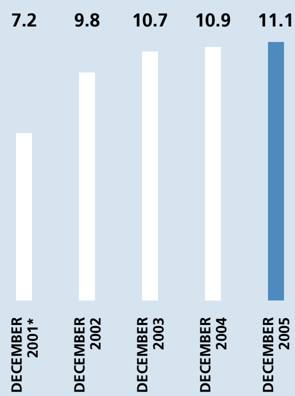
REVENUE FROM OPERATIONS

Billions of dollars



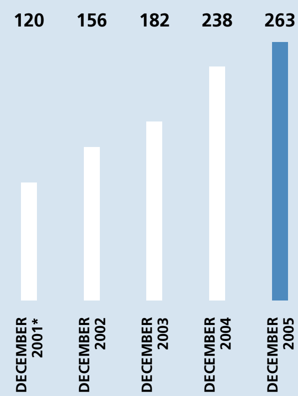
VOLUME**

Billions of pieces



INCOME FROM OPERATIONS

Millions of dollars



On a consolidated basis, the Corporation processed 11.1 billion pieces during the 12-month period. Consolidated revenue from operations reached $6.9 billion and consolidated net income totalled $199 million.

* Nine month period.

** Due to changes in market allocation methodology and classification, please note that 2001 and 2002 figures are not comparable to 2003, 2004 and 2005.

Our Vision

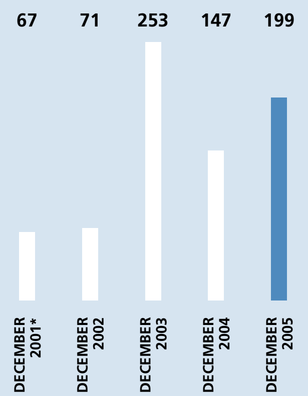
Canada Post will be a world leader in providing innovative physical and electronic delivery solutions, creating value for our customers, employees and all Canadians.

Our Values

1 We work to earn our customer's business.
2 We succeed by working together.
3 We take responsibility for our actions.
4 We treat each other with fairness and respect.
5 We strive to continuously improve.
6 We act with integrity in all that we do.

REPORTED NET INCOME

Millions of dollars



Key statistics

71,000 full- and part-time employees

11.1 billion parcels and messages delivered

23,000 retail points of access

14 million points of call

96 per cent on-time delivery performance

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www.canadapost.ca

President's message

It gives me great pleasure to extend congratulations to our dedicated employees across Canada who have contributed to the Corporation's success in achieving our 11^{th} consecutive year of profitability.

Our strong financial performance in 2005 is a welcome result and demonstrates the ability of our people to efficiently collect, process and deliver the 11.1 billion pieces of mail entrusted to us by Canadians. Our success is a true reflection of their commitment to our customers.

It is also reassuring to note that our independently measured service performance levels attained the corporate target of 96 per cent on-time delivery again last year. Given our vast geography and often harsh climate, this noteworthy accomplishment is a tribute to the resourcefulness of our men and women in every region of the country.

The success of our company over the last decade has come in the midst of constant change in the marketplace.

> "We must continue to innovate as we seek additional sources of revenue."

Although the pace of change is faster now, Canada Post has always needed to evolve throughout its 125-year history as our country grew and transformed. And as we look forward, our competitive landscape is changing again and the Corporation is facing a new crossroads in its evolution to the Modern Post.

In recent years, numerous performance obstacles were overcome as we implemented systems and processes to ensure higher delivery standards were met consistently. This drive for service excellence produced a strong internal focus on our operations. As a result, our operating systems and processes are somewhat detached from what most customers are now seeking in the marketplace.

These changing customer needs, driven by electronic substitution brought on through technological change, means our current business model is not sustainable. Like other postal administrations, we must continue to innovate as we seek additional sources of revenue to counter losses from the ongoing erosion of lettermail volumes.

To overcome this internal emphasis, we have changed our structure, effective January 1, 2006, to clearly focus on Canada Post's three main lines of business. The new structure is designed to put the customer front and centre in all that we do. By doing so, we will be able to grow our business. Each line of business – transaction mail (bills, invoices, notices and statements), parcels and direct marketing – now has a senior vice-president accountable for all aspects of that business line.

Yet as we shift our focus to an external perspective, the continuing support from our operations community will be crucial as we improve delivery quality and adjust our attention to our customers' mailing requirements.

Our profits over the last decade have allowed us to reinvest in our business to secure future growth, upgrade our equipment, increase wages and keep our benefit costs at sustainable levels. Throughout this period, our company has evolved into an organization that adds value well beyond the delivery of mail. The Canada Post Group, through partnerships and acquisitions, has broadened its own capabilities through the suite of services offered by its subsidiaries.

Reinvestment in every aspect of our company is imperative if we are to remain viable. A financially healthy Canada Post is the best way to ensure jobs for our employees and a universal postal service for all Canadians.

Investment in our employees is ongoing and far exceeds our net income. The majority of this money is spent on employee-related benefits, including mandated government plans and health coverage, a generous pension plan, union funds and education plans, termination benefits, a comprehensive employee assistance program, and a variety of medical and insurance plans.

The increasing costs of employee benefit plans, driven in part by an aging population, affects all employers in Canada, not just Canada Post. But we must all do our part to manage these costs in order to protect our benefits well into the future.

While recognizing that employees are our most important asset, we have now embarked on a most important journey to raise the level of employee engagement throughout our organization. It's no secret that the most successful companies are built by employees who feel they make a difference in their company's performance and that what they do is valued.

Our company has set out to get at the roots of lingering employee dissatisfaction so that our workforce can create more value for our customers. Our immediate objective is to increase understanding of our business and our customers' expectations so that we can bring the concerns of the market directly to the shop floor. While increasing employee engagement will be a lengthy process, we have already begun by looking to our front-line employees, who best understand the needs of our customers, to offer their ideas on how we can improve.

In 2006, as we celebrate our 25th anniversary since becoming a Crown corporation, I look forward to listening to, and working closely with, our skilled and effective team to continue to serve Canadian consumers and businesses.

Moya Greene

Moya Greene
President and Chief Executive Officer

Our company

Canada Post and The Canada Post Group have a proud record of success that reflects our role in connecting Canadians throughout the land. Businesses and consumers rely on the Corporation to provide a full suite of communications and delivery solutions through reliable, affordable and universal service from coast to coast. In an era of increased globalization and international commerce, we will continue to evolve to ensure our future success remains secure.

The Canada Post Group (Canada Post, and its subsidiaries and joint ventures: Purolator Courier, Progistix-Solutions, epost, Intelcom and Innovapost) has strong market presence and generates $6.9 billion in revenues annually. Its workforce is the sixth largest in Canada with approximately 71,000 full- and part-time employees, and a network of approximately 7,000 outlets across the country. Its size and scale make it a formidable presence on the national landscape. Canada Post is also recognized as one of Canada's top 10 brands – one that Canadians trust.

Our scope

Collectively, The Canada Post Group delivers letters, statements, bills, invoices, publications, marketing materials and parcels to more than 14 million destinations in Canada and, through international agreements, to millions more around the world. On an average business day, the Corporation delivers more than 40 million messages, physical pieces of mail and parcels. These items are moved through state-of-the-art processing plants and other facilities. In so doing, the Corporation serves approximately 32 million Canadians and over one million businesses and public institutions.

Through its presence in nearly every community across the country, Canada Post has emerged as a major enabler of the national economy. Canada Post spends $2.8 billion annually on goods and services, thereby creating 30,000 additional jobs, primarily in the transportation and communications sectors. The Corporation is ranked 41st among Canadian businesses in terms of consolidated revenue.

In 2005, Canada Post marked is 11th consecutive year of profitability. Yet our financial success has not come at the expense of Canadian consumers or businesses. Canadians continue to enjoy domestic basic letter service at rates that are among the most competitive in the world despite the country's climate and vast geography. Within the G7 group of industrialized nations, Canada is consistently among the two least expensive countries.

Meeting our challenges

But Canada Post is at a crossroads. The competitive landscape and market are changing as customers have more choices driven by technological change. The volume of lettermail is decreasing, due to increased competition from alternatives such as the Internet and e-mail, as well as electronic billing and payment. At the same time, the number of addresses we deliver to increases by some 240,000 per year. This means we are delivering less mail to more addresses, resulting in less revenue and higher operational costs.

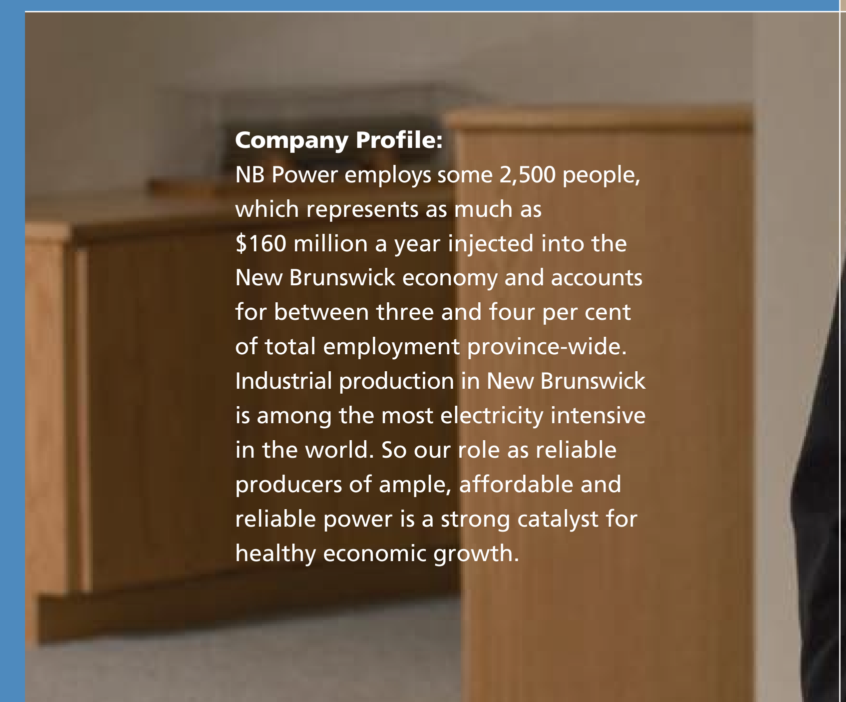
Throughout the Corporation's solid performance over the last decade, there has been an inward orientation focused on operational efficiency. However, like other postal administrations, Canada Post is moving to meet the challenges of the rapidly changing marketplace. This transition to a more sustainable business model means turning our focus outward – making customer needs a priority – while building flexibility into operations to respond quickly to market signals.

When NB Power wanted an effective yet easy-to-manage way to invoice customers, Canada Post provided a tailor-made solution. We print and mail bills, and – through epost – also provide customers with the convenience of receiving and paying bills online. In fact, we provide an all-in-one solution that delivers the rapid service NB Power needs, and the reliability and flexibility its customers demand.

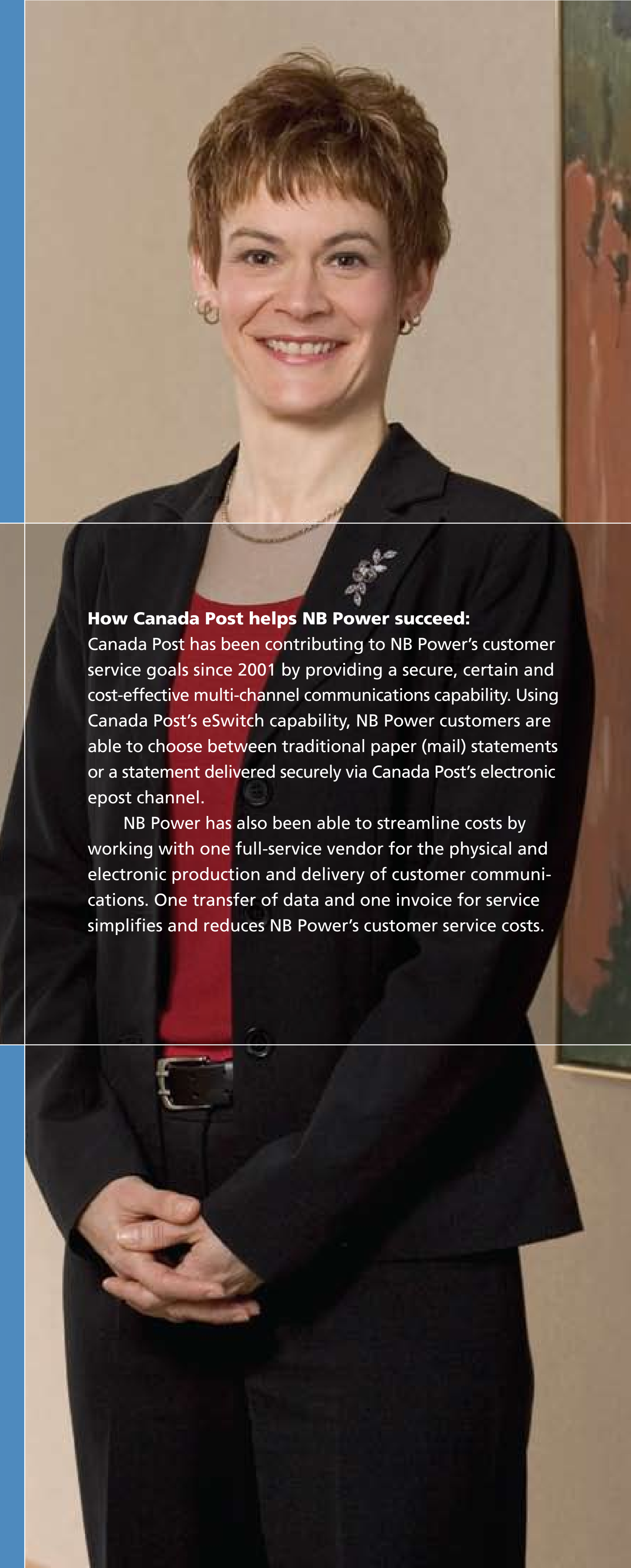
NB Power is a valued partner. I'm committed to doing whatever it takes to ensure they get the solutions that make their customers happy. Because if their customers are happy, so are they. And so are we.

Michael Rog
Account Representative, Fredericton

transaction mail



Company Profile:
NB Power employs some 2,500 people, which represents as much as $160 million a year injected into the New Brunswick economy and accounts for between three and four per cent of total employment province-wide. Industrial production in New Brunswick is among the most electricity intensive in the world. So our role as reliable producers of ample, affordable and reliable power is a strong catalyst for healthy economic growth.



How Canada Post helps NB Power succeed:
Canada Post has been contributing to NB Power's customer service goals since 2001 by providing a secure, certain and cost-effective multi-channel communications capability. Using Canada Post's eSwitch capability, NB Power customers are able to choose between traditional paper (mail) statements or a statement delivered securely via Canada Post's electronic epost channel.

NB Power has also been able to streamline costs by working with one full-service vendor for the physical and electronic production and delivery of customer communications. One transfer of data and one invoice for service simplifies and reduces NB Power's customer service costs.

Énergie NB Power

For retailers like Best Buy and Future Shop, who have large “virtual stores,” being able to ship items purchased by telephone and over the Internet quickly and securely is crucial. Like the majority of online retailers in North America, Best Buy and Future Shop use Canada Post for their shipments because they know they can rely on us to deliver orders on time and undamaged. And our network of retail outlets across Canada provides that extra convenience to customers who can’t be home to receive their parcels, or who prefer to pick them up. None of our competitors can offer a flexible service like that.

Claudette Hiebert
Retail Clerk, Winnipeg

parcels

Company Profile:
Burnaby-based Best Buy Canada Ltd. ($3.6B), a wholly-owned subsidiary of Best Buy Co. Inc. (NYSE:BBY), is Canada’s largest, fastest-growing national retailer and e-tailer of electronic products for the digital age. The company oversees the operation of two retail chains under the banners Future Shop and Best Buy. Each brand is operated independently and delivers a unique shopping experience to its customers.

How Canada Post helps Best Buy succeed:
When specialty retailer and e-tailer Best Buy Canada Ltd. sold an unheard of 147,000 pieces online for delivery during the company’s best-ever Boxing Week last December, Canada Post responded swiftly with exceptional integrated teamwork and workable solutions. Planning for specified types of parcels, weights, destinations, geographic mix and the like helped ensure that enough trailers and equipment were on hand when and where they were needed. These seasonal challenges fired up cross-functional teams across the country as they showed true initiative in meeting unprecedented customer requirements.

BEST BUY
BestBuy.ca

direct marketing

McDonald's must be one of the most recognizable brands in the world. I think they know what they're talking about when it comes to marketing. So when they choose Canada Post for their Unaddressed Admail, I see it as a sign that McDonald's believes that this product works, and that we deliver successful results.

I'm an important part of making sure that we provide those results. I deliver every piece of Admail that goes into my bag, and that means McDonald's – and every other company that uses Canada Post for marketing campaigns – is likely to get a response that exceeds expectations.

Eva Cheng
Letter Carrier, Vancouver

Company Profile:
In 1967, the first McDonald's restaurant outside the United States opened in Richmond, British Columbia. Every day since then, McDonald's Canada has been proud to provide our customers the same great taste, outstanding value, quality and superior service that the Golden Arches is known for worldwide. Today, there are some 1,400 McDonald's restaurants in Canada, serving approximately 3 million Canadians daily and employing about 77,000 Canadians.

How Canada Post helps McDonald's succeed:
For McDonald's Restaurants of Canada, delivery accuracy is crucial to the success of its Unaddressed Admail campaigns. Like all of our direct marketing customers, McDonald's prepares its operations to coincide with the response rates generated by the proven success of Unaddressed Admail promotions. Canada Post is the only supplier in the country that can provide a cost-effective, stand-alone service where each piece is mailed separately from others. We also have broader coverage than anyone else by delivering to businesses, apartments, houses, rural routes – everywhere.

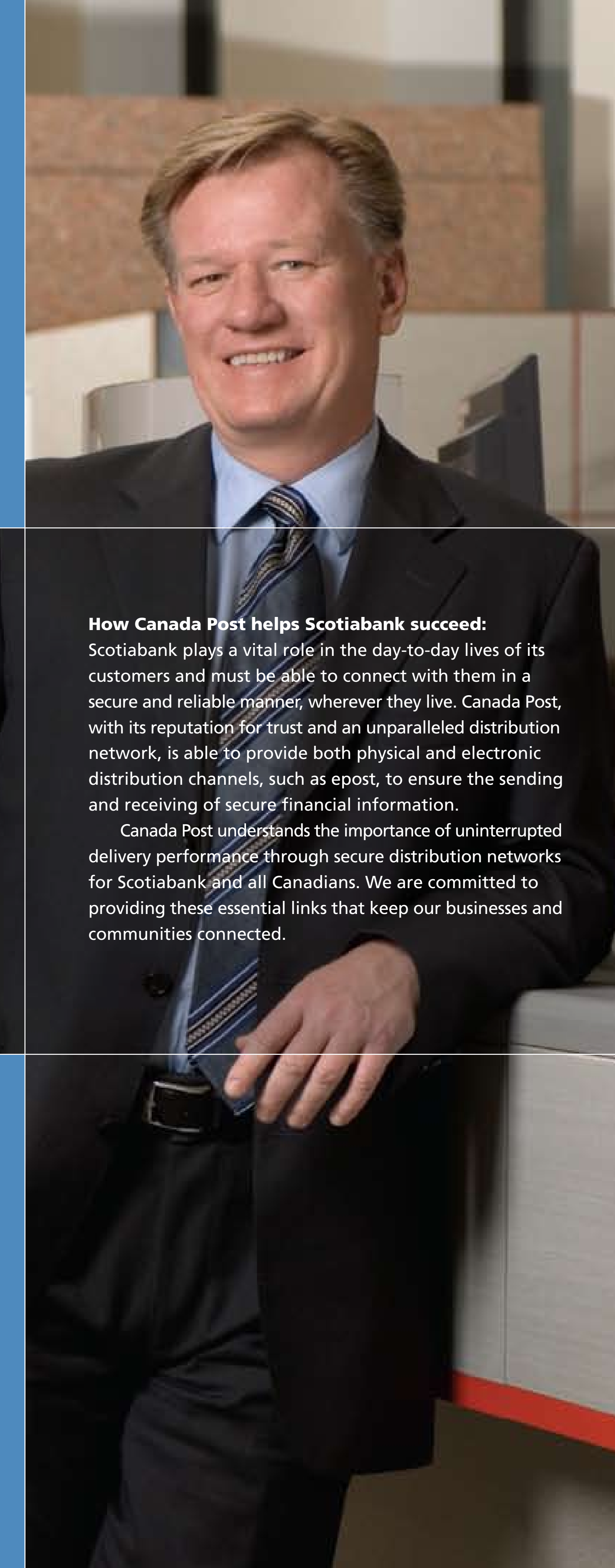
i'm lovin' it®

transaction mail

Security is one of the most important things for financial institutions today. And that includes having a reliable and trustworthy way to reach their customers, either online or in hardcopy form. Much of the mail that passes through sorting plants is what we call transaction mail, that's utility bills and bank and credit card statements. The security and privacy of these communications is paramount for companies like Scotiabank.

Canada Post is committed to ensuring the security of all the mail – including Scotiabank's transaction mail. And I'm a crucial part of that commitment. I'm dedicated to making sure that our postal service is as secure as it can possibly be.

Rukshana Patel
Postal Clerk, Toronto



Company Profile:
Founded in 1832 in Halifax, Nova Scotia, Scotiabank is one of North America's premier financial institutions and Canada's most international bank. The more than 51,000 employees of Scotiabank Group and its affiliates serve about 10 million customers in some 50 countries around the world, offering a diverse range of personal, commercial, corporate and investment banking products and services.

How Canada Post helps Scotiabank succeed:
Scotiabank plays a vital role in the day-to-day lives of its customers and must be able to connect with them in a secure and reliable manner, wherever they live. Canada Post, with its reputation for trust and an unparalleled distribution network, is able to provide both physical and electronic distribution channels, such as epost, to ensure the sending and receiving of secure financial information.

Canada Post understands the importance of uninterrupted delivery performance through secure distribution networks for Scotiabank and all Canadians. We are committed to providing these essential links that keep our businesses and communities connected.

parcels

Veseys has customers all over the country, and I deliver its catalogues, seeds, bulbs and other products to some of Canada's remotest spots. In fact, I hear that we deliver more than one million catalogues alone for the company every year. If I was having perishable items like bulbs and seeds delivered via mail, I know I'd want my packages delivered on time and undamaged. That's why I make sure Veseys can rely on me to do just that.

When Canada Post says "*From anywhere... to anyone*," I'm proud to be one of the people who make the "to anyone" happen – whatever that takes. So it's no surprise that Canada Post is Veseys' carrier of choice for all its shipments.

Michelle Mayes
RSMC, Yellowknife

Company Profile:
Located in rural Prince Edward Island, Veseys Seeds Ltd. was established in 1939 to better serve gardening enthusiasts. Today, Veseys is recognized as one of Canada's largest, most diversified mail order gardening companies, serving customers throughout North America. With multiple catalogues offering a wide range of horticultural products, Veseys is constantly striving to enlighten and entice people of every demographic to the joys of gardening through mail order.

How Canada Post helps Veseys succeed:
Veseys has been serving gardeners for more than 65 years, and takes great pride in providing superb products and service to all its customers. For Canada Post, delivery of these much-anticipated parcels has been a great opportunity to connect Veseys with its customers all across Canada. By working closely with Veseys to understand their precise shipping requirements, Canada Post has been able to provide a timely, reliable and affordable parcel delivery service that works for all concerned. As their business has continued to expand, Canada Post has been proud to maintain its service as the carrier of choice relied upon by gardeners and growers from coast to coast.

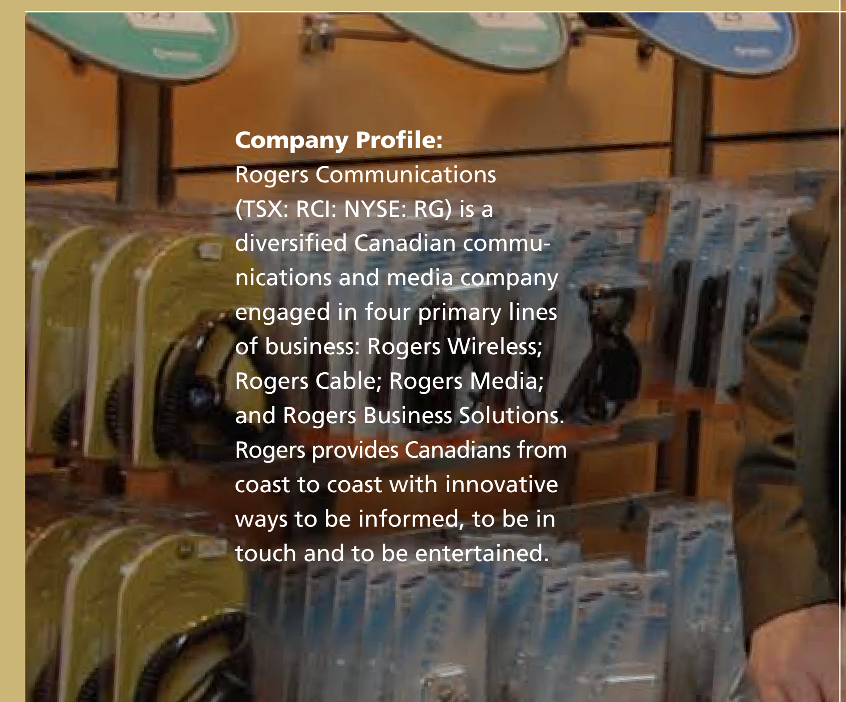
Veseys Seeds

When businesses want to get new customers, many rely on Addressed Admail delivered by Canada Post. Rogers knows these campaigns work and appreciates the importance we give to this product. But these campaigns work only if I do my job well and make sure Admail gets to the right people at the right time.

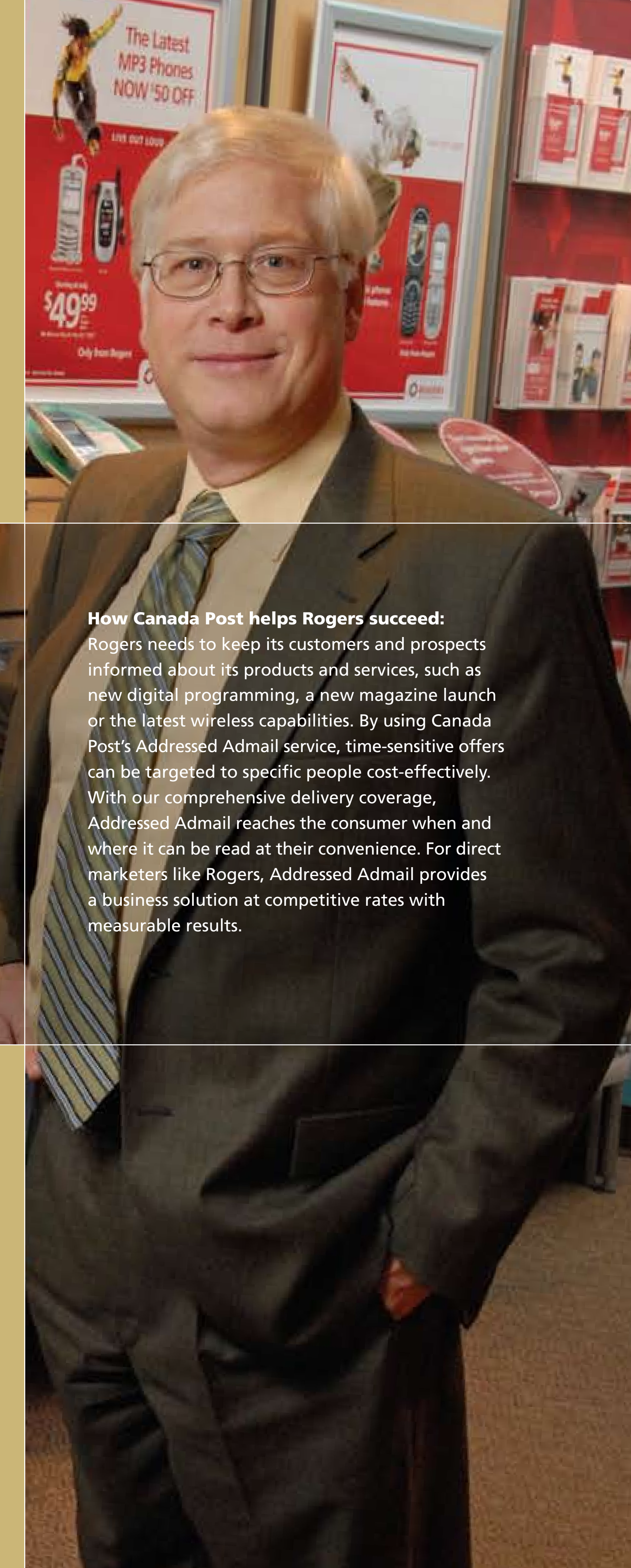
I'm proud of my role in helping companies like Rogers succeed. Every new customer Rogers gains through one of its Admail campaigns is one more reason for them to keep coming back. And that's good for everyone who works here, including me.

Michel Cornet
Postal Clerk, Montréal

direct marketing



Company Profile:
Rogers Communications (TSX: RCI: NYSE: RG) is a diversified Canadian communications and media company engaged in four primary lines of business: Rogers Wireless; Rogers Cable; Rogers Media; and Rogers Business Solutions. Rogers provides Canadians from coast to coast with innovative ways to be informed, to be in touch and to be entertained.



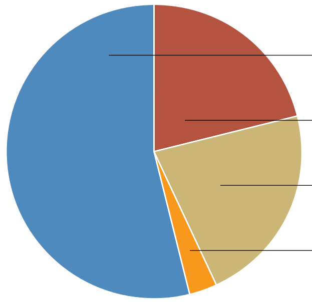
How Canada Post helps Rogers succeed:
Rogers needs to keep its customers and prospects informed about its products and services, such as new digital programming, a new magazine launch or the latest wireless capabilities. By using Canada Post's Addressed Admail service, time-sensitive offers can be targeted to specific people cost-effectively. With our comprehensive delivery coverage, Addressed Admail reaches the consumer when and where it can be read at their convenience. For direct marketers like Rogers, Addressed Admail provides a business solution at competitive rates with measurable results.

This change in orientation will allow our company to become better at what it does today, and to begin the evolution to the Modern Post. This involves creating alignment to clearly focus on Canada Post's three major lines of business – transaction mail (bills, invoices, notices and statements), parcels and direct marketing. The new structure places the customer at the centre in all that we do.

Transaction mail

Transaction mail has always been at the core of Canada Post's operations. While erosion of lettermail is clearly occurring, it is difficult to predict when the level of erosion may accelerate. The biggest customers for transaction mail are businesses, which account for 90 per cent of Canada Post's revenues. With electronic communication alternatives now viable substitutes, Canada Post will continue to offer delivery service excellence while offering to be the multi-channel intermediary between our customers and their consumers.

Our current business line view
Per cent of total revenue



While earning our position of trust in the delivery of physical mail, the emergence of electronic solutions has opened the door to new opportunities. With epost, businesses and consumers can choose to use the Internet to send and receive important information online. epost connects Canadians with the companies and organizations they do business with through a consolidated, secure mail delivery network.

Through epost and other initiatives, Canada Post will be ready with solutions, whether our customers prefer physical mail or make the switch to electronic communications.

Parcels

Canada Post's advantage in the parcel business lies in the consumer and small and medium business segments, and through its efficient residential delivery and retail networks. A new emphasis is underway to grow this business by building on existing strengths and investing in new equipment in our plants.

The parcels segment is the focus of intense competition from international companies that are well financed. Canada Post will tailor its product offerings to meet the specific needs of its customers and will improve service by delivering integrated solutions that take advantage of the value provided through The Canada Post Group.

Direct marketing

Canada Post's direct marketing business, particularly its Addressed and Unaddressed Admail products, is poised to achieve strong growth. Opportunities exist to develop better direct marketing features for Addressed Admail by working with industry players to offer solutions that improve the return on investment by reducing waste and increasing response rates. Improved delivery performance and increased marketing and sales efforts are also underway.

> “Canada Post provides diversified products and tailored solutions that enhance the services we offer to our customers.”
>
> Lynn Arsenault
> Director
> Retail and Customer Marketing
> NB Power

There are also growth opportunities in the Unaddressed Admail segment, including initiatives to improve delivery standards and targeting of this product. Canada Post will support this growth by becoming a better, more responsive partner to the mailing industry. By showing customers the value of direct marketing and direct mail to their business, we can build our future success.

Our customers

By moving to focus attention on our customers in all that we do, Canada Post understands the importance of delivering superior value. We know our customers have options, and that we need to demonstrate why Canada Post is the best choice for their communications and delivery needs. One way to ensure customer loyalty is to benefit from a better understanding of how our company is performing relative to the competition.

"Canada Post understands the importance of delivering superior value."

To achieve this goal, Canada Post is moving to adopt Customer Value Management (CVM) as the measurement tool to monitor progress and trends. CVM measures market perceptions of the quality of the Corporation's products and services against similar offerings of competitors. This allows Canada Post to survey both our current and prospective customers. By listening to the voice of the customer through the CVM results, the Corporation is better able to align its products and services to the reality of customer requirements.

Similarly, to monitor our progress, telephone surveys conducted by an independent agency are used to measure customer perceptions covering areas such as the quality of service and the nature of the customer relationship. The overall Customer Satisfaction Index score for 2005 was 81 per cent, matching the score achieved the previous year.

Canada Post's commitment to consistently deliver Lettermail within its published delivery standards is as follows: two business days within the same metropolitan area/community; three business days within the same province; and four business days between provinces.

An independent firm is responsible for measurement by depositing test mail into the mail stream over the course of the year and tracking it through various links across the country, encompassing both urban and rural areas. In 2005, Canada Post achieved an on-time service performance score of 96 per cent for Lettermail, meeting the corporate target.

"Canada Post has proven its parcel business delivers success – they really delivered to our customers."

Kevin Layden
President & COO
Best Buy Canada Ltd.

Our employees

Canada Post's goal is to become an employer of choice. The successes of the past decade could not have been realized without tremendous contributions from throughout our workforce. But to build on these accomplishments, our company is committed to developing a culture of high employee engagement.

With results from employee satisfaction surveys remaining flat, it is clear that the level of engagement among the majority of Canada Post employees is simply inadequate to meet the needs of our customers. We recognize that successful companies are built by employees who feel they make a difference in the company's performance and whose contributions are valued by their employer.

To help foster a heightened relationship of trust and respect among employees, a broad new initiative is underway to bring the concerns of the market to the attention of the shop floor. The focus is to ensure that the needs of the customer are kept front and centre as operational decisions are being made throughout the Corporation.

Other initiatives are aimed at changing the company's internal culture from one of confrontation and grievance to one of a collective participation in our future success. These include: allowing supervisors to have more time with employees in our plants and depots; communicating consistently to keep the employee population fully informed of developments; responding quickly to complaints; and making the work environment more inviting.

Our four bargaining agents are also important stakeholders for Canada Post. The overwhelming majority of our employees are represented by either the Canadian Union of Postal Workers, the Canadian Postmasters and Assistants Association, the Association of Postal Officials of Canada or the Union of Postal Communication Employees. After more than a decade free of labour strife, a more co-operative approach toward collective bargaining has begun to emerge. Continuing this trend will be essential to making the most of future growth opportunities.

Canada Post has already begun working with its front-line employees, who best understand the business and the needs of our customers, to offer their best ideas on how we can improve all facets of the business. Employees on the shop floor and on delivery routes are the best judges of how to improve efficiency and performance due to their interaction with day-to-day occurrences.

Our company is one with great strengths. By changing its orientation to a customer-centric organization, it can become even better. This will require new relationships and new approaches from those that currently prevail among management, employees, unions, customers and our Shareholder.

But by making a concerted effort through a series of deliberate choices now, while we still have the opportunity to change, we can begin the evolution to the Modern Post that will secure our future success.

> "Our customers look forward to receiving our coupons in their mailbox – it is critical that we work with a proven supplier that delivers – as Canada Post does."
>
> Laurie Laykish
> Vice-President of Marketing
> McDonald's Canada

Corporate Sustainability

In October 2006, Canada Post will celebrate its 25th anniversary since the passage of the *Canada Post Corporation Act* in 1981. The Act gives the Corporation the mandate to establish and operate a postal service on a self-sustaining financial basis, to maintain and improve its products and services in light of developments in the field of communications, and to improve the climate of labour relations. The Act also empowers the Corporation to provide products and services that are incidental to the postal service.

Over this period of time, Canada Post has evolved into an ethically and socially responsible Crown corporation promoting sound business conduct and values, support for human rights and employment equity, and respect for the community and all cultures.

> “Canada Post has evolved into an ethically and socially responsible Crown corporation.”

Our Shareholder

Under the terms of the legislation, the Corporation is mandated to operate the postal service on a financially self-sustaining basis that meets the needs of our customers – Canadian businesses and consumers. A multi-year Policy Framework establishes service, productivity and financial performance targets in this regard.

The return on equity to the Government of Canada in 2005 reached 15.0 per cent, representing the second consecutive year of achieving one of the key objectives of the Policy Framework. The total dividends paid to the Shareholder over the last five fiscal periods have amounted to $177 million.

Our values

Canada Post's new values were not developed overnight. They are the result of more than two years of seeking input from over 500 employees, all unions and all regions, including all vice-presidents and general managers. They have been designed to foster a culture and work environment where all employees care about the customers and are focused on them. When employees understand their role in the business and are recognized for the contribution they make, it's a high predictor of a company's success. These are the six value statements:

- We work to earn our customers' business.
- We succeed by working together.
- We take responsibility for our actions.
- We treat each other with fairness and respect.
- We strive to continuously improve.
- We act with integrity in all that we do.

> “Thanks to epost, the number of Scotia OnLine® subscribers who signed up to receive bills and other documents electronically more than tripled in 2005.”

Robert Grant
Senior Vice-President
Electronic Products and Payments, Global Transaction Banking
Scotiabank

Official languages policy
Canada Post is fully committed to respect its obligations under the *Official Languages Act*. The adoption of practices that lead to the equitable treatment of English-speaking and French-speaking Canadians, regardless of ethnic origin, in Canada Post's dealings with customers and employees is an integral part of its business commitments and legislated requirements. Our company will continue to demonstrate its commitment to providing bilingual services to customers where there is significant demand. It is similarly committed to creating a work environment that allows the effective use of both English and French in designated regions.

In May 2005, the Commissioner of Official Languages gave Canada Post an overall rating of "good" for its linguistic performance, one of only 11 institutions that received such a rating. No institution was rated any higher.

Community support
On a daily basis, Canada Post is involved in communities across Canada both physically and virtually in many ways that go beyond the delivery of mail.

The Canada Post Literacy Awards program
Since its inception in 1993, the Canada Post Literacy Awards have recognized the accomplishments of adult learners and the individuals and organizations that support them. Entries are solicited through websites, posters, advertisements, letters and news releases. Winners are chosen by a panel of external judges and are then awarded their prizes at community events across the country.

The Santa letter-writing program
This much-loved program involves more than 11,000 Canada Post employee volunteers who reply to over one million letters to Santa from children across Canada and around the world. Canada Post employees are also involved in local Christmas parades in communities across the country, where letter carriers collect letters from children to Santa.

The Postal Planet website
Postal Planet is a free web resource featuring teacher-friendly learning tools, games, activities and links all related to a postal theme and delivered in an engaging "edu-play" web environment. It helps audiences learn about the art of written communication – both electronic and physical – and how to use the postal system. The target audience is kids, teens, parents and educators.

Human rights
In December 2005, Canada Post signed a Memorandum of Understanding with the Canadian Human Rights Commission committing to a new kind of partnership. The Memorandum recognizes the collaborative efforts of both parties to prevent conflict and resolve workplace issues through joint initiatives such as training, education and awareness.

> "Our customers count on us to provide quality products with exceptional service, and we rely on Canada Post to help us deliver."
>
> Gerry Simpson
> Vice-President
> Veseys Seeds Ltd.

Chairman's Message

I am pleased to report Canada Post Corporation's financial results for the 12-month fiscal period ending December 31, 2005.

The Corporation ended the period with net income of $199 million, a strong performance against planned net income of $76 million. The Corporation's record of profitability has now been extended to 11 consecutive years. The return on equity in 2005 reached 15.0 per cent, the second consecutive year of achieving one of the key objectives of the Policy Framework approved by our Shareholder, the Government of Canada, in 1998.

The financial success of the Corporation throughout this period has been accompanied by marked improvements in customer satisfaction and service performance results, reflecting the strength and commitment of Canada Post's employees and management team.

In 2005, the Corporation paid a dividend of $59 million to our Shareholder. The total dividends paid over the last five fiscal periods amount to $177 million. Canadians benefit from a reliable, affordable and universal postal system, and it is imperative that we continue to make changes to our operations and delivery network to ensure efficiency and profitability for the future.

Increases in the domestic basic letter rate are held to two-thirds the annual rate of inflation, as measured by the Consumer Price Index. This price cap formula was approved by the Shareholder as part of the Policy Framework. Within the G7 group of industrialized nations, Canada's domestic basic letter rate is consistently among the two least expensive countries.

The Board of Directors is responsible for overall guidance on the strategy, business plans and related affairs of the Corporation. It is responsible for overseeing Canada Post on behalf of the Shareholder. In carrying out its oversight role, it is the Board that holds management accountable for business performance and achievement of the Corporation's other objectives.

Canada Post faces intense competition today in all its lines of business. As the competitive landscape and market are changing, our customers have more choices. There are many new players in the market seeking to support communications between businesses and between businesses and consumers.

The growth of electronic alternatives to mail, such as e-mail, mobile telephony and online banking, has been significant. The structure of internal business processes has changed as timelines have been reduced. This challenges the mandate and business not only of Canada Post, but also of all providers of postal services worldwide.

> "Canada Post faces intense competition today in all its lines of business."

> "To stay connected with our customers, Rogers knows that Canada Post delivers consistently and reliably."
>
> Michael J. Fox
> Senior Vice-President
> Rogers Publishing

The shift in the communications market from letters to electronic communication, coupled with consolidation and partnerships between key competitors, has affected lettermail volumes. While the pace of lettermail erosion is difficult to gauge, it will be linked directly to the rate of consumer adoption of exclusively electronic substitutes.

To remain successful in the future, Canada Post must adapt its focus outward, making customer needs a priority while ensuring its operations are flexible and able to respond quickly to market signals. This change in orientation can help the Corporation become better at what it does today while beginning the transformation to the Modern Post. It is important to begin this process now to be prepared for the trends that are clearly emerging.

Canada Post is also committed to measures that will continuously improve the level of employee engagement. The immediate goal is to increase the level of understanding employees have of the business environment and customers' expectations, and how their work factors into the Corporation's objectives and priorities. While increasing employee engagement is a long-term process, it is an important element in laying the foundation for future success.

This year, Canada Post is celebrating its 25th anniversary since becoming a Crown corporation. Our business model has proven effective and contributed to a sustained period of success. This has allowed the Corporation to continue to invest in new products and services to meet the needs of Canadian businesses and consumers.

Canada Post and The Canada Post Group are preparing to meet the new challenges of the rapidly changing business environment. We must be prepared to quickly adapt to customer requirements to move beyond delivery to higher value offerings.

To continue moving forward will require a concerted effort to evolve into a dynamic organization better able to meet Canada's communications needs well into the 21st century. On behalf of the Board of Directors, I have every confidence that a solid foundation has been planned for our future growth.

Gordon Feeney
Chairman of the Board of Directors

Corporate Governance

The role and composition of the Board

The role of the Board is explicitly supported by the statutory framework within which Canada Post operates (the *Canada Post Corporation Act* and the *Financial Administration Act*), the Corporation's bylaws, and its Statement of Board Values and Board Charter.

The Board is responsible for overall guidance on the strategy, business plans and related affairs of the Corporation. It is responsible for overseeing Canada Post on behalf of the Shareholder. In carrying out its oversight role, it is the Board that holds management accountable for business performance and achievement of the Corporation's other objectives. To fulfill these responsibilities, the Board is called upon to exercise judgment in the following general areas:

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

Canada Post's Board of Directors is comprised of 11 members, including the Corporation's President and Chief Executive Officer. One directorship was vacant during the year. Over the course of the next six months, the Board will be managing a process to fill an expected five vacancies, subject to appointment parameters to be established by the Shareholder. The Chairman and the President and Chief Executive Officer are Governor-in-Council appointees. As overseer of a $7 billion commercial and self-sufficient enterprise, the Board must bring strong business judgment and valuable experience and insight in other fields to the stewardship of the Corporation. The Board meets on both pre-arranged meeting dates and at such other times as deemed necessary by the Chairman. In order to provide strong oversight for such a large, complex and important company, the Board must devote approximately 35 days per year to its deliberations. In 2005, the Board held 10 meetings and its committees met 23 times.

Independence of the Board

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

Committees of the Board

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

- The Audit Committee reviews financial information which will be provided to Parliament and other stakeholders, the systems of corporate controls which management and the Board have established, the audit process, the risk management framework, and assesses the Corporation's financial performance against its Corporate Plan.

- The Corporate Governance and Nominating Committee provides a focus on corporate governance, assesses corporate values and the elements which facilitate Board effectiveness such as Board self-assessment, Committee structure and Terms of Reference, assists the Board in determining the composition and structure of the Board, and recommends candidates for Board membership, Chairman and President and Chief Executive Officer.
- The Human Resources and Compensation Committee reviews human resources and compensation matters, including the compensation of the President and Chief Executive Officer, recruitment, compensation and development, retention, and significant human resource policies and labour relations issues.
- The Pension Committee oversees the $13 billion Canada Post Pension Plan, pension plan matters and policies, including pension plan liabilities, pension plan strategies, the Corporation's responsibilities as pension plan sponsor, the Corporation's fiduciary responsibilities as pension plan administrator, makes investment decisions in accordance with the Statement of Investment Policies and Procedures, and oversees investment managers.
- The Environment and Occupational Health and Safety Committee oversees the Corporation's environmental and occupational health and safety policies, programs, practices, procedures and performance.

Board effectiveness

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

Fraud and error

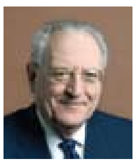
Pursuant to recommendations issued by the Canadian Institute of Chartered Accountants in 2004, the Audit Committee assumed enhanced responsibility to consider fraud and error in financial statements. Accordingly, the Audit Committee reports that it has reviewed and accepts the company's financial statements, the attached notes, the auditor's opinion and their assertions on independence.

Subsidiaries

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

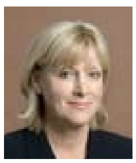
The Board and management of Canada Post hold the view that sound governance practices that are dynamic in nature are the bedrock of a quality organization that builds value and is dedicated to its employees and customers. Corporate governance is an essential component to the fulfillment of Canada Post's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

Board of Directors



Gordon J. Feeney ▲❊✖★●

Toronto, Ontario
Chairman of the Board
Canada Post Corporation



Denyse Chicoyne ▲★
MBA, CFA
Outremont, Quebec
Corporate Director

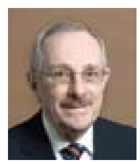
Jean Turmel ▲❊★

Outremont, Quebec
President
Perseus Capital Inc.

Moya Greene

Ottawa, Ontario
President and CEO
Canada Post Corporation

Louis P. Salley ❊✖●
B.A., B.LL.
Vancouver, British Columbia
Salley Bowes Harwardt
Barristers & Solicitors

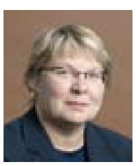


Ernest Brennan ■❊
F.C.A.
Stratford, Prince Edward Island

Vivian G. Albo
B.A., B.Comm. (Hons.)
Winnipeg, Manitoba

Cedric E. Ritchie ♦▲✖●
O.C.
Toronto, Ontario
Corporate Director and
Former Chairman and CEO
The Bank of Nova Scotia

Daurene E. Lewis ❖
C.M., MBA
Halifax, Nova Scotia



Terri M. Lemke ✿
PFP
Saskatoon, Saskatchewan
Partner
Wellington West Capital Inc.

- ■ Chairperson of the Audit Committee
- ♦ Chairperson of the Corporate Governance and Nominating Committee
- ❖ Chairperson of the Environment Occupational Health and Safety Committee
- ✿ Chairperson of the Human Resources and Compensation Committee, and Chairperson of the Pension Committee
- ▲ Member of the Audit Committee
- ❊ Member of the Corporate Governance and Nominating Committee
- ✖ Member of the Environment and Occupational Health and Safety Committee
- ★ Member of the Pension Committee
- ● Member of the Human Resources and Compensation Committee

Officers of the Corporation

Moya Greene
President and CEO

Jacques Côté
Chief Operating Officer

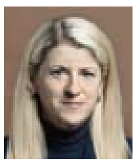
Stewart Bacon
Senior Vice-President
Marketing, Sales and Service

Cal Hart
Senior Vice-President
Enterprise Transformation and Continuous Improvement

Peter Melanson
Senior Vice-President
Transaction Mail

Louis F. O'Brien
Senior Vice-President
Parcels

John Smith
Senior Vice-President
Chief Information Officer



Mary Traversy
Senior Vice-President
Employee Engagement

Phil Ventura
Senior Vice-President
Strategy

Robert Waite
Senior Vice-President
Communications and Stakeholder Relations

Michel Diotte
Vice-President
Operations

Douglas Greaves
Vice-President
Pension Fund and Chief Investment Officer

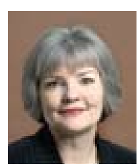
Susan Margles
Vice-President
Government Relations and Policy Framework

Mhoire Murdoch
Vice-President
Customer Service

Clary Ottman
Vice-President
Finance and Comptroller

Lynn Palmer
Vice-President
Human Resources

Gerard Power
Vice-President
General Counsel and Corporate Secretary



Laurie Murray
Corporate Auditor

As of March 31, 2006

Ombudsman's Message

Over the course of the last year, our office has continued to implement refined methods of working to improve the quality and efficiency of the services we provide to customers who request our assistance. These initiatives are assessed and realigned on a regular basis to enable us to better respond to an ever-increasing number of customer complaints.

Indeed, our statistics demonstrate that in 2005, we received 6,608 Requests for Assistance, which represents a 32% increase over last year. We also noted a significant increase of 65% in the number of Requests for Information and a 30% increase in the number of customer complaints requiring examination.

The increase in the number of Requests for Information is attributable to a significant number of customers demanding immediate resolution, as they are reluctant to submit themselves to what they perceive to be a time-consuming process. This clearly demonstrates that, as Canadians become more aware of the services provided by the Office of the Ombudsman, they no longer hesitate to voice their concerns when the quality of their postal service does not meet their expectations.

Each Request for Assistance submitted to our attention is assessed on its merits and against the parameters defined in my mandate. While the degree of complexity of complaints investigated may vary, each one is unique and is treated with the same level of integrity and fairness by our investigating team.

In addition to ensuring that customers seeking our assistance are treated fairly, I proactively keep Canada Post abreast of emerging trends or particular issues that could become problematic over time. I am pleased with the synergy that exists between Canada Post and our office, as this relationship often leads to diligent resolution of customer complaints or of recurring areas of concern that could otherwise require systemic reviews. This approach reinforces our common customer-oriented objectives and contributes to improved postal service for all Canadians.

Michel Tremblay

Financial Performance

Management's Discussion and Analysis

Introduction

This Management's Discussion and Analysis (MD&A) provides an overview of the significant developments and challenges that influenced the operations, performance, financial condition and outlook of Canada Post Corporation ("Canada Post" or the "Corporation") for the year ended December 31, 2005. The MD&A should be read in conjunction with the consolidated financial statements and accompanying notes of this Annual Report. The consolidated financial statements and the accompanying notes have been prepared in accordance with Canadian generally accepted accounting principles and are reported in Canadian dollars. The information in this MD&A is current to March 7, 2006, unless otherwise noted.

As referred to in the *Management's Responsibility for Financial Reporting* section, management is responsible for the information presented in the Annual Report, including this MD&A. The Board of Directors approves this information on the recommendation of its Audit Committee in the context of its ongoing oversight role. The information presented in this MD&A has been derived using the same financial and management information systems as those used to prepare the consolidated financial statements.

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management determines if the information is material should its omission or misstatement influence or change the decision of our stakeholders.

The Annual Report, including this MD&A, contains forward-looking statements that reflect management's expectations regarding the Corporation's objectives, plans, goals, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "anticipates," "expects," "believes," "estimates," "intends" and other similar expressions. These forward-looking statements are not facts, but only expectations or estimates regarding future events. Although the Corporation believes that these statements are based on information and assumptions, which are current, reasonable and complete, these statements are necessarily subject to a number of factors that could cause actual results to vary significantly from the expectations or estimates. Such differences may be caused by factors that include, but are not limited to, the risks and uncertainties set forth in the *Risks and Risk Management Strategies* section of this MD&A. The Corporation cautions that the factors are not limited to those risks and uncertainties.

Readers are urged to consider these factors carefully in evaluating these forward-looking statements and are cautioned not to place undue reliance on them. The forward-looking statements included in this Annual Report, including this MD&A, are made only as of the date of this Annual Report and the Corporation does not undertake to publicly update these forward-looking statements to reflect new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events contained in these forward-looking statements may or may not occur. The Corporation cannot assure that projected results or events will be achieved.

Our Business

Moving Beyond our History

The Corporation's vision is to *"be a world leader in providing innovative physical and electronic delivery solutions, creating value for our customers, employees and all Canadians."*

In pursuing this vision, our business model for the past several years stressed diversification of products and services, general productivity, and efficient pricing. While this enabled us to achieve an extended period of profitability, our traditional model has become vulnerable to changes in the communications market, global industry consolidation, and pressures in the courier and logistics sectors.

In response to these challenges, we embarked on a process of strategy renewal in 2004, and in 2005 developed a number of key initiatives:

- actively engaging employees to drive a high-performance workforce;
- making capital investments that support our core business, drive value and integrate our electronic offerings, to generate revenue growth and margin improvement;
- driving continuous improvement in productivity and synergies throughout The Canada Post Group; and
- organizing along our major lines of business, namely transaction mail, parcels and direct marketing.

These initiatives will continue to be key priorities for Canada Post throughout 2006 as we increase our external focus and execute our lines of business strategies.

Our Strategies to Move Beyond

Transaction Mail (Bills, Invoices, Notices and Statements)

The market for transaction mail is changing. Electronic communication alternatives are now viable substitutes for this product. Mailers continue to look for ways to grow the use of lower-cost electronic channels and for opportunities to consolidate from several pieces of mail to a single piece of mail. Although consumers want electronic communications, many are not ready to give up the paper alternative. As a result, mailers are spending more on mail to build relationships with customers.

The Corporation's strategic goal is to enhance its mail services, manage the erosion of transaction mail volume, and diversify sources of profit. The longer-term goal is to be a valuable, multi-channel intermediary providing the ability to communicate in any chosen form within a secure, reliable communications environment. The Corporation aims to defend its current business by offering more value to customers through integrated multi-channel services, better mail preparation and management services, and by ensuring the highest quality of delivery services.

Parcels

The domestic parcel market in Canada is relatively mature and growing at the rate of the economy. Canada Post is best positioned to serve the consumer, and small and medium business markets, utilizing its dense residential delivery and retail network. The Corporation aims to leverage this position by offering tailored products to meet the specific needs of these markets. Canada Post plans to streamline its product offering to improve product differentiation, and to develop electronic tools to facilitate its customers' cross-border commerce experience, which will support its increased penetration into the international marketplace.

Direct Marketing

The media placement market in Canada was valued at $14.6 billion in 2004, of which Canada Post has approximately a 5% share. Direct marketing is a discipline of marketing that differs from traditional mass advertising. Where mass advertising pushes awareness of a particular brand or product, direct marketing drives specific actions (e.g., make a purchase), in a way that is measurable down to a specific individual. This measurability of direct marketing is an important attribute for the Canadian marketing and advertising industry, which faces a number of key issues, including market-savvy customers; growth of channel options for marketers; increased pressure to achieve return on investment; and an increased need to deliver more measurable, relevant messages to an end consumer who is bombarded by hundreds of messages every day. The measurability of direct mail gives Canada Post's customers an attractive alternative to broaden their existing customer relationships and to acquire new customers at cost levels that are attractive relative to other media, such as television, radio or print advertising. The growing popularity of e-marketing and online advertising adds to the Corporation's opportunity to benefit from the enhanced legitimacy of direct marketing.

The focus of this direct marketing line of business will be on growing volume in our core business, and on introducing new direct marketing and advertising solutions throughout the direct marketing value chain. Borderfree will remain as a product line supporting cataloguing and cross-border activity by leveraging its technology capabilities to support Canadian business's outbound needs and to improve upon the business processes of the Corporation's offices of exchange.

The Canada Post Group

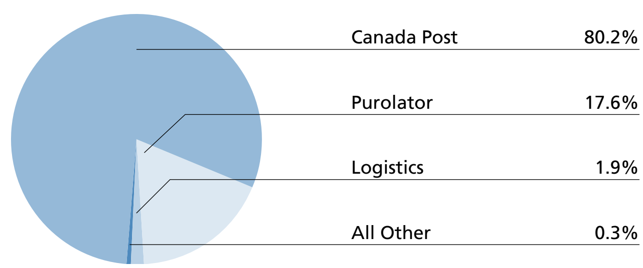
Over the 24 years since Canada Post's incorporation in 1981, the communications needs of Canadian businesses and consumers have changed dramatically. Multiple factors, including globalization, intensified competition, technological advances, and increased complexity in customer requirements, have influenced the pace of this change. Canada Post is responding to these requirements by broadening and focusing its own capabilities, and through the suite of capabilities offered by its subsidiaries and joint ventures: Purolator Courier Ltd. (Purolator), Progistix-Solutions Inc. (Progistix), EPO Inc. (epost), Canada Post International Limited (CPIL), Intelcom Courrier Canada Inc. (Intelcom) and Innovapost Inc. (Innovapost).

Collectively, The Canada Post Group (the "Group") delivers letters, statements, bills, invoices, publications, marketing materials and parcels to more than 14 million destinations in Canada and, through international agreements, to millions more around the world. On an average business day, the Group delivers an average of more than 40 million messages, physical pieces of mail and parcels. This, among other things, has made Canada Post's brand one of the 10 most recognized brands in Canada.

Within this MD&A, the Group is described in terms of four Segments, as follows: 1) Canada Post Segment; 2) Purolator Segment; 3) Logistics Segment (Progistix and Intelcom), and 4) All Other Segment (Innovapost, epost and CPIL).

Within the Group, the distribution of revenues by Segments[1] is shown in the table below, as percentages of the Group's total revenue, for each of the years ended December 31, 2005, 2004 and 2003.

Revenues by Segment – 2005



Revenues by Segment	2005	2004	2003
Canada Post	80.2%	80.6%	81.2%
Purolator	17.6%	17.1%	16.7%
Logistics	1.9%	1.9%	1.8%
All Other	0.3%	0.4%	0.3%

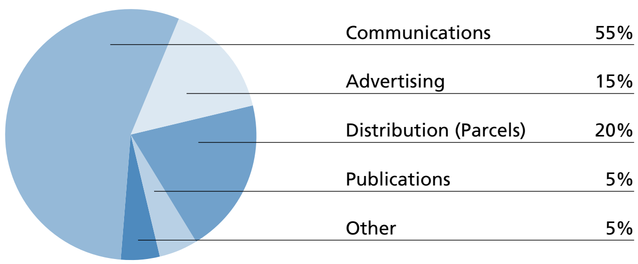
A brief overview of the business focus of each of the four Segments is presented on pages 26 to 28.

[1] Consistent with the presentation in the consolidated financial statements, the MD&A considers the Corporation on a consolidated basis and on the basis of its Segments.

Canada Post Segment

The Canada Post Segment represented over 80% of the Group's revenues in 2005, 2004 and 2003. The table below shows the distribution of the Canada Post Segment's operating revenues by market, as percentages of its total operating revenue, for each of the years ended December 31, 2005, 2004 and 2003.

Operating revenues by market – 2005



Operating revenues by market	2005	2004	2003
Communications	55%	57%	57%
Advertising	15%	14%	14%
Distribution (Parcels)	20%	19%	18%
Publications	5%	5%	5%
Other	5%	5%	6%

The broadly defined Canadian communications market, (telephone, instant messaging, e-mail and other forms of communications channels) has undergone a massive transformation, particularly through the growth of electronic alternatives to mail, such as e-mail, mobile telephony and online banking. As a result, Canada Post must begin to develop products that give our customers electronic options while at the same time continuing to defend our current businesses.

Our Products

Our existing Communications services comprise traditional sources of revenue such as Lettermail™ for personal messages and business correspondence within Canada, and Letter-post for those destined to the U.S. and internationally. Registered Mail™ provides proof of mailing as well as proof of delivery, among other features.

Canada Post has an extensive suite of advertising services that include: Addressed Admail™; Dimensional Addressed Admail™; Unaddressed Admail™; Business Reply Mail™ and GeoPost™ Plus.

Addressed Admail offers the ability to target promotional messages to specific individuals and/or addresses. Dimensional Addressed Admail gives advertisers the one-to-one power of direct mail with the impact of product sampling and trial. Unaddressed Admail consists of printed matter and product samples that are not addressed to a specific address. Business Reply Mail is a postage-paid direct response vehicle that makes it easy for prospects and customers to respond to offers, pay bills, send in a form or fill out a survey. GeoPost Plus uses geographic, demographic and lifestyle data to help advertisers target the neighbourhoods that best match their target market, and can also be used in conjunction with Canada's census data.

Physical Distribution services for parcels and packets that are available in Canada include: Regular Parcel™; Xpresspost™; Expedited Parcel™; and Priority Courier™ products for domestic destinations.

Regular Parcel is Canada Post's most economical packet and parcel shipping service available in Canada. Xpresspost is an economical express shipment alternative to more costly courier services. Expedited Parcel is a ground parcel service for businesses sending high volumes to business and residential addresses. Priority Courier provides guaranteed delivery by noon the next day between major centres.

For international destinations, there are a variety of services available to meet differing customer shipping requirements, including Xpresspost-USA™, Xpresspost-International™, Expedited Parcel-USA™, and Purolator-International™.

Publications Mail offers publishers an effective delivery service for newspapers, magazines and newsletters, and includes individual copy delivery for subscribers and non-subscribers, as well as bulk delivery to news vendors.

Other sources of revenue include items such as money orders, postal box rentals, mail redirection services, retail and philatelic products, and non-postage fees.

Our Network

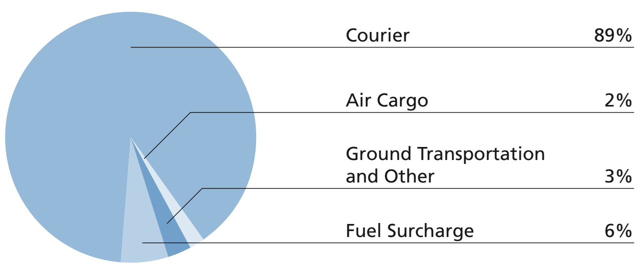
Canada Post continues to maintain the most extensive retail network in Canada, with an estimated 6,700 full-service outlets and approximately 17,000 stamp dealers. Documents and parcels are processed through 23 urban sorting plants and roughly 500 letter carrier depots, using more than 6,700 vehicles for delivery to 14 million commercial and residential addresses in Canada. In 2005, Canada Post tested five hybrid electric vehicles (HEV) that demonstrated potential fuel savings of 50% and significant emissions reductions. Canada Post's real property portfolio consists of more than 3,100 leased and owned properties throughout Canada.

Purolator Segment

Purolator is Canada's leading overnight courier company, with approximately 11,500 employees providing express delivery to more communities in Canada than any other courier. Purolator's goal is to be the leading provider of integrated distribution solutions to, from and within Canada. Through its extensive air and ground network, which includes 24 dedicated aircraft and 4,500 ground vehicles, Purolator offers next-business-day delivery in the U.S. as well as delivery to some 220 countries worldwide.

The following table shows the distribution of the Purolator Segment's operating revenue by market segment, as percentages of its total operating revenue, for each of the years ended December 31, 2005, 2004 and 2003.

Operating revenues by market – 2005



Operating revenues by market	2005	2004	2003
Courier	89%	92%	92%
Air Cargo	2%	2%	3%
Ground Transportation and Other	3%	2%	2%
Fuel Surcharge*	6%	4%	3%

* Fuel Surcharge means the surcharge to customers due to higher fuel prices paid by Purolator.

For the purpose of this MD&A, the overall parcel market is defined as shipments of individually addressed documents and goods weighing up to 68 kgs (150 lbs) shipped to and from Canada. Services are differentiated by speed of delivery, ranging from urgent-same-day delivery, to non-urgent, in which case the delivery time is determined by the mode of transportation. Purolator and Canada Post both compete in the urgent and non-urgent markets.

Canada Post, directly and indirectly through a wholly owned subsidiary, owns 90.66% of the common shares of Purolator.

Logistics Segment

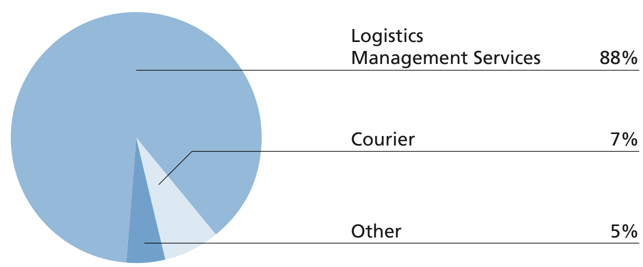
The Logistics Segment comprises Progistix, a subsidiary of Canada Post, and Intelcom, a joint venture. Canada Post, indirectly through a wholly owned subsidiary and a joint venture, owns 98.7% of Progistix and 50% of Intelcom.

Progistix is an outsourcing services provider that manages order and inventory management processes for clients in the technology and retail sectors with large, complex supply chains. These processes include functions such as order processing, inventory control, order fulfillment, reverse logistics, delivery, and transportation. Through Progistix, Canada Post offers Canadian businesses comprehensive and end-to-end supply chain services.

Intelcom is a same-day courier company providing local, regional and national same-day delivery services in major cities across Canada.

The following table shows the distribution of the Logistics Segment's operating revenues by market, as percentages of its total operating revenue, for each of the years ended December 31, 2005, 2004 and 2003.

Operating revenues by market – 2005



Operating revenues by market	2005	2004	2003
Logistics Management Services	88%	88%	88%
Courier	7%	7%	7%
Other	5%	5%	5%

All Other Segment

The All Other Segment includes Innovapost, epost and CPIL. Canada Post's equity interest in these companies is 51% (in Innovapost), 100% (in epost – was 97.19% prior to February 12, 2005) and 100% (in CPIL).

Innovapost

Innovapost is the information system/information technology (IS/IT) service provider to The Canada Post Group. It was created in 2002, and is jointly owned by Canada Post (51%) and CGI Information Systems and Management Consultants Inc. (CGI) (49%). The goal of Innovapost is to provide world-class information technology services at reduced cost, and to then ensure that information technology investments are leveraged across The Canada Post Group. Innovapost services involve the development, maintenance and operation of virtually all computing and information systems required by the Group.

epost

epost provides an electronic document delivery network to Canadian businesses and consumers. In 2004, epost acquired the webdoxs™ service from Emergis Inc. Since then, epost has created a network that includes more than 100 major mailers and two million consumers. The first stage of integration of the services of webdoxs and epost was completed in 2005, and the final stage was completed in January 2006. epost works in collaboration with 95% of the country's financial institutions as a presenting intermediary.

CPIL

CPIL was established in 1990 to market Canada Post's postal technology expertise and business processes in the international postal consultancy market. Since then, CPIL has carried out more than 180 projects worldwide.

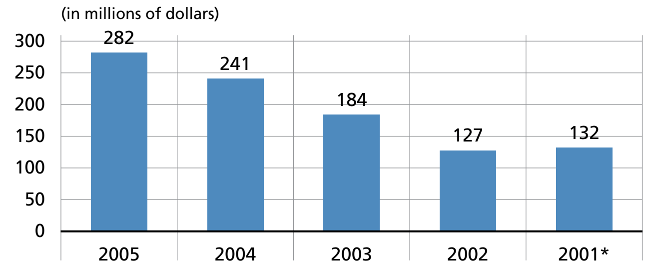
Consistent with Canada Post's commercial mandate, the Corporation decided to change its approach to international postal consultancy. This decision was made in order to better utilize the resources of the company. Today, Innovapost pursues international technology projects and existing non-technology consulting projects are managed by CPIL as part of Canada Post's International Relations group.

Consolidated Operating Results

Consolidated Results

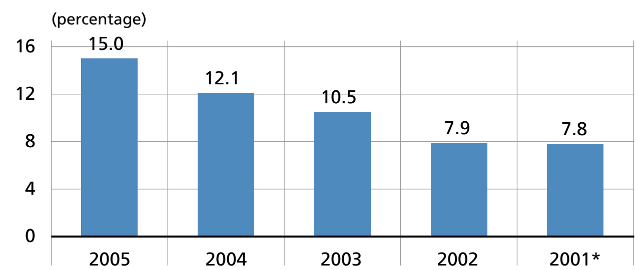
The Corporation earned consolidated net income of $199 million, an increase of $52 million from the comparative period[2]. The consolidated income before taxes and non-controlling interest of $282 million increased by $41 million compared to 2004. Revenue from operations increased by $293 million, a year-over-year increase of 4.4%. Cost of operations increased by $268 million or 4.2% over 2004, which is consistent with the increase in revenue from operations. Non-operating income increased by $16 million compared to 2004. Income taxes decreased to $80 million from $93 million in 2004.

The following table illustrates that the Corporation's consolidated income before income taxes over the last five fiscal periods has amounted to $966 million.



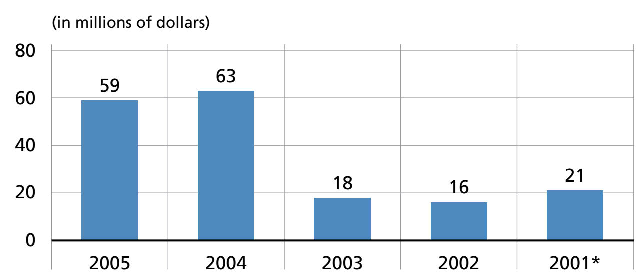
*Represents the nine-month fiscal period April 1, 2001, to December 31, 2001.

The return on equity to the Government of Canada in 2005 reached 15.0%. This represents a second consecutive year of achieving one of the key objectives of the Policy Framework approved by the Government of Canada, Canada Post's owner, in 1998. The following table illustrates the return on equity trend for the last five years.



*Represents the nine-month fiscal period April 1, 2001, to December 31, 2001.

The consolidated retained earnings of the Corporation have increased to $239 million from $99 million in 2004. In 2005, the Corporation paid a dividend of $59 million. The total dividends paid to the Government of Canada over the last five fiscal periods have amounted to $177 million.



*Represents the nine-month fiscal period April 1, 2001, to December 31, 2001.

[2] The comparative period is the twelve-month period January 1, 2004, to December 31, 2004.

Performance to Plan

Operating Plan

The following table presents the Corporation's consolidated operating performance for the 2005 fiscal year compared to its Corporate Plan projections:

(in millions of dollars)

	Actual $	Plan $	Variance $
Revenue from operations	**6,944**	6,889	55
Cost of operations	**6,681**	6,738	57
Income from operations	**263**	151	112
Non-operating income (expense)	**19**	(6)	25
Income before income taxes	**282**	145	137
Income taxes expense	**80**	66	(14)
Net income before non-controlling interest	**202**	79	123
Non-controlling interest	**(3)**	(3)	–
Net income	**199**	76	123

Consolidated revenue was $55 million better than Plan, totalling $6,944 million compared to the $6,889 million planned. This variance can be summarized as follows:

(in millions of dollars)	$
Canada Post Segment revenue (excluding international revenue)	19
Product revenue re-alignment per Canada Post Segment	(20)
Settlement with foreign postal administrations in Canada Post Segment	29
Revenue from Purolator	49
Revenue from CPIL (due primarily to its change in mandate)	(8)
Miscellaneous	(14)
Variance in consolidated revenue from Plan	55

Consolidated cost of operations was $57 million lower than Plan, totalling $6,681 million, compared to the $6,738 million planned. The most significant variances to Plan are summarized as follows:

(in millions of dollars)	$
Delay in Canada Post initiatives and projects*	48
Product cost re-alignment per Canada Post	20
Arbitration decisions in favour of Canada Post	11
Cost of operations from Purolator	(46)
Cost of operations from CPIL (due primarily to its change in mandate)	6
Other savings	18
Variance in consolidated cost of operations from Plan	57

* A delay in confirming the strategic direction of Canada Post, through its stated strategy renewal exercise, resulted in investment spending delays in 2005, which in turn favourably impacted Cost of Operations and Program Expense.

Income taxes increased from $66 million projected in the Plan to an actual of $80 million, a variance of $14 million, mainly as a result of the positive variance of $137 million for income before income taxes and non-controlling interest.

Capital Plan

Spending by The Canada Post Group on capital and equity investments in 2005 totalled $167 million versus a Plan of $374 million, resulting in a $207 million variance. The variance of $207 million was due to the non-use of $51 million set aside for equity investments, $50 million planned for strategic renewal initiatives, the cancellation of a $41 million construction project to build a South Tower at Canada Post Head Office, and $65 million planned for operating initiatives.

Balance Sheet Analysis

Segregated Cash and Investments

The segregated funds are held for employee termination benefits and other retirement benefits. The balance decreased from $530 million in 2004 to $514 million in 2005, an overall decrease of $16 million. The decrease is as a result of a payout in the amount of $24 million from the segregated funds due to the settlement of employee termination benefits for members of the Union of Postal Communications Employees (UPCE). This was partially offset by income earned on the portfolio as well as transitional support received from the Government of Canada for the incremental costs incurred as a result of establishing Canada Post employee retirement dental and life insurance benefit plans.

The weighted average rate of return on the segregated funds (totalling approximately $83 million at December 31, 2005) held for employee termination benefits was 2.9% in 2005, a decrease of 3.4% compared to 6.3% in 2004. The lower rate of return was due to holding short-term securities in preparation for payments from this portfolio.

The weighted average rate of return on the funds held for retirement benefits earned during 2005 was 3.4%, a decrease of 0.3% compared to 2004.

Accounts Receivable

Accounts receivable increased by $78 million from $477 million in 2004 to $555 million in 2005, which was largely attributable to Canada Post increases in Accounts Receivable. Canada Post's international receivables increased by $28 million largely as a result of an increase in business with the United States Postal Service (USPS) arising from the USPS's introduction of a new service – Expedited Mail Service (EMS). In addition, Canada Post's trade receivables increased by $39 million.

Future Income Tax Assets

Future income tax assets decreased by $47 million from $185 million in 2004 to $138 million in 2005. The change was mainly due to the tax impacts relating to pension, other retirement and post-employment benefit plans. Future income tax assets represent the tax benefit of expected future tax deductions. These arise primarily due to accounting rules recognizing certain expenses on an accrual basis and tax rules recognizing those expenses when paid.

Property, Plant and Equipment

There was a decrease in capital assets from $1,721 million in 2004 to $1,671 million in 2005. This decrease was the result of $167 million ($222 million in 2004) in acquisitions, $213 million ($216 million in 2004) in amortization and $4 million ($18 million in 2004) in various capital asset activities. Land, buildings, leasehold improvements, street furniture, letter boxes and vehicles accounted for approximately 66% of all acquisitions.

Accounts Payable and Accrued Liabilities

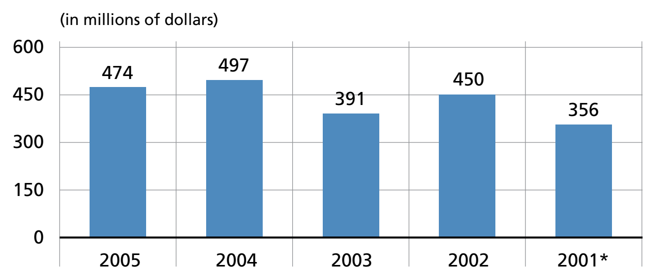
Accounts payable and accrued liabilities decreased by $6 million from $406 million in 2004 to $400 million in 2005.

Accrued Pension, Other Retirement and Post-Employment Benefit Liability

This liability increased by $198 million to $2,041 million in 2005. The increase is primarily attributable to a $183 million increase in accrued retirement health liability due to a lower discount rate and an increase in medical drug costs and usage. There were also increases in accrued retirement and post-employment benefits liability for other plans, but they were largely offset by a $35 million decrease in employee termination benefits liability following the payouts in 2004 and 2005.

Capital/Liquidity Sufficiency

Cash and cash equivalents at the end of 2005 totalled $474 million, a decrease of $23 million from $497 million at the end of 2004. Cash levels for the past five years are shown in the table below:



*Represents the nine-month fiscal period April 1, 2001, to December 31, 2001.

Cash provided from operating activities increased by $344 million on a year-over-year basis. While operating activities in 2004 used $132 million, operating activities in 2005 provided $212 million in cash. The $212 million cash provided in operating activities was attributed to $865 million in cash flow from net income after adjusting for items not affecting cash and a $40 million decrease in non-cash working capital, offset by $693 million used in pension, other retirement and post-employment benefit payments. Pension, other retirement and post-employment benefit payments, which were $919 million in 2004 primarily due to the 2004 payments to employees represented by the Canadian Union of Postal Workers (CUPW), and management and exempt employees for the cessation of employee termination benefit entitlements, decreased to $693 million in 2005.

Cash used for investing activities totalled $310 million for 2005, an additional outflow of $451 million compared to $141 million cash provided by investing activities in 2004. The $310 million cash used in investing activities was attributed to $167 million used in the acquisition of property, plant and equipment, and a $154 million increase in segregated cash and investments, offset by $11 million, which was provided primarily from proceeds from the sale of property, plant and equipment.

Cash provided from financing activities decreased by $22 million, from $97 million in 2004 to $75 million in 2005. The $75 million provided in 2005 was attributed to $156 million in transitional support received from the Government of Canada to assist with the incremental costs incurred to establish the Canada Post Corporation Registered Pension Plan (Canada Post Pension Plan) and the Canada Post Corporation Supplementary Retirement Arrangement, offset by $59 million in dividends paid, $21 million in repayment of long-term debt and $1 million in other financing activities.

Capital/Liquidity Planning

In developing its financial management plan, the Corporation takes into consideration its legislated mandate, Policy Framework objectives, long-term strategy, current economic conditions, as well as business environments, threats and opportunities. A number of factors are considered by the Corporation when assessing its capital liquidity and sufficiency going forward, including:

- the degree of financial leverage planned by the Corporation, which determines the amount of borrowing needed to finance investments;
- the amount of liquidity and working capital the Corporation needs on an ongoing basis, which determines its net working capital requirement;
- the sources of capital available to the Corporation;
- the performance of the Canada Post Pension Plan and the need to fund any deficit; and
- Canada Post's requirement for significant strategic investment to generate earnings towards meeting the Policy Framework's profitability goals.

The Corporation will have sufficient liquidity in 2006 to meet planned, capital and strategic investments, including the liquidity impacts of the following elements.

Policy Framework

Canada Post's Policy Framework objectives include the achievement annually of earnings before interest and taxes (EBIT) of $175 million and return on equity of Canada (ROE) of 11%. In 2005, the Corporation generated EBIT of $263 million and achieved ROE of 15.0%

Consistent with the Policy Framework, the Corporation is expected to make an annual dividend payment to the Government of Canada of 40% of the prior year's actual consolidated net income. Based on 2005 results, the dividend is expected to be approximately $80 million for fiscal 2005, subject to Board of Directors approval.

To support financial performance, the Corporation will seek to make important investments in operational improvements and in potential growth opportunities. The Corporation's capital budget for capital assets, acquisitions, and equity investments is planned at $427 million (consolidated for 2006). Investment is required to grow the Corporation's competitive businesses, defend its current businesses and achieve operational performance objectives.

Canada Post Pension Plan

The Canada Post Pension Plan is required to file periodic actuarial valuations with the pension regulator, the Office of the Superintendent of Financial Institutions. These actuarial valuations are required to set out the funded status of the Canada Post Pension Plan on a going-concern and a solvency basis. The actuarial valuation for the Canada Post Pension Plan as at December 31, 2004, disclosed a deficiency on a theoretical, solvency basis, which requires that the actuarial valuation be filed annually. This theoretical, solvency deficiency as at December 31, 2004, required the Corporation to make a special contribution of $270 million to the Canada Post Pension Plan. In addition, the Corporation transferred $32 million of excess assets, as determined by the Canada Post Pension Plan actuary, from the Canada Post Corporation Supplementary Retirement Arrangement to the Canada Post Pension Plan.

The actuarial valuation as at December 31, 2005, disclosed a theoretical, solvency deficiency of $1,266 million and disclosed a going-concern surplus of $480 million, as compared with a theoretical, solvency deficiency of $1,136 million and a going-concern surplus of $95 million as at December 31, 2004. The increase in the theoretical, solvency deficiency in 2004 and 2005 is due primarily to a decline in long-term interest rates. The Corporation believes that the financial position of the Canada Post Pension Plan, as disclosed in its financial statements, presents a reasonable assessment of the financial position of the Canada Post Pension Plan. However, the Corporation is required to fund this theoretical, solvency deficiency by special contributions over a five-year period. Based on the most recent actuarial valuation, the Corporation plans to fund further annual contributions to the Canada Post Pension Plan of $342 million in each of 2006 and 2007, $319 million in each of 2008 and 2009, and $75 million in 2010.

At the end of 2005, Canada Post had sufficient cash and cash equivalents ($590 million) to fund the required payments in 2006 and meet its other liquidity needs. Canada Post's ongoing ability to meet these payments is dependent upon its ability to operate profitably and generate cash from operations. In 2005, cash generated from operating activities totalled $293 million. It is planned that all required payments would be funded from internally generated funds. The capital and investment plans and dividends to the Government of Canada will not be constrained by the payments.

Segment Results

Canada Post Segment

Operating Results

The Canada Post Segment contributed $250 million of income before taxes to the 2005 consolidated results, an increase of $53 million from 2004. This performance is a result of strong revenue growth, management cost containment and delays in investment spending. If employee future benefits were excluded from income before taxes, Canada Post's contribution would be $622 million (an increase of $104 million over 2004).

Revenues

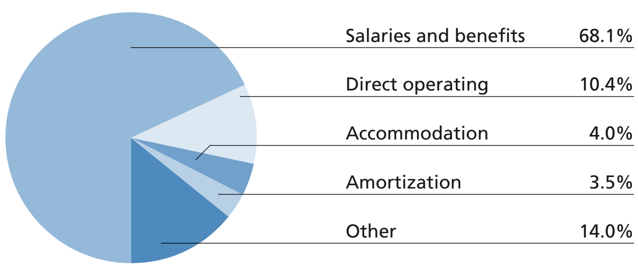
The Canada Post Segment generated operating revenue of $5,587 million in 2005, an increase of $205 million over the $5,382 million achieved in 2004. The revenue increase was primarily generated through pricing actions and volume growth as well as revenue growth initiatives.

The $205 million revenue increase comprised increases of $48 million in Communications, $100 million in Physical Distribution, $44 million in Advertising, $11 million in Publications and $2 million from other services.

Expenses

The following table shows the breakdown of cost of operations, as percentages of the Canada Post Segment's total cost of operations, for each of the years ended December 31, 2005, 2004 and 2003.

Cost of operations – 2005



Cost of operations	2005	2004	2003
Salaries and benefits	68.1%	67.1%	65.3%
Direct operating	10.4%	10.0%	12.4%
Accommodation	4.0%	4.1%	4.3%
Amortization	3.5%	3.8%	3.5%
Other	14.0%	15.0%	14.5%

The cost of operations increased by $177 million, from $5,197 million in 2004 to $5,374 million in 2005.

Salary expenses increased by $96 million over 2004 to reach $2,934 million in 2005. The increase was mainly due to wage increases of approximately 3% to employees represented by the CUPW, the Canadian Postmasters and Assistants Association (CPAA), the Association of Postal Officials of Canada (APOC) and the Union of Postal Communications Employees (UPCE).

Employee benefit costs (net of income from related segregated cash and investments) increased by $75 million, or 11.6%, to reach $725 million in 2005. This increase was primarily driven by escalating retirement health benefit expenses, and reduced income from segregated cash and investments relating to employee termination benefits. Escalation in retirement health benefit expenses is largely due to the combined effect of a decrease in the discount rate (from 6.4% to 6.1%), an increase in medical drug costs and usage, changes in employee demographic assumptions, and an increase in participation. Reduction in income from segregated cash and investments is due to lower investment balances following the employee termination benefit payouts in 2004 and 2005, and a lower weighted average rate of return in 2005.

Contracted collection, processing and delivery non-labour costs increased by $42 million, from $518 million in 2004 to $560 million in 2005, primarily due to increased fuel costs and inflation.

Accommodation costs increased by $3 million to $215 million in 2005. This increase is mainly attributable to increased utility costs resulting from energy cost pressures, which were favourably offset by rent recovery for Canada Post's Head Office East Tower.

Amortization and impairment expenses totalled $188 million in 2005, a decrease of 5% or $10 million from 2004.

Other expenses decreased by $28 million, from $781 million in 2004 to $753 million in 2005. This decrease was primarily a result of reductions in program expense attributable to planned reductions in initiatives and delays in completing the Corporation's strategy renewal process.

A Focus on Customer Value

Canada Post understands that to remain relevant in the marketplace the key to success is to deliver superior value to our customers. Accordingly, in 2005 Canada Post initiated a significant internal communications initiative aimed at engaging employees in the creation of increased customer value. This initiative is focused on leveraging our most important asset, our people, to transform the Corporation's image from that of a cost centre to an organization that provides value to its customers.

In 2005, a number of initiatives were undertaken that either delivered immediate value to our customers or helped strengthen the foundation for future customer value creation.

Collaboration With eBay™
In an effort to make Canada Post shipping services more readily accessible to eBay sellers and protect our share of the business, we collaborated with eBay Inc. to build an integrated online solution that allows users to create, purchase and print shipping labels from the eBay and PayPal™ websites, for shipments from Canada to anywhere in the world. This integrated online solution was launched in February 2006.

smartmoves™
smartmoves is a program whereby Canadian consumers and businesses can notify Canada Post and other companies of their change of address. The program, which includes a magazine and a website, provides movers with information related to residential relocation and is a source of advertising income for Canada Post.

Customer Value Management
Customer Value Management is our methodological approach to better understanding the drivers of customer value and loyalty in the marketplace. Surveys for both Admail services and Shipping and Delivery services were completed in 2005, highlighting Canada Post's competitive advantages and areas of our business that need improvement. The results of the research have helped reorient product development, marketing programs, and the way we provide service to better meet the needs and expectations of our customers. A Customer Value Index has also been established to measure customer loyalty to Canada Post. Index targets were set for 2006 to help focus corporate initiatives around improving customer value and loyalty.

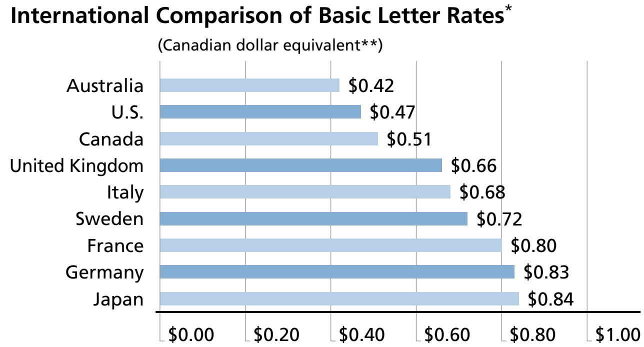
Direct Mail and Catalogues
Canada Post's Direct Mail and its Borderfree catalogue service continued to support the growth of Canadian businesses in 2005. The Borderfree catalogue service demonstrated commitment to the Direct Marketing industry with the launch of several marketing campaigns aimed at supporting the marketing efforts of firms.

International Mail Settlement (IMS)
In 2005, Canada Post redesigned and increased sampling activity to achieve statistical validity and improved receipt verification reports and processes for IMS. The scope of this initiative was subsequently expanded to include a joint effort with the USPS to modify and improve the processes and procedures governing mail settlement between the two organizations. Work began in mid 2005 and final implementation is scheduled for the second quarter in 2006.

As part of this initiative, Canada Post will implement a new "Commercial Model" settlement process with the USPS to achieve more timely and accurate settlement of accounts, thereby providing management with better reports, increasing visibility and control and long-term sustainability that can potentially be leveraged with other postal administrations. The new end-to-end processes have been fully integrated and will be supported by a customized version of the Universal Postal Union's (UPU), International Postal System (IPS) software that will also support the existing UPU Postal Model settlement process worldwide. This initiative will also deliver internal control certification on the overall international mail settlement process.

Postal Rates
Despite competitive pressures, difficult geography and climate, and a low population density, Canada Post continues to offer one of the lowest domestic letter rates in the industrialized world, as illustrated by the chart below.

International Comparison of Basic Letter Rates*



* As at January 16, 2006.
** Based on average exchange rates for 2005 provided by the Bank of Canada.

Building a Foundation of Employee Engagement

Through our Employees

The level of employee engagement within the Corporation is inadequate to meet the needs of our customers. High absenteeism, a large number of grievances and low employee satisfaction survey results all demonstrate the need for immediate attention. In response to these challenges, the Corporation has committed to measures that will continuously improve the levels of employee engagement.

In 2005, the President and CEO recommended, and the Board of Directors created, the position of Senior Vice-President of Employee Engagement to champion employee engagement, and to bring focus and accountability to the importance of having a highly engaged workforce. In addition, the executive team endorsed a new set of Values for Canada Post's employees and an updated Code of Conduct aimed at meeting the needs of our stakeholders and employees.

The Corporation's immediate objective is to increase the level of understanding employees have of our business, our customers' expectations, and how their jobs factor into the Corporation's business objectives and priorities. Canada Post recognizes that increasing employee engagement is a lengthy process, and we have developed action plans to help us achieve our goals. Our immediate efforts are focused on helping employees better understand our raison d'être, and where they fit in within Canada Post and our business. We are working to ensure that all employees, and particularly those who are closest to customers, are aware of the strategy and can help us implement it effectively. We believe that Canada Post's ability to successfully recruit and manage people who can deliver value to customers will help Canada Post create consistent and reliable results into the future.

Through our Labour Agreements

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

On February 11, 2005, employees represented by the PSAC/UPCE ratified a new collective agreement. This collective agreement between Canada Post and the PSAC/UPCE was signed on April 6, 2005, and will expire on August 31, 2008.

Association of Postal Officials of Canada (APOC)

The collective agreement with APOC, which represents approximately 3,100 employees expired on March 31, 2005. The parties began negotiations in February 2005 using the Interest Based Negotiations method with the assistance of facilitators from Federal Mediation Services. The parties announced a new tentative agreement on December 1, 2005, that was subsequently ratified on December 22, 2005. It is a new four-year agreement that will expire on March 31, 2009.

Performance Indicators

The Policy Framework, established with the Government of Canada in December 1998, sets out the Corporation's long-term financial and service goals. Within this framework, Canada Post employs both financial and non-financial indicators to evaluate its performance and focus management attention on the relevant issues affecting key stakeholders – general consumers, commercial customers, employees and Canada Post's owner, the Government of Canada. A monthly performance review cycle provides a forum for discussion of issues, root cause analysis and action planning in support of prioritizing continuous improvement activities. Included within this cycle is the review and refinement of specific performance measures and targets.

Canada Post structures these performance indicators into four areas:

Financial Indicators

The financial ratios currently used by management, and in some cases by the Government of Canada, to measure the financial performance of the Corporation are presented at the end of this MD&A.

Operational Performance

Canada Post is committed to consistently delivering Lettermail within the following delivery standards: two business days within the same metropolitan area/community; three business days within the same province; and four business days between provinces.

An independent professional services firm tests the service performance levels of Lettermail in the Canadian postal system. The measurement program involves depositing test mail into the mail stream over the course of the year and tracking it between various links across the country, encompassing both urban and rural areas. Service performance is tested using properly prepared Lettermail of various colours, sizes and weights, including windowed envelopes and non-standard and oversized Lettermail pieces. The test mail enters the mail stream through street letter boxes, postal counters and community mail boxes, thereby providing an assessment of service performance that is representative of that experienced by Canadians.

In 2005, Canada Post achieved an on-time service performance score of 96% for Lettermail, meeting the corporate target. The variations in performance across months and across regions were very low, indicative of a stable process and consistency in achieving high-level performance.

For 2006, Canada Post expects to maintain its performance standard for Lettermail service throughout urban and rural Canada.

Operational performance is also measured within Canada Post using key performance indicators of the unit cost, cycle time and defect rate for our service transactions. Spanning the Corporation's marketing, sales and service delivery capability as well as the enabling functions, these measures help keep senior executives focused on the key drivers of the business.

Customer Satisfaction
The Customer Satisfaction measurement program is designed to provide an indicator of customer loyalty and provide customer information that will assist Canada Post to further develop customer relationships with commercial customers as well as strategies to service small business customers and consumers.

Telephone surveys, conducted by an independent agency, are used to measure customer perceptions of a number of areas, including the quality of service and the nature of the customer relationship. Interviews are conducted with customers throughout the year, and results are tabulated and reported to management quarterly.

The overall Customer Satisfaction Index score achieved for 2005 was 81%, matching the Customer Satisfaction Index score achieved in 2004.

The Customer Satisfaction Index score in 2005 for the small business and consumer markets remained at the 2004 level of 77%, 3% below the 2005 target.

In 2006, there will be greater emphasis on customer-value-based measurement.

Employee Satisfaction
Canada Post employs more than 70,000 employees across the country. Canada Post has been measuring employee satisfaction for 10 years with a focus on the basics of employee satisfaction, including having the tools, equipment, training and information required to do the job.

The 2005 Employee Satisfaction Index score, based on the single satisfaction question, was 69%, down slightly from the 2004 score of 72% for the same question and employee base.

In 2006, improving employee engagement will be the Corporation's first priority. Canada Post is developing a corporate-wide engagement plan to help drive a high-performance workforce. Leadership development and support is planned for leaders at all levels, because they play a critical role in communicating customer expectations and business strategies, ensuring employees are recognized for their extra effort and know how their work contributes to corporate success.

Business Outlook

Growth
In 2005, the Canadian economy performed well and is expected to remain relatively healthy for several years. However, cost pressures from health care, other benefits, the Pension Plan, fuel prices, growth in points of call, and lower mail delivery density will continue to challenge us as a result of constraints created by labour productivity and a price-cap formula that limits our pricing flexibility.

Exclusive Privilege
In the last 20 years, we have seen fundamental change in the global communications industry. As mailers provide economic incentives for customers to switch to electronic communication, and consolidated invoices and statements, the concept of "exclusive privilege" is eroding. As a practical matter, the value of the exclusive privilege on letters, put in place as a means to cover the costs of providing Universal Service, has been lessened. While this protection may not be formally removed any time soon in North America, in recent years a number of countries have seen postal markets deregulated and the protection afforded by the exclusive privilege reduced or eliminated.

Transaction Mail
As noted previously, the market for transaction mail (bills, invoices, notices and statements) is changing. Electronic communication alternatives have increased the overall volume of communications. This is explained at least partially by the preference of many early adopters of electronic communications for continuing to receive the paper version as well. This presents an opportunity for Canada Post to defend its existing paper-based products through a focus on quality of service, and also to leverage its position as a multi-channel intermediary between its customers and their consumers. The Corporation's longer-term goal is to be a valuable, multi-channel intermediary between sender and receiver, providing the ability to communicate in any chosen form within a secure, reliable communications environment.

Parcel and Logistics Business
Over the last few years, the parcel and logistics markets have undergone significant consolidation. Global shipping and delivery companies now leverage their scale and reach, which has increased pressure on domestic operators such as Canada Post.

In North America, both the logistics segment and the international parcel market have been growing at rates above the Gross Domestic Product (GDP), whereas the domestic parcel market growth rate is mature. Since the late 1990s, globally enabled competitors have been acquiring, consolidating and allying with courier, air freight, logistics and ground carrier firms, and expanding and integrating their networks to broaden scale and reach. Consolidation in this sector is expected to continue. Some global players have also made significant investments to expand their retail and online presence, creating additional pressure on Canada Post's consumer and small business markets.

Direct Marketing

There is a shift among postal operators to become full-service direct marketing providers. This shift is evident in the efforts to expand services beyond delivery into other components, such as address and list management, production and fulfillment of the mail piece and, finally, processing and managing customer responses. To grow this business, a number of challenges must be overcome, including:

- convincing customers to do more direct mailing by helping them understand its value in the context of multi-channel delivery;
- offering value-added features;
- providing quality delivery service; and
- preserving the value of Canada Post's brand and the trust that Canadians have in the Corporation to protect their privacy.

In response to these issues, the Corporation will aim to grow revenue in direct marketing by:

- supplying more accurate addresses;
- improving delivery quality;
- increasing the investment of mailers in direct mail;
- broadening the use of direct mail to new customer groups; and
- creating the capacity within Canada Post and through strategic partnerships to provide value-added services to those who are not currently using direct mail.

Risk Management

Canada Post's Internal Audit group provides senior management and the Board of Directors with reasonable assurance that processes are in place to detect and manage risk. It is the responsibility of all management groups to continually monitor risks in their process areas and report on those that may interfere with the achievement of functional or corporate objectives. In November 2005, Internal Audit included a section on risk management in its periodic progress report, in which it focused on the current state of risk management within the organization.

Internal Audit, in collaboration with its internal Canada Post clients, assesses and prepares reports for the Audit Committee of the Board of Directors and for senior management on the adequacy of controls, the significance of risks, and the achievability of objectives. Audit engagements completed in 2005 by Internal Audit touched many functional areas, and resulted in the identification of risks that were assessed further and prioritized through a series of interviews with general managers and vice-presidents.

The Board of Directors and senior management also implemented a number of initiatives in 2005 to further strengthen controls for risk management, risk assessment and fraud awareness. As a result of this action, the roles and responsibilities with regard to the above, are better clarified:

- *The Board of Directors*, as part of its overall responsibility for the stewardship of the Corporation, ensures that the principal risks of the Corporation's businesses, including strategic, operational, financial, leadership, affiliate/subsidiary, and corporate reputation risk are identified, and appropriate systems to monitor and manage these risks are implemented. The Board assesses the nature and extent of such risks, including setting acceptable levels of risk.
- *The Strategy and Priority Setting Committee*, which comprises senior level executives, is primarily responsible for analyzing the business environment, identifying significant issues, risks and potential opportunities, and setting the strategies to address them. This Committee meets regularly to review progress against the short- and long-term strategic plan and ensures that key issues and risks that may impact the ability to achieve such plans are addressed. It also sets, monitors and adjusts the Corporation's mission, vision, values, brand and policy direction, Canada Post and The Canada Post Group level targets, priorities and long-term goals, and reviews significant transactions on an as-required basis.
- *The Management Board*, which is comprised of all Canada Post vice-presidents and subsidiary presidents, meets monthly to review the key performance indicators that are critical to achieving business plans and corporate level targets, and ensures that issues and risks affecting the ability to achieve such plans and targets are addressed.
- *The Process Owners Committee* identifies key business processes that are critical to achieving the Corporation's objectives. It ensures that the key business process objectives align with corporate objectives, and monitors process performance to ensure the objectives are met. The Process Owners Committee has an ongoing obligation to report to the Management Board on any issues that present a significant risk to the achievement of the Corporation's goals and objectives along with any plans for mitigating these issues.
- *The Program Management Committee* assists with the planning, implementation and monitoring of progress of large projects and ensures that exceptions are reported to the Management Board.

In January 2006, the corporate committee structure was further modified to support the Corporation's new organization and strategic direction. The Management Board and the Strategy and Priority Setting Committee were maintained and two weekly committees, namely the President's Meeting and the Lines of Business Meeting, were established. The Process Owners Committee and the Program Management Committee were disbanded as corporate committees and their mandates are now managed within the Lines of Business Meeting's mandate. Also, in order to strengthen risk management oversight, the Corporate Auditor has been appointed as a member of the President's Meeting and Management Board, in addition to being a standing invitee to all corporate committees.

- *The President's Meeting* is convened on a weekly basis to discuss key and urgent issues of importance to the President and her direct reports.
- *The Lines of Business Meeting* is held on a weekly basis to discuss issues affecting tactical plans and project implementation, improve business practices, and ensure integration within the lines of business. The members ensure that key business line objectives align with corporate objectives, and that any issues that present a risk to the achievement of the Corporation's goals and objectives are identified and mitigation plans are developed.

Risks and Risk Management Strategies

The following section summarizes what the Corporation believes to be the major risks and uncertainties that could affect the Corporation's future business results. These risks have been classified into three categories: organizational risks; operational risks; and investment and financial risks.

Organizational Risks

Alignment

The Corporation's ability to align human resources to achieve the vision and mission of the organization in an effective and efficient manner is critical in providing the Corporation with a competitive advantage.

Given the size and geographic dispersion of the Corporation, maintaining effective internal communications is an ongoing risk, which needs to be managed to ensure that all of our employees receive a clear and consistent message about Canada Post's priorities and how critical each employee's contribution is in ensuring its long-term success.

Labour Relations

Canada Post's business is labour intensive and depends on its employees to be successful and to create customer value. Continuous service is critical to the operations of Canada Post. Perceived or actual service disruption could have significant impact on financial results as well as long-term customer relations. The risks related to labour disruptions expose Canada Post to a potentially significant threat.

At Canada Post, over 95% of employees are unionized and generally enjoy higher-than-market wages, benefits and working conditions. Canada Post's management team and the unions/associations representing our unionized employees recognize the need to work together and maintain open communication.

Active Collective Agreements with negotiations occurring in 2006

Canadian Union of Postal Workers (CUPW) – Urban Postal Operations – Canada Post and the CUPW, which represents approximately 48,000 urban postal operations employees, have a four-year collective agreement that expires January 31, 2007. 2006 is a critical year for both the Corporation and the CUPW as we enter into a new round of bargaining in the fall with the representatives of our largest workforce.

Canadian Postmasters and Assistants Association (CPAA) – The collective agreement with the CPAA, which represents approximately 11,000 employees, expired on December 31, 2005, with a "final offer selection arbitration" clause to ensure resolution of disputes without a labour disruption. Negotiations for a new collective agreement began in November 2005 and are presently continuing.

Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (RSMC) – Canada Post and the RSMC are currently into the third year of an eight-year collective agreement with guaranteed funding to finance wage increases and benefits. More than 6,000 former Rural Route contractors have become employees of Canada Post. As part of a re-opener clause in the collective agreement, the parties commenced negotiations in October 2005 to add or revise provisions to this collective agreement and determine how to spend the agreed-to guaranteed funded amount. The parties were unable to reach agreement and, as per the collective agreement, the unresolved issues will be referred to interest arbitration.

Human Resources

As reported in 2004, Canada Post is now into an extended period of increased attrition; approximately 80% of this attrition comes from retirements. The increased attrition trends are forecast to remain high for the next 10 years and will place considerable pressure on the Corporation as it manages the risks associated with losing important knowledge, skill and experience held by retiring employees. At the same time, this attrition provides an opportunity to reshape the Corporation to meet future requirements while respecting job security.

In 2005, Canada Post made workforce planning improvements to enable business leaders to make informed decisions about how best to manage the risk in their segment of the organization. Detailed employee and demographic analyses of internal and external labour market data, along with vulnerability assessments for key positions, have been developed. Action plan recommendations to mitigate risk have been identified for each key job to contribute to the Corporation's preparedness for the inevitable loss of key talent to retirement or other attrition causes. These recommendations include: internal recruitment and knowledge transfer; mentoring; job shadowing; succession planning; learning and development activities; talent management; and external recruitment. These actions are aimed at providing organizational stability, and will form part of our plans to develop and implement initiatives that will support the Corporation's short- and long-term business objectives. In addition, to meet future skills demands associated with changes in corporate and line of business strategies, work was undertaken to identify current and future skills gaps. This data will inform tactical plans for learning and development activities, as well as external recruitment.

Increasing Employee Benefit Costs

The demand on Canada Post to provide health care coverage for its employees will grow two or three fold in the next 10 years. The principal causes relate to aging, increases in the incidence of chronic disease, physician prescribing habits, public policy redesign and specialty pharmaceuticals. In 2005, Canada Post spent approximately $270 million on health care expenses. A two- or three-fold growth in this expense is a significant financial risk that needs to be effectively managed. During 2005, Canada Post undertook an examination of its health care spending to better understand the risks associated with the changing health care regime in Canada. We recognize the need for change and we are working to articulate a future-looking corporate vision for health care coverage. Going forward, we will set priorities, assign resources, and mobilize our policy makers and operational leaders to address the challenges this issue presents. These efforts will consider stronger benefit policy, plan and financial management, as well as union and employee participation in the design and development of workable solutions.

Operational Risks

Operational risk refers to the Corporation's ability to effectively implement and maintain systems, business processes and internal controls that will minimize losses. We believe that the key to managing operational risk is to ensure key policies and procedures are implemented and monitored.

Retail Network

The Canada Post retail network is the sales channel used by individual Canadians and small businesses to perform their sending and receiving activities. A network of approximately 6,700 stores makes it the largest retail network in Canada. There are approximately 4,000 corporate stores operated by Canada Post employees and 2,700 private dealers operating a kiosk-style service, further complemented by approximately 17,000 stamp shops.

The Corporation recognizes that the retail network needs to be transformed while continuing to deliver on its pledge of a universal and affordable postal service. In order to operate successfully in the rapidly evolving marketplace, Canada Post needs to become more competitive and customer-focused. This will require a change in the way that Canada Post manages its business, its openness to outside trends and influences, and its willingness to engage with private sector partners. Canada Post aims to accomplish this through increased retail access, a dealer network focus, and a simplified product offering of core products/services and enablers. This will be managed via a structured and responsible consultative process with stakeholders.

Transportation
There are a number of challenges facing the transportation industry in general, which will affect Canada Post. The turmoil and resulting structural changes in the airline industry have impacted available air cargo capacity, especially for certain domestic and transborder lanes. Just as the new air security rules introduced after September 11, 2001, forced changes to Canada Post's network, the changes in commercial fleet size and schedule are putting additional stress on the domestic air cargo industry, which will lead to cost pressures.

Fuel prices, a major cost component of all transportation modes, have been the leading cause of cost increases over the past few years and we anticipate continued pressure on fuel costs due to the unstable conditions in the oil-producing areas of the world. Like others involved in this industry, management has found the use of a fuel surcharge to be an effective mechanism for offsetting increases in fuel costs.

Investment and Financial Risks
Investment and financial risks are risks of loss or detriment to the Corporation as a result of weaknesses related to policies or procedures in finance and treasury. These include, among others, risks related to regulation, liquidity and credit.

Financing Growth and Expansion
With the projected erosion of Lettermail volumes, affordable universal postal services can only be assured if the Corporation can effectively exercise its commercial mandate, a mandate confirmed by the Government of Canada through the Policy Framework, and can increasingly generate profits from competitive services. Canada Post and its subsidiaries will need the financial resources to invest in growth initiatives to maintain services and gain competitive advantages.

The Corporation presently has parliamentary authority to borrow, other than from the Crown, an aggregate amount of $300 million in accordance with the terms and conditions approved by the Minister of Finance. The maximum level of $300 million has been sufficient in past years to allow the Corporation to meet its borrowing requirements, including the short-term borrowing that the Corporation undertakes for cash management purposes.

Pension Investment
The Canada Post Pension Plan's primary risk exposure is to a decline in long-term real interest rates that are resulting in higher contributions required to meet pension obligations. In 2005, the Canada Post Pension Plan's assets earned a competitive double-digit return; however this was offset by a decline in long-term interest rates, which resulted in increased pension obligations. This has had a negative impact on the financial projections included in the Canada Post Pension Plan's financial statements.

At the end of 2005, the Canada Post Pension Plan's most significant concentration of credit risk was with the Government of Canada and the Provinces of Ontario and Quebec. This concentration is related primarily to the holding of $1.9 billion of securities issued by the Government of Canada, $279 million issued by the Province of Ontario and $227 million issued by the Province of Quebec. Each investment portfolio within the total pension fund has a limit regarding exposure to any single corporate entity. No such entity represents more than $ 233.5 million or 2.3% of total plan assets.

Liquidity risk for a pension plan is the risk that more illiquid assets will need to be sold at inopportune times to meet benefit payments. The Canada Post Pension Plan has very strong cash flows for many years to come, which mitigates liquidity risk.

In order to mitigate these risks, Canada Post ensures that investment decisions are made in accordance with the Canada Post Pension Plan Statement of Investment Policies and Procedures. The Pension Committee of the Board of Directors provides oversight of pension investments.

Fraud
As a major corporation, Canada Post completes numerous financial transactions on an on-going basis presenting potential opportunities for fraud. To mitigate the risk of fraud, Canada Post has designed and implemented a number of control processes, including defined signing authority levels, dual signature requirements, Threat Risk Assessment (TRA) models, a retail High Risk Outlet report (HRO), and supporting management processes. Corporate Security has participated on a joint task force with federal, provincial and municipal law enforcement agencies to better understand and establish methodologies to address and investigate both existing and emerging fraud activity, which potentially could affect the Corporation. In 2005, Corporate Security, in conjunction with Internal Audit, implemented a transaction management and investigation process aimed at reducing fraud risk, and conducted in-depth audit review sessions with all process owner groups to elevate fraud risk awareness.

In 2006, we will be undergoing an extensive review of our retail products and services with a view to reducing risk attributable to fraud. Steps will also be taken to enhance the level of security clearance for contractors.

Corporate Responsibility

Canada Post is committed to responsible business practices and strives to ensure that corporate responsibility is part of day-to-day decision-making. Accordingly, Canada Post has undertaken a significant multi-year initiative in the area of internal controls to help ensure continued effectiveness of management control and the quality of information underpinning management decisions.

Internal Controls

The Board of Directors and management have been proactive in disclosing information that typically would only be required to be disclosed by companies whose securities are traded in a public market. During 2005, management, with Board approval, issued an Internal Control Policy with a view to improving the effectiveness and monitoring of internal controls. The internal control framework and internal control policy will help the Corporation to continue to lead as a responsible corporate citizen in a new era of corporate governance, as obligated by the *Sarbanes-Oxley Act* of 2002 in the United States and similar regulatory developments underway in Canada and worldwide.

The Internal Control Certification (ICC) Project is a self-mandated initiative established to obtain external certification regarding management's assessment of the effectiveness of the Corporation's internal controls over financial reporting. The internal control framework adopted by Canada Post is the Committee of Sponsoring Organizations (COSO) of the Treadway Commission Internal Control – Integrated Framework. It is the most widely recognized and accepted framework in practice today. For all material financial reporting processes, the project will assess documentation, ensure that internal controls are designed and operating effectively, and facilitate the development of a remediation plan for material and significant deficiencies. The internal control framework was piloted during 2005 in a few key transactional processes in order to test and further develop documentation, assessment tools and methodologies. For 2006, Canada Post will roll out the internal control framework and expand the existing indicators of internal control to all key transactional processes.

The project is organized into four distinct phases, each with its own objectives and deliverables, as follows:

Phase 1 – documentation, assessment and testing of operating effectiveness of Canada Post's internal controls;
Phase 2 – development, implementation and monitoring of remediation plans for identified weaknesses;
Phase 3 – internal audit testing; and
Phase 4 – certification – auditors to attest to and report on management's assessment of the effectiveness of the Corporation's internal controls over financial reporting.

Financial Developments

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles (GAAP), which require the use of estimates and judgment in reporting assets, liabilities, revenues, expenses and contingencies.

Current Year Accounting Changes

The following is a summary of new accounting policies used in the preparation of the consolidated financial statements.

Variable Interest Entities

Effective January 1, 2005, the Corporation adopted the new Canadian Institute of Chartered Accountants (CICA) accounting guideline for Consolidation of Variable Interest Entities. This new guideline applies consolidation principles to entities that are subject to control on a basis other than voting interests. The guideline provides criteria for identifying variable interest entities and determining which entity, if any, should consolidate them. Accordingly, the Corporation has reviewed its investments and other relationships for potential variable interests, and determined that the application of this guideline has no material impact on the consolidated financial statements.

Disclosures by Entities Subject to Rate Regulation

The Corporation adopted the new CICA accounting guideline *Disclosures by Entities Subject to Rate Regulation*, effective for fiscal years ending on or after December 31, 2005. The application of this guideline resulted in incorporating general information in the notes to the consolidated financial statements useful to an understanding of the existence, nature and economic effects of rate regulation on the Corporation.

Future Year Accounting Changes

As a result of recent accounting pronouncements issued by the CICA, the following proposed changes may affect the Corporation's future accounting policies.

Non-Monetary Transactions

Section 3831 of the CICA Standards and Guidance Collection (CICA Handbook), *Non-Monetary Transactions*, revises and replaces the current standards on non-monetary transactions. The Corporation will apply these recommendations prospectively, effective January 1, 2006. The recommendations require non-monetary transactions to be measured at the fair value of the asset given up or the asset received, whichever is more reliable, unless the transaction lacks commercial substance. The application of this standard is not expected to have a material impact on the Corporation's consolidated financial statements in fiscal 2006.

Financial Instruments
In January 2005, the CICA issued three accounting standards related to financial instruments effective for fiscal years beginning on or after October 1, 2006, although earlier adoption is permitted. These are: *(i) Financial Instruments – Recognition and Measurements*; *(ii) Hedges; and (iii) Comprehensive Income*.

All financial instruments, including derivatives, must be recognized on a company's balance sheet and measured either at their fair values or, in limited circumstances when fair value may not be considered most relevant, at cost or amortized cost.

The standards also specify when gains and losses arising from changes in fair values are to be recognized in the income statement (other comprehensive income provides a new financial statement location for temporarily recording such gains and losses).

Hedge accounting is optional, and certain financial instruments may be designated as hedges under specific circumstances.

The Corporation will be identifying the appropriate accounting treatment for its financial instruments according to these standards and determining the impact, if any, on the financial statements in future years.

Purolator Segment

Operating Results

Purolator is Canada's largest courier company. Purolator's approximately 11,500 employees service every region in Canada, delivering more packages than any other Canadian courier company. Purolator's vision is *"to be the leading provider of integrated distribution solutions to, from, and within Canada*."

Revenues
During 2005, Purolator's revenue grew by 9.3% (trading days adjusted) to $1,254 million from $1,156 million. This growth was attributed to both volume and yield improvements across various lines of business. Earnings before tax also increased to $57 million from $50 million in 2004.

Expenses
Total cost of operations in 2005 grew 3.7% (trading days adjusted) to $1,195 million from $1,103 million in 2004. The rise in expenses is due to higher volumes and increases in direct operating costs, including material handling wages, air-linehaul costs, ground linehaul costs, and escalating ground and jet-fuel prices.

A Focus on Customer Value

Purolator's vision requires a customer-driven culture. In support of that vision, Purolator was the first Canadian courier company to receive the National Quality Institute's Canada Awards for Excellence bronze quality award. This award recognizes workplace excellence, based on quality systems and a healthy workplace. Success in the National Quality Institute's program is based on a commitment to innovation, productivity, healthy workplace and ethics, and demonstration of sustainable measures of continuous improvement. Achieving this bronze quality award is evidence of the importance Purolator places on excellence as a means of achieving customer value.

Building on last year's success of its piloted freight service, Purolator Freight™, Purolator continues to expand its premium less-than-load (LTL) service. This freight service greatly benefits customers by providing customized distribution solutions on a national scale with courier reliability. With its expanded network of western destinations and strategic alliances to eastern destinations, Purolator Freight has national coverage.

During 2005, Purolator added real-time tracking through Global Positioning System (GPS) tracking technology to all of its long-haul vehicles to better meet the needs of its customers. The use of this technology will lead to increased productivity by providing better customer service at reduced cost.

To maintain its leadership position, Purolator must compete effectively beyond the Canadian border. Purolator's continued investment in its U.S. operations has contributed to an increase in its cross-border business over 2004. By adding capacity to its induction points in the United States, Purolator has improved its ability to ship its customers' packages between the United States and Canada. This improvement will help position Purolator to attain one of its goals of being a leading provider of integrated distribution solutions in North America.

In a Léger Marketing/*Marketing Magazine* survey, Purolator ranked 15th in Corporate Reputation out of the top 100 brands in Canada (Marketing Magazine, *Corporate Reputation Survey*, May 2005).

With the delivery of the first 10 hybrid electric vehicles (HEV) and one hydrogen fuel-cell vehicle (HFCV), Purolator has established a leadership position in Canada by being the first courier company in Canada to put hybrid vehicles into service. The HEVs are expected to eliminate up to 50% of greenhouse gasses currently emitted by conventional gasoline/diesel vehicles, while the HFCV is expected to eliminate up to 100% of these emissions. Due to the preliminary successes of this market-leading initiative, Purolator has committed to purchase additional next generation HEVs.

Performance Indicators

Key performance indicators aid management in gauging the progress of the business toward stated targets.

	2005	2004	Change
Revenue per Shipment	$12.61	$12.13	4.0%
Shipments (in 000s)	88,385	87,151	1.4%

As a Canadian market leader, Purolator faces competitive pressures. Purolator has responded to them by maintaining its service levels above the industry average. As a provider of premium-level courier services, Purolator's ongoing initiatives will help keep its costs low, which will support its efforts to maintain competitive prices.

Business Outlook

With Canadian transportation industry growth set to outpace economic growth as a whole, Purolator aims to take advantage of these circumstances through a continued focus on customer service, investment in technology and productivity improvements. In 2006, Purolator will invest in information technology and process changes. Based on the above, management estimates an approximate revenue increase of 5% in 2006, however the state of the overall domestic and North American economies has led some economic projections to point to a slow down in the North American economies by late 2006 and early 2007.

Purolator will continue to develop Purolator Freight to meet customer demands for premium, domestic LTL freight services over the next five years. Purolator will further develop this segment of the market to meet new customer demands.

Purolator is a significant provider in the domestic business-to-business market segment. To sustain its position in this market, Purolator will require ongoing technology investment and international reach capability.

Development of information technologies will modernize its infrastructure and advance Purolator's customer service capabilities.

A fundamental component of Purolator's strategy is its employees. The creation of a culture of continuous improvement will be initiated in 2006 through the implementation of the key themes contained in the Lean Six Sigma program. The first phase of this program is to provide employees proper training on these concepts.

Risk Management

Purolator has put significant resources into developing a contingency plan that is designed to avoid adverse effects for its customers in the event a catastrophic disaster materializes.

Tightening security at the border between Canada and the United States may lead to a loss in service quality. The challenge to Purolator is to react quickly to evolving regulatory requirements and to minimize their impact on customers. In response to these challenges, Purolator participates in two voluntary programs focused on security best practices: a security program sponsored by the Canada Border Services Agency; and the Customs-Trade Partnership Against Terrorism, a program sponsored by the United States Customs and Border Protection.

Volatility in fuel costs may put pressure on earnings in 2006, as the oil industry struggles with market demand. Purolator, as with all of its competitors, continues to use a fuel surcharge to soften the effects of this volatility. Adjustments to fuel surcharges lag changes in actual fuel prices; therefore should there be a significant change in the price of fuel, Purolator's operating results may be significantly impacted.

In its commitment to ethical business practices at all levels of the organization, Purolator has implemented a policy on confidential submissions of wrongdoing in the workplace, or whistleblower policy. The purpose of this policy is to encourage employees to report improper activities relating to finance, accounting or fraud, and to provide an environment for reporting that is confidential and anonymous. The implementation of this policy will help to mitigate potential financial risks to the organization going forward.

Logistics Segment

Progistix is the largest Canadian-owned logistics company in Canada, providing supply chain management services for clients requiring complex solutions in the technology and retail industries. Supply chain services offered by Progistix consist of complete order management and inventory management services encompassing call centres, warehousing and transportation activities. Intelcom operates a same-day courier service that accounts for approximately 7% of the Logistics Segment's revenues.

Operating Results

Revenue
Revenue increased by $6 million or 4.1% from 2004. The increase is attributed to continued year-over-year growth from existing customers. Although revenue was slightly above Plan, new business revenue growth was lower than Plan. This shortfall was offset by increased volume from existing clients, and by lower operating and depreciation expenses.

Expenses
Expenses increased by $17 million over 2004. In December 2005, the Logistics Segment approved a restructuring plan to downsize certain management and non-management positions within the Segment. This plan was developed in an effort to streamline processes and reduce overhead in response to increasing pressure from the Segment's largest customer, on which it is economically dependant, to reduce costs. Consequently, restructuring charges and impairment losses in excess of $12 million were recognized in 2005.

Business Outlook

Growth in this industry stems from corporate pressures to: significantly reduce costs; broaden supply chain management competencies; and enhance global capability. Internal logistics departments continue to be the number one competitor, although wholesalers and distributors are emerging as new sources of competition, in addition to the traditional global third-party logistics providers (3PL).

In order to grow and meet long-term objectives, Progistix will need to expand its market presence in both Canada and the United States by:

- supporting increasingly complex logistics solutions for its target clients;
- achieving global reach, world-class capability, a strong brand and capitalized resources; and
- leveraging advanced technology.

In 2006, Progistix will focus on the following key strategic initiatives:

- securing new profitable clients;
- retaining, developing and enhancing value for existing clients;
- developing partnerships and alliances; and
- creating a culture of innovation that is responsive to the market's changing needs.

Progistix's long-term growth and sustainability depends on its ability to provide services beyond Canada. Progistix will need a global partner to ensure it has access to significant emerging growth opportunities.

Progistix's largest customer accounts for approximately 70% of total revenue and is experiencing pressure to reduce costs, of which a significant portion of the cost reductions are targeted at suppliers. In response to this pressure, Progistix has proposed changes to the way it serves this customer. The changes are a combination of service reductions and margin reductions, that include: increased order cycle time; rationalized facilities; and reduced corporate support services. In addition to these activities, the company will continue the restructuring program that began in 2005 to accommodate adjustments to its largest customer's business services. This will result in an additional restructuring charge to be applied in 2006.

All Other Segment

Operating Results

The All Other Segment recorded a loss before income taxes of $7 million in 2005, compared to a loss of $8 million in 2004.

Revenue

Revenue from operations decreased by $12 million, from $192 million in 2004 to $180 million in 2005.

Innovapost's revenue decreased in 2005 primarily due to a reduction in the volume of application development work performed for Canada Post. CPIL's revenue decreased in 2005, a reflection of the change in its mandate to no longer pursue international technology projects. epost transaction volumes increased 133% in 2005, contributing to a revenue increase in 2005 over 2004.

Cost of Operations

In line with the All Other Segment's overall decrease in revenue, the cost of operations also decreased by $14 million, from $199 million in 2004 to $185 million in 2005.

Innovapost and CPIL decreased their cost of operations, whereas epost's cost of operations increased.

Business Outlook

Innovapost

Innovapost revenues are currently dependent on the level of information technology activity at Canada Post and Purolator, which are its only material customers. In 2006, revenue is expected to remain relatively unchanged. Operationally, Innovapost will continue to improve its internal business processes and information systems. In 2005, Innovapost achieved slight increases in both customer and employee satisfaction over 2004.

The key elements of Innovapost's strategy involve improving its internal systems, processes and capabilities; transforming its application management and development services through the use of industry standard tools, processes and methodologies; and expanding its revenue base.

epost

Technical integration of the webdoxs service (acquired in 2004) with the existing epost service was completed in January 2006. With the completion of the technical integration of the two services, epost is now able to provide seven out of 10 common household bills in all major markets across Canada. Also, by consolidating the content previously only available separately through the two solutions, epost is now able to deliver more than 200 distinct electronic documents from 100 different Canadian businesses. Looking ahead, epost is positioned to break even by mid-2008 and will now concentrate its efforts on two major goals: accelerated growth; and serving as a core component of Canada Post's multi-channel delivery capabilities.

CPIL

CPIL owns 100% of Nieuwe Post Nederlandse Antillen N.V. (NPNA), which is the entity that operates the postal and postal banking concession in the Netherlands Antilles in the Caribbean. NPNA will continue to operate the concession in the Netherlands Antilles. However, the results of a 2005 referendum in the Netherlands Antilles indicate that some of the islands wish to separate from the Netherlands Antilles. The impact this will have on the concession is not certain. In 2006, this will be a priority area of management discussion with the newly elected Government of the Netherlands Antilles.

Additional Information

The following chart presents the financial ratios over the past five periods:

Consolidated Ratios	Policy Framework	**2005 (12 months)**	2004 (12 months)	2003 (12 months)	2002 (12 months)	2001 (9 months)
Profitability						
(1) Return on equity of Canada *	11.0 %	**15.0 %**	12.1 %	10.5 %	7.9 %	7.8 %
(2) Operating profit margin		**3.8 %**	3.6 %	2.9 %	2.5 %	2.7 %
(3) Productivity	97.0 %	**96.2 %**	96.4 %	97.1 %	97.5 %	97.3 %
Leverage						
(4) Total debt to total capital	40.0 %	**5.8 %**	7.8 %	9.6 %	12.0 %	7.3 %
(5) Cash flow to debt		**246.3 %**	(124.0) %	38.4 %	278.2 %	(57.9) %
Liquidity						
(6) Current ratio		**1.33**	1.18	1.09	0.97	0.95
(7) Gross interest coverage		**25.62**	21.29	14.72	14.70	14.99
Investment						
(8) Cash flow to capital expenditures		**127.0 %**	(59.2) %	19.0 %	103.9 %	(19.6) %
(9) Capital asset investment rate		**3.5 %**	5.1 %	5.9 %	9.7 %	5.8 %
Dividend payout						
(10) Dividend payout ratio **	25.0 %	**40.0 %**	40.0 %	25.0 %	25.0 %	25.0 %
Dividend payout ratio once return on equity of Canada ≥ 11%	40.0 %					

* For December 2003, the return on equity of Canada has been adjusted to take into consideration the income tax benefit of $142 million resulting from the curtailment of the employee termination benefit plan.

** The dividend for December 2005 is based on the rate established in the Policy Framework. It remains subject to Board of Directors' approval.

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

Auditors' Report on Annual Cost Study Contribution Analysis

To the Board of Directors

Canada Post Corporation

We have audited the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2005, prepared in accordance with the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis. This financial information is the responsibility of the Corporation's management and has been prepared using Canada Post Corporation segment revenues and expenses contained in note 18 to the audited consolidated financial statements for the year ended December 31, 2005, and other unaudited operational data extracted from Canada Post Corporation's systems. Our responsibility is limited to expressing an opinion, based on our audit, on the financial information resulting from the application of the Cost Methodology.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the application of the methodology used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

We did not perform any audit work on the validity of the methodology nor on Canada Post's operational systems and special studies that yield operational data used to allocate costs to products.

In our opinion:

(a) the Annual Cost Study Contribution Analysis presents fairly, in all material respects, the contribution of services by market and the contribution by exclusive privilege, competitive and concessionary services for the year ended December 31, 2005, in accordance with the Cost Methodology described in the notes to the Annual Cost Study Contribution Analysis, and using Canada Post Corporation segment revenues and expenses contained in note 18 to the audited consolidated financial statements for the year ended December 31, 2005, and other unaudited operational data extracted from Canada Post Corporation's systems; and

(b) using the Cost Methodology described in the notes, Canada Post Corporation did not cross-subsidize its competitive services group or any market grouping of competitive services, using revenues protected by exclusive privilege for the year ended December 31, 2005.

Raymond Chabot Grant Thornton LLP

Limited Liability Partnership
Chartered Accountants
Ottawa, Canada
March 16, 2006

Annual Cost Study Contribution Analysis

Canada Post Corporation

As a multi-service firm, Canada Post Corporation employs a common infrastructure to provide its various services in each of the four principal markets in which it operates. Canada Post Corporation has developed over many years, in conjunction with expert accountants and economists, an activity-based, incremental costing methodology that allocates costs among its services. It applies this methodology each year in its Annual Cost Study. The Annual Cost Study provides costing data that serves as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services.

The methodology, which is summarized in the notes to the analysis below, recognizes that some costs are caused by the provision of individual services or groups of services while others are common costs of Canada Post Corporation's infrastructure. Approximately 59% of the total non-consolidated costs of Canada Post Corporation are allocated to individual services or groups of services in the Annual Cost Study.

As the following analysis indicates, for the year ended December 31, 2005, each of the markets and competitive services generated positive long-run incremental contribution. Under the methodology in the Annual Cost Study, a positive long-run incremental contribution for a market or competitive grouping of services establishes that the grouping of services has not been cross-subsidized using revenues from exclusive privilege services.

Annual Cost Study Contribution Analysis

Year ended December 31, 2005
(in millions of dollars)

I – Long-Run Incremental Contribution of services by market:

	Communications	Physical Distribution	Advertising	Publications	Other	Total
Revenue from operations	$ 3,102	$ 1,131	$ 830	$ 263	$ 261	$ 5,587
Long-run incremental costs	(1,430)	(968)	(437)	(179)	(152)	(3,166)
Long-run incremental contribution to the fixed costs	**$ 1,672**	**$ 163**	**$ 393**	**$ 84**	**$ 109**	**$ 2,421**
Unallocated fixed costs						(2,208)
Contribution before the undernoted items						**$ 213**
Investment and other income						44
Interest and other expenses						(7)
Income from the CPC segment before income taxes						**$ 250**

Note: The Publications Service market consists of two groupings. The Concessionary Publications Service has a long-run incremental contribution of $21 million or 22% and the Competitive Publications Service has a long-run incremental contribution of $63 million or 38%.

II – Long-Run Incremental Contribution of exclusive privilege, competitive, and concessionary services:

	Exclusive Privilege	Competitive	Concessionary	Other	Total
Revenue from operations	$ 3,603	$ 1,581	$ 176	$ 227	$ 5,587
Long-run incremental cost	(1,804)	(1,170)	(161)	(138)	(3,273)
Long-run incremental contribution to the fixed costs	**$ 1,799**	**$ 411**	**$ 15**	**$ 89**	**$ 2,314**
Unallocated fixed costs					(2,101)
Contribution before the undernoted items					**$ 213**
Investment and other income					44
Interest and other expenses					(7)
Income from the CPC segment before income taxes					**$ 250**

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, 2005

1. General

The Annual Cost Study calculates the long-run incremental contribution from exclusive privilege services, competitive services and concessionary services, and from particular groups and categories of such services, as the revenues from such services, groups or categories less their long-run incremental cost.

2. Cost methodology

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

(b) **Activity base** • Services provided by Canada Post Corporation are analyzed to determine the various activities performed to deliver the services. Each activity is then analyzed to determine the causal relationship between its costs 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 causal relationships between the cost of resources and the activities performed and between the activities performed and the services delivered are identified. Those activity costs which are incurred because of the provision of a service are attributed to that service. Costs, which cannot be attributed to the provision of a service, are business sustaining or fixed costs common to more than one service. Where a business sustaining or common fixed cost is specific to a group of services, those activity costs are attributed at that higher level of aggregation. The remaining business sustaining or common fixed costs are “unallocated fixed costs”.

(d) **Source data** • The source of financial data used in the costing methodology is the Canada Post Corporation general ledger revenues and costs. All Canada Post Corporation costs are categorized either into service attributable, specific fixed, or non-attributable activity costs.

Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data is used to determine revenue by services. Where operational data is not available, an appropriate proxy is used to make the attribution.

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

(f) **Cross-subsidization test** • Under the Cost Methodology in the Annual Cost Study a positive long-run incremental contribution (revenue exceeds long-run incremental cost) for a market or 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 and the Board of Directors are responsible for the consolidated financial statements and all other information presented in this Annual Report. The *Financial Administration Act* and regulations require the consolidated financial statements to be prepared in accordance with Canadian generally accepted accounting principles. Management has been proactive in disclosing information that typically would only be required to be disclosed by enterprises whose securities are traded in a public market.

Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

In support of its responsibilities, management maintains financial and management control and information systems and management practices which are of high quality, consistent with reasonable cost. These systems and practices are designed to provide reasonable assurance that relevant and reliable financial information is produced and the assets are safeguarded and controlled in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and by-laws of the Corporation. Internal audits examine and evaluate the adequacy of the system of internal control to assess and manage the Corporation's risks, and reports are issued to senior management and the Audit Committee of the Board.

The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee, which is composed of five independent directors including the Chairman of the Board of Directors (ex-officio). The Audit Committee meets regularly to oversee the internal audit activities of the Corporation, and at least annually to review the consolidated financial statements and the external auditors' report thereon and recommend them to the Board of Directors for approval.

Canada Post Corporation is a Crown corporation named in Part II of Schedule III of the *Financial Administration Act* since 1989. In accordance with the *Financial Administration Act*, each year, the Governor in Council appoints the Corporation's external auditors after consultations with the Corporation's Board of Directors on this matter. In June 2005, the *Financial Administration Act* was amended to provide inter alia that the Auditor General of Canada shall be appointed by the Governor in Council as the auditor, or a joint auditor, of each Crown corporation unless the Auditor General waives the requirement of being so appointed. As a result of such a waiver by the Auditor General for the current year, Deloitte & Touche LLP were reappointed as the auditor of the Corporation for the year ending December 31, 2005. They audit the consolidated financial statements and report to the Audit Committee as well as the Minister responsible for Canada Post Corporation.

The *Financial Administration Act* specifies that the Corporation is subject to a special examination at least once every five years and at such additional times as the Governor in Council, the appropriate Minister or the Board of Directors of the Corporation may require. The special examination, a type of value-for-money audit, serves to provide an independent opinion to the Board of Directors on whether the Corporation's financial and management control and information systems and management practices were maintained in a manner that provided reasonable assurance that: the assets of the Corporation were safeguarded and controlled; the financial, human and physical resources of the Corporation were managed economically and efficiently; and the operations of the Corporation were carried out effectively. Deloitte & Touche LLP carried out the last special examination with respect to the Corporation, which covered the period from August 1 to December 31, 2003.

President and Chief Executive Officer

Vice-President, Finance and Comptroller

March 6, 2006

Auditors' Report on the Consolidated Financial Statements

To the Minister Responsible for Canada Post Corporation:

We have audited the consolidated balance sheet of Canada Post Corporation as at December 31, 2005 and the consolidated income and equity of Canada statement and consolidated cash flow statement for the year then ended (pages 51 to 75). These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and of 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 the by-laws of the Corporation and its wholly-owned subsidiaries.

Deloitte & Touche LLP

Chartered Accountants
Ottawa, Canada
March 6, 2006

Consolidated Balance Sheet

As at December 31 (in millions of dollars)	**2005**	2004
Assets		
Current assets		
Cash and cash equivalents	**$ 474**	$ 497
Short-term investments	**230**	60
Segregated cash and investments	**68**	25
Accounts receivable	**555**	477
Income tax recoverable	**21**	105
Prepaid expenses	**73**	81
Current portion of future income tax assets	**45**	42
	1,466	1,287
Segregated cash and investments (note 5)	**446**	505
Property, plant and equipment (note 6)	**1,671**	1,721
Accrued pension benefit asset (note 7)	**784**	497
Future income tax assets (note 8)	**93**	143
Other assets (note 9)	**144**	161
	$ 4,604	$ 4,314
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	**$ 400**	$ 406
Salaries and benefits payable	**368**	350
Deferred revenue	**148**	151
Deferred transitional support	**30**	83
Outstanding money orders	**50**	48
Other short-term liabilities	**22**	8
Current portion of long-term debt	**16**	21
Current portion of accrued post-employment benefit liability	**68**	25
	1,102	1,092
Long-term debt (note 10)	**60**	76
Future income tax liabilities (note 8)	**21**	23
Accrued pension, other retirement and post-employment benefit liability (note 7)	**1,973**	1,818
Other long-term liabilities	**38**	38
	3,194	3,047
Non-controlling interest	**16**	13
Equity of Canada	**1,394**	1,254
	$ 4,604	$ 4,314

Contingencies (note 12)

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

Approved on behalf of the Board:

Chairman of the Board of Directors

Chairperson of the Audit Committee

Consolidated Income and Equity of Canada Statement

Year ended December 31 (in millions of dollars)	2005	2004
Revenue from operations	**$ 6,944**	$ 6,651
Cost of operations		
Salaries	**3,472**	3,349
Benefits	**830**	749
Collection, processing and delivery	**990**	915
Accommodation	**287**	282
Amortization and impairment	**230**	229
Other	**872**	889
	6,681	6,413
Income from operations	**263**	238
Non-operating income (expense)		
Investment and other income	**30**	14
Interest and other expense	**(11)**	(11)
	19	3
Income before income taxes	**282**	241
Income tax expense (note 8)	**80**	93
Net income before non-controlling interest	**202**	148
Non-controlling interest in net income of subsidiaries	**3**	1
Net income	**199**	147
Retained earnings, beginning of year	**99**	15
	298	162
Dividend	**59**	63
Retained earnings, end of year	**239**	99
Contributed capital	**1,155**	1,155
Equity of Canada	**$ 1,394**	$ 1,254

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

Consolidated Cash Flow Statement

Year ended December 31 (in millions of dollars)	2005	2004
Cash flows from (used in) operating activities		
Net income	**$ 199**	$ 147
Items not affecting cash:		
Accrued pension, other retirement and post-employment benefits	**604**	522
Amortization and impairment	**230**	229
Future income tax expense	**44**	141
Other (income) expense, net	**(3)**	5
Transitional support offsetting pension reform incremental costs	**(209)**	(181)
	865	863
Pension, other retirement and post-employment benefit payments	**(693)**	(921)
Change in non-cash operating working capital, net of effects of business acquisition (note 13)	**40**	(74)
	212	(132)
Cash flows from (used in) investing activities		
Business acquisition	**(2)**	(10)
Net (increase) decrease in short-term investments and segregated assets	**(154)**	375
Acquisition of property, plant and equipment	**(167)**	(222)
Proceeds from sale of property, plant and equipment	**12**	4
Other investing activities, net	**1**	(6)
	(310)	141
Cash flows from (used in) financing activities		
Transitional support received from the Government of Canada	**156**	181
Repayment of long-term debt	**(21)**	(19)
Dividend paid	**(59)**	(63)
Other financing activities, net	**(1)**	(2)
	75	97
Net increase (decrease) in cash and cash equivalents	**(23)**	106
Cash and cash equivalents, beginning of year	**497**	391
Cash and cash equivalents, end of year	**$ 474**	$ 497

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

Notes to Consolidated Financial Statements

(December 31, 2005)

1. Incorporation

Canada Post Corporation (the "Corporation") was established by the *Canada Post Corporation Act* in 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. Canada Post Corporation is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and accompanying notes. The significant areas requiring the use of management estimates are: useful lives of property, plant and equipment; impairment of long-lived assets and goodwill; fair value measurement; salaries and benefits; pension, other retirement and post-employment benefits and income taxes. Actual results may differ from those estimates.

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2005.

A summary of the significant accounting policies used in these consolidated financial statements follows:

(a) Consolidation • The consolidated financial statements include the accounts of the Corporation and its subsidiaries, as well as its proportionate share of the accounts of its joint ventures (collectively referred to as "The Canada Post Group"). Purolator Courier Ltd (Purolator), Progistix-Solutions Inc. (Progistix), EPO Inc. (epost™) and Canada Post International Limited (CPIL) are the principal subsidiaries while the joint ventures are Intelcom Courrier Canada Inc. (Intelcom) and Innovapost Inc. (Innovapost). The Canada Post Group does not have any variable interest entities.

(b) Cash equivalents • Cash equivalents are recorded at cost, which approximates market value, and consist of money market instruments with maturities of three months or less from the date of acquisition.

(c) Short-term investments • Investments with original maturities greater than three months are classified as short-term investments and include money market instruments and high quality bonds. Investments in money market instruments are carried at cost whereas investments in bonds are recorded at amortized cost. The carrying value of the short-term investments approximates their market value.

The weighted average effective rate of return on short-term investments held as at December 31, 2005 is 3.4% (2004 – 2.6%).

(d) Segregated cash and investments • The Corporation has segregated certain investments, along with an amount of cash, for the sole purpose of managing certain cash flows relating to accrued other retirement and post-employment benefits (note 5). Segregated cash and investments, which include money market instruments and high quality bonds with maturities no greater than 10 years, are presented separately on the balance sheet. Investments in bonds are written down to their market value if the decline in value is considered other than temporary.

2. Significant Accounting Policies (continued)

(e) Property, plant and equipment • Property, plant and equipment transferred from the Government of Canada on incorporation were recorded at their fair value at that date, determined as follows:

Land	Market value based on existing use
Buildings	Amortized replacement cost
Plant equipment, vehicles, sales counters, office furniture and equipment, and other equipment	Amortized replacement cost or original cost less estimated amortization

The market value of land and the amortized replacement cost of buildings transferred by the Government of Canada were determined by independent appraisals.

Property, plant and equipment acquired or developed subsequent to incorporation are recorded at cost.

The Corporation has an agreement with both the National Archives of Canada and the Canadian Museum of Civilization to operate, administer and maintain a Canadian Postal Archives and a Canadian Postal Museum, respectively, containing philatelic material, postal artifacts, a postal library and exhibits that trace the history of the mail and other memorabilia. These collections, exhibits and books of undetermined value are not for resale and are recorded at a nominal cost.

Amortization commences when the assets are placed into service and is recognized over the estimated useful lives of the assets, using principally the straight-line method as follows:

Buildings	25, 30 and 40 years
Leasehold improvements	Initial fixed lease term plus period of first renewal option
Plant equipment	5 to 20 years
Vehicles (other than passenger and light-duty commercial)	3 to 10 years
Sales counters, office furniture and equipment and software	2 to 20 years
Other equipment	5 to 20 years

Passenger and light-duty commercial vehicles are amortized on a declining balance basis at an annual rate of 30%. Office equipment and software under capital lease are amortized over the same useful life as purchased assets of the same asset category.

(f) Intangible assets • Intangible assets consist mainly of acquired customer contracts recorded at cost and amortized on a straight-line basis over the term of the respective contract plus the period of first renewal option, if any, for total terms of approximately 6 and 10 years.

(g) Impairment of long-lived assets • Long-lived assets, excluding goodwill, that are held for use, are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable, as measured by comparing their carrying amount to the estimated future cash flows generated by their use and eventual disposition. For the purpose of assessing recoverability, long-lived assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. An impairment loss is equal to the amount by which the carrying amount of the asset exceeds its fair value, determined using the expected present value of future cash flows.

(h) Goodwill • Goodwill represents the excess of the purchase price over the fair value of net identifiable assets upon acquisition of a business. Goodwill is tested for impairment at least annually, or more frequently if events and circumstances indicate that a possible impairment issue may arise earlier. An impairment loss is recognized when the carrying amount of a reporting unit's goodwill exceeds its fair value, which is determined using the expected present value of future cash flows.

2. Significant Accounting Policies (continued)

(i) Revenue recognition • Most revenue arises from providing communications, physical distribution, advertising, publications and other mail delivery products/services. Communications consist mainly of domestic Lettermail and international Letter-post items. Physical distribution consists of courier and parcels. Advertising consists of addressed and unaddressed admail. Publications consist of domestic and international newspapers and periodicals. Other mail delivery products/services include money orders, postal box rentals, mail redirection services and retail and philatelic products.

Revenue is recognized when the service has been rendered, goods have been delivered or work has been completed. Revenue from meter customers, for which services have not been rendered prior to year end, is deferred based on a sampling methodology that closely reflects the meter resetting practices of customers. Deferred revenue is also recorded when billing occurs prior to rendering the related service. Likewise, payments received in advance are deferred until services are rendered or products are delivered and customer acceptance given.

The Canada Post Group may enter into arrangements with subcontractors to provide services to customers. If The Canada Post Group acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained (i.e. the amount billed to the customer less the amount paid to the subcontractor) is recognized as revenue.

When no identifiable and separable benefit is received by The Canada Post Group in return for consideration given to a customer, such as a benefit that might arise in a customer loyalty program, the consideration is recorded as a reduction of revenue rather than as an expense.

The incentive received upon signing of a 10 year outsourcing contract in 2002 was deferred, and is being amortized on a straight-line basis over the term of the contract. Lease inducements received during the year are also deferred, and are amortized on a straight-line basis over the initial fixed lease term plus the period of the first renewal option, if any. Amortization of the incentive and the lease inducements is presented as reduction of expense. Any unamortized balance is presented in other long-term liabilities on the balance sheet.

(j) Pension, other retirement and post-employment benefit plans • The actuarial determination of the Corporation's accrued benefit obligations for pensions, other retirement and post-employment benefits uses the projected benefit method prorated on service. This method incorporates management's best estimate of future salary levels or cost escalation, as well as demographic and other financial assumptions. For the purpose of calculating the expected return on plan assets, these assets are valued at market-related values, whereby actuarial gains (losses) on plan assets for a year are recognized on a straight-line basis over five years. Actuarial gains (losses) arise from the difference between the actual return on plan assets for a year and the expected return on plan assets for that year, or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain (loss) over 10% of the greater of the benefit obligation and the market-related value of plan assets is amortized over the average remaining service period of active employees (known as the corridor approach). Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period up to the full eligibility date of employees active at the date of amendment. On October 1, 2000, the Corporation assumed the responsibility for a health care retirement benefit plan. The Corporation applied the new accounting standards on employee future benefits to this obligation on a prospective basis. The transitional obligation represents the amount of unrecognized deficit in the plan and is amortized on a straight-line basis over 8 years, the average remaining service period up to the full eligibility date of employees expected to receive benefits under the plan as of that date. The funding excess results from the *Federal Public Sector Pension Reform*, effective October 1, 2000, and represents the excess amount of the assets, transferred by the Government of Canada to the Corporation's pension plan, over the obligations assumed by the Corporation for the pension plan. The funding excess is deferred and amortized on a straight-line basis over 11 years, the average remaining service period of the active employees covered by the pension plans as of that date.

2. Significant Accounting Policies (continued)

The Government of Canada, as part of the federal public sector pension reform, has committed to provide declining transitional support to assist the Corporation with the incremental costs incurred as a result of establishing the Canada Post Corporation Pension Plan and the associated ancillary benefits. Receipt of the transitional support is conditional on the Corporation maintaining other retirement enhancements similar to those offered to the *Public Service Superannuation Act* participants and, also, the Corporation showing visible commitment and progress towards achieving the financial and service performance objectives set out in the Policy Framework and reflecting them in future corporate plans. Therefore, transitional support is accounted for only when received. The entire amount of transitional support is deferred and drawndown on a first-in, first-out basis to cover the annual incremental costs.

The Corporation is also subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. As a self-insured employer, the Corporation is responsible for the obligation incurred since incorporation. The Corporation's obligations, for workers' compensation benefits and post-employment benefits for employees in receipt of long-term disability benefits, are based on known awarded disability and survivor pensions and other potential future awards with respect to accidents that occurred up to the measurement date. The actuarial determination of these accrued benefit obligations uses the projected benefit method. This method incorporates management's best estimate of cost escalation, as well as demographic and other financial assumptions. Management's best estimate also takes into account the experience and assumptions of provincial workers' compensation boards. The actuarial gains (losses) are amortized over a 9 or 10 year period, representing the average duration of these obligations.

The average remaining service periods of the active employees covered by the benefit plans are as follows:

As at December 31	**2005**		2004	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Canada Post Corporation	11 years	3 to 11 years	11 years	9 to 11 years
Purolator	13 to 17 years	N/A	12 to 17 years	N/A
Progistix	15 years	17 years	14 years	17 years
Innovapost	12 years	N/A	13 years	N/A

Defined contribution plan accounting was applied to the multiemployer defined benefit plan of CPIL's subsidiary.

(k) Income taxes • On March 27, 1994, the Corporation became a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*.

Future income tax assets and future income tax liabilities are recognized for the tax effect of the difference between the carrying values and tax basis of assets and liabilities. Future income tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that it is more likely than not that future income tax assets will be realized. Income tax assets and income tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each year in the event of changes in income tax rates. Each change resulting from a revaluation is recognized in the financial results of the year of change.

(l) Foreign currency translation • Foreign currency transactions of domestic operations are translated into Canadian dollars at the rate of exchange in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange in effect at the balance sheet date or, when hedged, at rates prescribed by foreign currency contracts. All exchange gains and losses are included in determining net income for the current year.

3. Recent Accounting Pronouncements Requiring Implementation in Future Years

(a) Financial instruments • In January 2005, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3855 "Financial Instruments – Recognition and Measurement", Section 1530 "Comprehensive Income", Section 3865 "Hedges" and amended Section 3251 "Equity", effective for fiscal years beginning on or after October 1, 2006, although earlier adoption is permitted. All financial instruments, including derivatives, must be recognized on a company's balance sheet, and measured, according to their classification, either at fair value, or, in limited circumstances, using cost-based measures. The standards also specify the circumstances in which financial instrument gains and losses arising from changes in fair value are to be recognized in the income statement or in other comprehensive income, which provides a new financial statement location for temporarily recording unrealized gains and losses in a transparent manner. Application of hedge accounting is optional; the new standard expands existing requirements for designating certain financial instruments as hedges under specific circumstances. The Corporation will be identifying the appropriate accounting treatment for its financial instruments according to these standards, and evaluating the impact on the consolidated financial statements in future years.

(b) Non-monetary transactions • Effective January 1, 2006, the amended recommendations in the CICA Handbook Section 3831 "Non-Monetary Transactions" will apply prospectively to the Corporation. These amended recommendations will result in non-monetary transactions normally being measured at their fair value when the transactions have commercial substance, unless certain criteria are met. The Corporation's current operations are not materially affected by the amended recommendations.

4. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates through regulations under the *Canada Post Corporation Act* ("the Act") for domestic Lettermail and international Letter-post items, as well as fees for certain other services such as Registered Mail. These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act permits the Corporation to offer rates that differ from approved rates under certain circumstances, such as when the customer agrees to mail in bulk.

The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray the costs incurred by the Corporation in the conduct of its operations under the Act. The domestic letter rate prescribed under the *Letter Mail Regulations* is determined by a price-cap formula, which limits increases to 66.67% of increases in the Consumer Price Index, implemented no more than once a year.

The regulated pricing approval process requires that proposed rate changes be published in the *Canada Gazette* to provide interested persons with 60 days to make representations to the Minister Responsible for Canada Post. Subsequently, the final form of the proposed rate changes is approved by the Corporation's Board of Directors and submitted to the Minister Responsible for Canada Post for approval by the Government of Canada, specifically the Governor in Council. The rate changes are deemed approved 60 days after submission to the Governor in Council, unless the Governor in Council previously approved or refused to approve the changes.

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government mailings and for mailing of materials for the blind. The Government of Canada provides compensation to the Corporation in respect of these services (note 16).

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

5. Segregated Cash and Investments

Cash and investments have been segregated to settle each of the following obligations:

As at December 31 (in millions of dollars)	**2005**	2004
Employee termination benefits	$ 83	$ 134
Other retirement dental and life insurance benefits	431	396
	514	530
Less current portion	68	25
	$ 446	$ 505

The weighted average effective rate of return on the segregated investments held as at December 31, 2005 is 3.6% (2004 – 2.7%) for employee termination benefits and 3.8% (2004 – 3.2%) for other retirement dental and life insurance benefits.

The market value of segregated cash and investments as at December 31, 2005 is $83 million (2004 – $134 million) for employee termination benefits and $430 million (2004 – $400 million) for other retirement dental and life insurance benefits.

6. Property, Plant and Equipment

As at December 31 (in millions of dollars)			**2005**	2004
	Cost	**Accumulated amortization**	**Net carrying value**	Net carrying value
Land	$ 237	$ –	$ 237	$ 238
Buildings	1,580	928	652	663
Leasehold improvements	150	106	44	47
Plant equipment	721	558	163	185
Vehicles	186	101	85	82
Sales counters, office furniture and equipment and software	812	630	182	200
Office equipment and software under capital lease	58	47	11	25
Other equipment	637	395	242	230
Assets under development	55	–	55	51
	$ 4,436	**$ 2,765**	**$ 1,671**	$ 1,721

Amortization expense relating to property, plant and equipment was $213 million (2004 – $216 million).

7. Pension, Other Retirement and Post-Employment Benefit Plans

The Corporation has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits for most of its employees. Unfunded plans are plans where benefits are paid directly by the Corporation. With funded plans, the Corporation transfers funds to external trusts and the benefits are paid directly from these external trusts. The Corporation's pension plan is a funded plan based on length of pensionable service, the average of the best five consecutive years of pensionable salary and retirement age. The plan provides for retirement pension, survivor's pension or a refund after termination of employment or death. Pension benefits that are not permissible in the registered pension plan are provided by the retirement compensation arrangement, as defined under the *Income Tax Act*. Pension benefits in pay are indexed annually. Both the Corporation's contributions and the employees' contributions to the external trusts are made in accordance with the plan document.

Other retirement benefit plans include unfunded health care and dental and life insurance plans. The benefit costs covered by the Corporation and the costs assumed by the retirees, relative to these plans, are determined in accordance with the plans' rules and the provisions of labour contracts. The post-employment benefit plans include unfunded employee termination benefit, health and dental coverage for employees receiving long-term disability benefits, as well as unfunded workers' compensation benefits for employees injured on the job. Workers' compensation benefits are provided in accordance with the applicable provincial workers' compensation legislation while the benefit entitlements in the three Territories are based on the Alberta legislation. The benefit costs covered by the Corporation and the costs assumed by the employees on long-term disability are determined in accordance with the plan's rules and the provisions of labour contracts.

The Corporation's employee termination benefit plan is based on an employee's basic salary as of the date of termination of employment and the number of completed years of continuous employment, up to a maximum number of years. The Corporation intends to curtail this plan for all of its employees. When the plan is curtailed, the employees' entitlement based on the accumulation of years of service is frozen, as of the curtailment date, and further benefit entitlements based on years of service is discontinued. On curtailment, employees are given the option of settlement by receiving the cash value of their accrued termination benefit or the option of deferring receipt of their benefit until departure, at which time the benefit would reflect their salary at retirement or their salary at the curtailment date if they resign or are terminated. Prior to 2005, the plan was curtailed and settled for management and exempt employees and Canadian Union of Postal Workers (CUPW) members, as well as curtailed for Public Service Alliance of Canada (PSAC) members. In 2005, the plan was settled for PSAC members, curtailed for Association of Postal Officials of Canada (APOC) members and recognized as curtailed for Canadian Postmasters and Assistants Association (CPAA) members. Consequently, as at December 31, 2005, the employee termination benefit plan was curtailed and settled for the majority of employees. Following these transactions, a settlement loss of $2 million (2004 – $8 million) and a curtailment loss of $8 million (2004 – $4 million) were recognized. The remaining settlements are anticipated in 2006.

Purolator has a number of funded defined benefit plans and a defined contribution plan providing pension benefits for most of its employees.

CPIL's subsidiary participates in a multiemployer defined pension benefit plan. According to the concession agreement (described in note 12 (c)), the Government of the Netherlands Antilles is responsible for all pension benefits accrued prior to May 2003.

7. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

Certain employees of Progistix presently belong to a pension plan sponsored by Progistix's former owner, Bell Canada. The BCE Inc. Pension Plan is a non-contributory, defined benefit pension plan that provides for benefits based on length of service and compensation. The assets of the pension plan are invested in units of the BCE Master Trust Fund with Royal Trust acting as custodian/trustee. In accordance with the terms of the Share Purchase Agreement between Bell Canada and the Corporation, the employees of Progistix will commence participation in a new, separate pension plan. The pension plan assets and liabilities for pensions and related benefits accrued at the date of change of ownership will be transferred to the new pension plan on completion of the related actuarial valuations, pending regulatory approval. The amounts of assets and liabilities included in these consolidated financial statements represent current estimates of the amounts to be transferred to the new Pension Plan, adjusted for all activity subsequent to the change of ownership. The estimate of the transfer amount relating to plan assets does not include the effect of certain events related to the BCE Inc. Pension Plan that occurred prior to the purchase of Progistix by the Corporation, however, the estimate was revised in 2005 based on new information provided by BCE Corporate Services. The amounts impacted by these events can only be transferred to the Corporation once regulatory approval has been obtained. After the acquisition, a defined contribution provision was added to Progistix's pension plan. In 2005, a supplementary pension plan has been created for designated employees that reach the maximum pension payable from the registered plan. The results for this plan are included with those of the regular plan.

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

Innovapost has a funded defined benefit pension plan. Like the Corporation, pension benefits that are not permissible in the registered pension plan are provided by the retirement compensation arrangement. Pension benefits are indexed according to the increase in the consumer price index each year.

The accrued benefit obligations and the fair value of plan assets are measured for accounting purposes as at December 31 of each year.

7. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

A reconciliation of the defined benefit plan obligations, defined benefit plan assets and the funded status of the benefit plans to the amounts recorded in the consolidated balance sheet follows:

Year ended December 31 (in millions of dollars)	**2005**		2004	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Balance, beginning of year	$ 11,037	$ 2,641	$ 9,611	$ 2,616
Current service cost	534	92	476	82
Interest cost	672	158	613	137
Benefits paid	(214)	(117)	(149)	(536)
Actuarial losses	1,048	491	481	354
Plan amendments	2	(13)	10	1
Divestiture	–	–	(5)	–
Curtailment	–	8	–	4
Settlement	–	–	–	(17)
Balance, end of year	13,079	3,260	11,037	2,641
Plan assets				
Fair value, beginning of year	10,717	–	9,336	–
Revised estimated amount of surplus transfer from BCE	13	–	–	–
Actual return on plan assets	1,440	–	1,014	–
Employer regular contributions	267	–	247	–
Employer special solvency contributions	307	–	136	–
Employee contributions	145	–	138	–
Benefits paid	(214)	–	(149)	–
Divestiture	–	–	(5)	–
Fair value, end of year	12,675	–	10,717	–
Funded status of plans – deficit	(404)	(3,260)	(320)	(2,641)
Unamortized net actuarial loss	1,354	1,293	1,017	863
Unamortized past service costs	17	(82)	16	(79)
Unamortized transitional obligation	–	11	–	14
Unamortized funding excess	(185)	–	(216)	–
Accrued benefit asset (liability) – defined benefit	782	(2,038)	497	(1,843)
Accrued benefit asset (liability) – defined contribution	(1)	–	–	–
Accrued benefit asset (liability)	**$ 781**	**$ (2,038)**	$ 497	$ (1,843)
Presented in the consolidated balance sheet as:				
Accrued pension benefit asset	$ 784	$ –	$ 497	$ –
Current portion of accrued post-employment benefit liability	–	(68)	–	(25)
Accrued pension, other retirement and post-employment benefit liability	(3)	(1,970)	–	(1,818)
	$ 781	**$ (2,038)**	$ 497	$ (1,843)

7. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

Included in the above accrued benefit obligations and fair value of plan assets at year end are the following amounts with respect to plans that are not fully funded:

As at December 31 (in millions of dollars)	**2005**		2004	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations	**$ 12,946**	**$ 3,260**	$ 10,923	$ 2,641
Fair value of plan assets	**12,430**	**–**	10,470	–
Funded status – plan deficit	**$ (516)**	**$ (3,260)**	$ (453)	$ (2,641)

The fair value of total pension plan assets consists of:

As at December 31	**2005**	2004
Equity securities	**64 %**	63 %
Debt securities	**28 %**	30 %
Real estate	**1 %**	– %
Other	**7 %**	7 %
	100 %	100 %

7. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

The elements of employee future benefit costs recognized in the year are as follows:

Year ended December 31 (in millions of dollars)			**2005**			2004
	Incurred in year	**Adjustments***	**Recognized in year**	Incurred in year	Adjustments*	Recognized in year
Pension benefit plans						
Current service cost, net of employee contributions	$ 399	$ –	$ 399	$ 358	$ –	$ 358
Interest cost	672	–	672	613	–	613
Return on plan assets	(1,440)	686	(754)	(1,014)	333	(681)
Actuarial losses on accrued benefit obligations	1,048	(1,046)	2	481	(480)	1
Plan amendments	2	(1)	1	10	(9)	1
Amortization of funding excess	–	(31)	(31)	–	(32)	(32)
Defined benefit costs	681	(392)	289	448	(188)	260
Defined contribution costs	1	–	1	1	–	1
Multiemployer defined benefit costs	1	–	1	1	–	1
Pension benefit costs	683	(392)	291	450	(188)	262
Transitional support from the Government of Canada	(177)	–	(177)	(153)	–	(153)
Net pension benefit costs	**$ 506**	**$ (392)**	**$ 114**	$ 297	$ (188)	$ 109
Other benefit plans						
Current service cost, net of employee contributions	$ 92	$ –	$ 92	$ 82	$ –	$ 82
Interest cost	158	–	158	137	–	137
Actuarial losses on accrued benefit obligations	491	(431)	60	354	(318)	36
Plan amendments	(13)	3	(10)	1	(12)	(11)
Curtailment loss	8	–	8	4	–	4
Settlement loss	2	–	2	8	–	8
Amortization of transitional obligation	–	3	3	–	4	4
Defined benefit costs	738	(425)	313	586	(326)	260
Transitional support from the Government of Canada	(32)	–	(32)	(28)	–	(28)
Net other benefit costs	**$ 706**	**$ (425)**	**$ 281**	$ 558	$ (326)	$ 232

* Adjustments to allocate costs to different years so as to recognize the long-term nature of employee future benefits.

7. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

The significant assumptions used in measuring the defined benefit plans are as follows:

As at December 31	**2005**		2004	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Discount rate	5.0% to 5.3%	4.6% to 5.1%	6.0% to 6.3%	5.1% to 6.3%
Long-term rate of compensation increase	3.0% to 4.0%	3.0%	3.5% to 4.0%	3.5%
Benefit costs				
Discount rate	6.0% to 6.3%	4.5% to 6.3%	6.3% to 6.5%	5.5% to 6.5%
Expected long-term rate of return on plan assets	4.5% to 7.5%	N/A	4.5% to 7.5%	N/A
Long-term rate of compensation increase	3.5% to 4.0%	3.5%	3.0% to 4.0%	3.5% to 4.0%
Assumed health care cost trend rates				
Initial health care cost trend rate	N/A	7.1% to 8.8%	N/A	7.6% to 8.9%
Cost trend rate declines to	N/A	4.6% to 5.0%	N/A	4.7% to 5.0%
Year that the rate reaches the rate it is assumed to remain at	N/A	6 to 10 years	N/A	7 to 10 years

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have had the following effects for 2005:

(in millions of dollars)	**Increase**	**Decrease**
Total of service and interest cost	**$ 41**	**$ (31)**
Accrued benefit obligations	**$ 561**	**$ (444)**

Cash payments for pension, other retirement and post-employment benefits are as follows:

Year ended December 31 (in millions of dollars)	**2005**	2004
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 117	$ 536
Employer regular contributions to funded pension plans	267	247
Employer special solvency contributions to funded pension plans	307	136
Total cash payments for defined benefit plans	691	919
Contributions to defined contribution plans	1	1
Contributions to multiemployer defined benefit plan	1	1
Total cash payments	**$ 693**	$ 921

7. Pension, Other Retirement and Post-Employment Benefit Plans (continued)

The Canada Post Group's funding policy for its defined benefit pension plans is in accordance with the regulatory authorities' requirements and is determined by actuarial valuation conducted at least on a triennial basis and annually when a solvency shortfall has occurred. The solvency shortfall must be eliminated by special payments over a period not exceeding five years. The most recent actuarial valuation of the defined benefit pension plans for funding purposes and the next required valuation are as of the following dates:

	Most recent actuarial valuation for funding purposes	Next required actuarial valuation for funding purposes
Canada Post Corporation	December 31, 2004	December 31, 2005
Purolator	December 31, 2004	December 31, 2005
Progistix	December 31, 2003	December 31, 2006
Innovapost	December 31, 2004	December 31, 2007

On a solvency basis, the values of the pension plans' assets and liabilities are related to the corresponding values calculated as though the pension plans were wound up and settled on the valuation date. Based on the most recent actuarial information, the special solvency contributions for 2006 are estimated at $347 million.

8. Income Taxes

The sources of the temporary differences giving rise to net future income tax assets (liabilities) are as follows:

As at December 31 (in millions of dollars)	**2005**	2004
Net future income tax assets (liabilities)		
Property, plant and equipment	$ 26	$ 29
Accounts payable and accrued liabilities	8	13
Salaries and benefits payable	11	20
Obligations under capital leases	7	14
Accrued pension, other retirement and post-employment benefits	56	84
Other	6	(2)
Net future income tax assets	**$ 114**	$ 158
Presented in the consolidated balance sheet as:		
Future income tax assets		
Current	$ 45	$ 42
Long-term	93	143
	138	185
Future income tax liabilities		
Current (included in other short-term liabilities)	(3)	(4)
Long-term	(21)	(23)
Net future income tax assets	**$ 114**	$ 158

Deductible temporary differences for which no future income tax assets have been recognized amount to $1,096 million (2004 – $1,185 million) and relate mainly to the accrued other retirement and post-employment benefit liability. These differences are not expected to reverse in the foreseeable future.

8. Income Taxes (continued)

The major components of the income tax expense (benefit) are as follows:

Year ended December 31 (in millions of dollars)		**2005**		2004
Current income tax expense (benefit)	$	36	$	(48)
Future income tax expense (benefit) relating to:				
Origination and reversal of temporary differences		68		145
Previously unrecognized difference in post-employment benefits		(24)		(4)
Income tax expense	**$**	**80**	$	93

A reconciliation of the income tax expense (benefit), related to income before income taxes, to the amount of income tax using the statutory rate follows:

Year ended December 31 (in millions of dollars)		**2005**		2004
Income before income taxes	$	282	$	241
Federal tax at the applicable tax rate	$	103	$	79
Provincial tax		13		10
Large corporation tax		4		5
Increase in future income taxes resulting from previously unrecognized difference in post-employment benefits		(24)		(4)
Other		(16)		3
Income tax expense	**$**	**80**	$	93

9. Other Assets

As at December 31 (in millions of dollars)	**2005**	2004
Goodwill	$ 123	$ 130
Intangible assets, net of accumulated amortization and impairment of $17 million (2004 – $11 million)	13	22
Other	8	9
	$ 144	$ 161

Amortization expense relating to intangible assets and other assets was $6 million (2004 – $5 million). In 2005, the Corporation recorded a $4 million impairment charge related to a customer contract under renegotiation.

The changes in the carrying amount of goodwill are as follows:

Year ended December 31 (in millions of dollars)				**2005**	2004
	Purolator segment	**Logistics segment**	**All other segment**	**Total**	Total
Goodwill balance, beginning of year	$ 120	$ 7	$ 3	$ 130	$ 127
Acquisition	–	–	–	–	3
Impairment	–	(7)	–	(7)	–
Goodwill balance, end of year	**$ 120**	**$ –**	**$ 3**	**$ 123**	$ 130

In 2005, the Corporation recorded a $7 million impairment charge, which represented all the goodwill related to the Logistics segment. Uncertainties arising from the ongoing renegotiation of an operating contract with a major customer, on which it is economically dependent, and the ensuing restructuring plan, resulted in a decline in the fair value of the goodwill of this reporting unit.

10. Long-Term Debt

As at December 31 (in millions of dollars)	**2005**	2004
Non-redeemable bonds maturing March 2016, interest at 10.35%	$ 55	$ 55
Bank loan, bearing interest at the rate of 5.71% per annum, repayable in monthly principal and interest installments of $1 million, maturing in October 2006, secured by a general security agreement over all assets of Innovapost, including insurance policies on the related assets	6	12
Obligation under capital lease expiring December 2006, bearing interest at 5.25%	10	25
Notes due to BCE Emergis Inc., bearing interest at the Bank of Canada overnight rate plus 1%, maturing in December 2007 and December 2008	5	5
	76	97
Less current portion	16	21
	$ 60	$ 76

Interest expense on long-term debt was $7 million (2004 – $8 million).

The scheduled long-term debt repayments are as follows:

(in millions of dollars)	**Bank loan and notes**	**Capital leases**
2006	$ 6	$ 10
2007	3	–
2008	2	–
2016	55	–
	$ 66	**$ 10**

The fair value of the non-redeemable bonds maturing March 2016, based on rates currently available to the Corporation for debt with similar terms and maturity, is $83 million as at December 31, 2005 (2004 – $83 million).

The estimated fair value of the bank loan, the obligation under capital lease and the notes approximates their carrying value.

11. Share Capital

The *Canada Post Corporation Act* provides for the establishment of a share capital structure. The Corporation is authorized to issue shares to the Government of Canada based on the net asset value of the Corporation on the date of the first issue of shares, as determined by the Board of Directors, with the approval of the Treasury Board. No such shares have been issued.

12. Contingencies

(a) Two complaints have been filed with the Canadian Human Rights Commission ("the Commission") alleging discrimination by the Corporation concerning work of equal value.

One complaint was filed by the Public Service Alliance of Canada ("PSAC") in 1983, retroactive to October 16, 1981, when Canada Post Corporation became a Crown corporation. The hearings of the Canadian Human Rights Tribunal ("the Tribunal") and final argument of the parties were completed in August 2003. The Tribunal rendered its decision on October 7, 2005, concluding that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of PSAC members contrary to Section 11 of the *Canadian Human Rights Act*. This decision cannot be implemented until the wage gap has been determined by the parties, and the Tribunal retained jurisdiction to deal with any issues that may arise in the implementation of its decision on an as needed basis.

The Corporation appealed the decision of the Tribunal to the Federal Court Trial Division on October 7, 2005, claiming that the Tribunal had not only incorrectly applied and interpreted the law, but had also reached its conclusions in the face of substantial evidence that there had been no violation of Section 11 of the *Canadian Human Rights Act*.

On November 18, 2005, PSAC commenced its own appeal in the Federal Court against the decision.

Another complaint was filed by the Canadian Postmasters and Assistants Association initially in December 1982, seeking retroactivity to October 16, 1981. In December 1991, the Commission decided not to deal with the complaint. This complaint was refiled in November 1992. The Commission did not fully investigate the complaint. It did attempt to mediate/conciliate a resolution to the complaint without success. On February 28, 2006, the most recent conciliator recommended to the Commission that the Commission decline to deal with the complaint at this time because the complaint is one that could more appropriately be dealt with under the *Canada Labour Code*.

The outcome of these complaints is not currently determinable. Settlement if any, arising from resolution of these matters, is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*) and/or from the Government of Canada.

(b) The Corporation and Purolator have made certain commitments that apply upon expiration or termination of certain agreements with Innovapost. These agreements were signed for a 10 year period that commenced in 2002, with an automatic or an optional renewal period of five years, depending upon the agreement. The Corporation and Purolator have agreed to purchase the assets that are being used on a dedicated basis at the time of expiration or termination of the agreements in an amount equal to net book value, and shall be required to assume certain obligations related to the purchase of these assets. In addition, on expiration or termination of the agreements, Innovapost shall have either the obligation or the option, depending upon the agreement, to transfer or assign to the Corporation or Purolator any contract applicable to the services provided to the Corporation or Purolator, respectively. It is not practicable, at this time, to determine the value of assets used on a dedicated basis, nor the carrying value of the contractual obligations, at the time of expiration or termination of the agreements.

The terms of the agreements provide for no limitation to the maximum potential future payments under the above commitments, and the Corporation and Purolator do not currently possess sufficient information to estimate the maximum potential future liability.

12. Contingencies (continued)

(c) CPIL and its subsidiary entered into an agreement with the Government of the Netherlands Antilles to provide postal and postbanking services, to the residents of the five islands that comprise the Netherlands Antilles, for a 20 year period that commenced in May 2003. The assets transferred by the Government of the Netherlands Antilles and the former concession holder to the CPIL subsidiary must be replaced, maintained or kept in good working order, normal wear and tear excepted. At the conclusion of the agreement, all ownership held in the original assets or assets acquired during the term of the agreement will be transferred to the Government of the Netherlands Antilles at no cost, unless otherwise agreed by the parties. It is not possible, at this time, to estimate the potential value of these assets.

(d) In the normal course of business, the Corporation has entered into agreements that include indemnities in favour of third parties. These agreements generally do not contain specified limits on the Corporation's liability and, therefore, it is not possible to estimate the potential future liability under these indemnities.

(e) The Corporation is involved in various claims and litigation in the normal course of business for which provisions have been made to the extent determinable.

(f) The Corporation's employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and can be used only in the event of illness. The amount of accumulated sick leave entitlements which will become payable in future years cannot reasonably be determined. Payments of sick leave benefits are included in current operations.

13. Cash Flow Information

Year ended December 31 (in millions of dollars)	**2005**	2004
Change in non-cash operating working capital, net of effects of business acquisition		
Increase in accounts receivable	$ (75)	$ (22)
(Increase) decrease in income tax recoverable net of income tax payable	99	(27)
Increase (decrease) in accounts payable and accrued liabilities	(9)	1
Increase (decrease) in salaries and benefits payable	18	(46)
Decrease in other non-cash operating working capital items	7	20
	$ 40	$ (74)
Supplementary information		
Interest paid	**$ 7**	$ 9
Income tax paid (received)	**$ (67)**	$ 50

14. Commitments

The future minimum payments with respect to facilities, transportation equipment and other operating leases with terms in excess of one year, are as follows:

(in millions of dollars)

2006	$	131
2007		114
2008		97
2009		62
2010		42
2011 and thereafter		186
	$	**632**

15. Significant Joint Venture

The Corporation has a 51% ownership interest in Innovapost, The Canada Post Group's preferred information technology service provider. The following amounts represent the Corporation's proportionate share in this joint venture, before elimination of intercompany balances and transactions and any adjustments during consolidation:

Year ended, and as at, December 31 (in millions of dollars)		**2005**		2004
Income statement				
Revenue from operations	$	157	$	166
Cost of operations		(145)		(151)
Non-operating income		1		1
Income before income taxes	**$**	**13**	$	16
Cash flow statement				
Cash flow from (used in) operating activities	$	18	$	18
Cash flow from investing activities		12		11
Cash flow used in financing activities		(32)		(10)
Net increase (decrease) in cash and cash equivalents	**$**	**(2)**	$	19
Balance sheet				
Current assets	$	61	$	72
Long-term assets		14		26
Current liabilities		(41)		(37)
Long-term liabilities		(14)		(25)
Net assets	**$**	**20**	$	36
Commitments	**$**	**7**	$	7

Innovapost derived 99.9% (2004 – 99.4%) of its revenue from operations with The Canada Post Group. The non-operating income stated above includes finance income of $1 million (2004 – $1 million) from a direct financing lease with the Corporation. Assets include balances between The Canada Post Group and Innovapost; in particular, accounts receivable of $15 million (2004 – $22 million), a net investment in a direct financing lease of $10 million (2004 – $23 million), as well as deferred incentive paid of $8 million (2004 – $10 million). These intercompany transactions are in the normal course of business and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

16. Related Party Transactions

The Corporation 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 • The Government of Canada compensates the Corporation for foregone postage revenue from Government free mail services and mailing of materials for the blind (note 4), as well as for the Food Mail program, under which services are provided at rates less than cost pursuant to an agreement with the Department of Indian and Northern Affairs. Compensation payments on behalf of postal users amounting to $59 million (2004 – $60 million) are included in revenue from operations. The Corporation has also incurred net operating costs of $2 million (2004 – $4 million) with respect to real property agreements with Public Works and Government Services Canada. In addition, the Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business at normal commercial prices and terms. These transactions are measured at the exchange amount.

For the year ended December 31, 2005, the amounts of accounts receivable and deferred revenue from these related parties are $35 million (2004 – $11 million) and $4 million (2004 – $5 million), respectively.

(b) Directors • In the normal course of business, the Corporation interacts with companies whose directors or officers are directors of the Corporation. The affected directors always recuse themselves from all discussions and decisions related to transactions between the companies. Such a case of company interaction occurred during the year whereby the Corporation provided $27 million (in the last three months of 2004 – $6 million) of services to Davis + Henderson, Limited Partnership.

17. Financial Instruments – Other

(a) Fair values • The amounts reported in the consolidated balance sheet for all other financial instruments approximate their fair values.

(b) Concentration of credit risk • The Corporation does not believe it is subject to any significant concentration of credit risk. Amounts owing from and to each foreign postal administration are offset, according to the terms of the agreements and normal practices providing for international settlements on a net basis, and reported as a net receivable or payable in the consolidated balance sheet accordingly.

18. Segmented Information

The Corporation manages its operations and, accordingly, determines its segments on the basis of the legal entities. Three reportable segments have been identified: Canada Post, Purolator and Logistics.

The Canada Post segment provides communications, physical distribution, advertising and publications services, as well as other mail delivery products/services. The Purolator segment derives its revenues from specialized courier services. The Logistics segment, made up of Progistix and Intelcom, provides third-party logistics services in supply chain management, as well as same day delivery services.

Segments below the quantitative thresholds for determining reportable segments, are combined and disclosed in the "all other" category. Their revenues are attributable to information technology services, web-based electronic mail delivery services, sale of Canadian postal technology, international postal consulting services and postal/postbanking services in the Netherlands Antilles.

The accounting policies of the segments are the same as those described in the significant accounting policies (note 2).

Transactions occur between the segments at normal commercial prices and terms comparable to those given to other customers and suppliers and without subsidy between the segments. On a consolidated basis, no individual external customer's purchases account for more than 10% of total revenues.

Year ended, and as at, December 31, 2005
(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 5,566	$ 1,224	$ 132	$ 22	$ –	$ 6,944
Intersegment revenue	21	30	11	158	(220)	–
Revenue from operations	$ 5,587	$ 1,254	$ 143	$ 180	$ (220)	$ 6,944
Income (loss) before the undernoted items	$ 401	$ 82	$ 11	$ –	$ (1)	$ 493
Amortization and impairment	(188)	(23)	(16)	(5)	2	(230)
Investment and other income	44	–	–	1	(15)	30
Interest and other expense	(7)	(2)	(1)	(3)	2	(11)
Income (loss) by segments	$ 250	$ 57	$ (6)	$ (7)	$ (12)	282
Unallocated amounts and adjustments in consolidation						(3)
Income tax expense						(80)
Net income						$ 199
Assets by segments	$ 4,552	$ 474	$ 68	$ 100	$ (584)	$ 4,610
Unallocated amounts and adjustments in consolidation						(6)
Total assets						$ 4,604
Acquisition of property, plant and equipment	$ 143	$ 21	$ 1	$ 2	$ –	$ 167

18. Segmented Information (continued)

Year ended, and as at, December 31, 2004
(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 5,364	$ 1,136	$ 125	$ 26	$ –	$ 6,651
Intersegment revenue	18	20	12	166	(216)	–
Revenue from operations	$ 5,382	$ 1,156	$ 137	$ 192	$ (216)	$ 6,651
Income (loss) before the undernoted items	$ 383	$ 72	$ 13	$ (1)	$ –	$ 467
Amortization and impairment	(198)	(19)	(7)	(6)	1	(229)
Investment and other income	21	–	(1)	1	(7)	14
Interest and other expense	(9)	(3)	–	(2)	3	(11)
Income (loss) by segments	$ 197	$ 50	$ 5	$ (8)	$ (3)	241
Unallocated amounts and adjustments in consolidation						(1)
Income tax expense						(93)
Net income						$ 147
Assets by segments	$ 4,306	$ 423	$ 68	$ 132	$ (609)	$ 4,320
Unallocated amounts and adjustments in consolidation						(6)
Total assets						$ 4,314
Acquisition of property, plant and equipment	$ 195	$ 24	$ 3	$ 3	$ (3)	$ 222

Historical Financial Information

December (in millions of dollars)	**2005** **(12 months)**	2004 (12 months)	2003 (12 months)	2002 (12 months)	2001 (9 months)
OPERATIONS					
Revenue from operations	**6,944**	6,651	6,344	6,154	4,441
Cost of operations	**6,681**	6,413	6,162	5,998	4,321
Income from operations	**263**	238	182	156	120
Per cent of revenue from operations	**3.8 %**	3.6 %	2.9 %	2.5 %	2.7 %
Non-operating income (expense)	**19**	3	2	(29)	12
Income before income taxes	**282**	241	184	127	132
Income tax expense (benefit)	**80**	93	(69)	56	65
Net income before non-controlling interest	**202**	148	253	71	67
Non-controlling interest in net income of subsidiaires	**3**	1	–	–	–
Reported net income	**199**	147	253	71	67
Return on equity of Canada *	**15.0 %**	12.1 %	10.5 %	7.9 %	7.8 %
Add back: Amortization of goodwill	**–**	–	–	10	8
Adjusted net income	**199**	147	253	81	75
BALANCE SHEET					
Assets					
Current	**1,466**	1,287	1,742	1,138	958
Segregated cash and investments	**446**	505	443	835	701
Property, plant and equipment	**1,671**	1,721	1,733	1,687	1,573
Accrued pension benefit asset **	**784**	497	374	128	76
Other **	**237**	304	266	314	369
	4,604	4,314	4,558	4,102	3,677
Liabilities and equity of Canada					
Current	**1,102**	1,092	1,596	1,171	1,012
Accrued pension, other retirement and post-employment benefit liability	**1,973**	1,818	1,637	1,845	1,705
Other liabilities	**119**	137	143	149	80
Non-controlling interest	**16**	13	12	2	–
Equity of Canada	**1,394**	1,254	1,170	935	880
	4,604	4,314	4,558	4,102	3,677
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT					
Land and buildings	**42**	48	71	229	30
Operating equipment **	**99**	134	91	68	134
Office and other equipment **	**26**	40	89	42	41
Office and other equipment under capital leases **	**–**	–	–	60	10
	167	222	251	399	215

* For December 2003, the return on equity of Canada has been adjusted to take into consideration the income tax benefit of $142 million resulting from the curtailment of the employee termination benefit plan.

** Comparative figures have been reclassified in order to conform to the presentation adopted in 2005.

Historical Financial Information

December	2005 (12 months)	2004 (12 months)	2003 (12 months)	2002 (12 months)	2001 (9 months)
OPERATING DIMENSIONS			*		
Revenue from operations by market segment (in millions of dollars)					
Communications market	**3,088**	3,042	2,941	2,507	1,800
Physical distribution market	**2,365**	2,176	2,022	2,157	1,572
Advertising market					
Addressed	**530**	514	493	472	366
Unaddressed	**300**	272	246	223	166
Sub total	**830**	786	739	695	532
Publications market	**263**	252	235	224	162
Other revenue	**398**	395	407	571	375
Revenue from operations	**6,944**	6,651	6,344	6,154	4,441
Per cent increase **	**4.4 %**	4.8 %	3.1 %	2.7 %	1.1 %
Volume by market segment (in millions of pieces)					
Communications market	**5,469**	5,464	5,408	4,611	3,300
Physical distribution market	**283**	281	283	306	225
Advertising market					
Addressed	**1,401**	1,385	1,370	1,383	1,083
Unaddressed	**3,428**	3,198	3,112	2,906	2,205
Sub total	**4,829**	4,583	4,482	4,289	3,288
Publications market	**531**	540	546	565	421
Total volume	**11,112**	10,868	10,719	9,771	7,234
Per cent increase (decrease) **	**2.2 %**	1.4 %	9.7 %	(0.7) %	(1.7) %
Employment					
Full-time employees ***	**60,405**	61,409	55,683	54,665	54,785
Part-time employees	**11,028**	11,465	10,867	9,509	11,306
Total employees	**71,433**	72,874	66,550	64,174	66,091
MAIL NETWORK					
Retail points of access	**22,947**	23,352	23,765	24,059	24,337
Per cent increase (decrease)	**(1.7) %**	(1.7) %	(1.2) %	(1.1) %	(1.2) %
Points of delivery (in thousands)	**14,053**	13,808	**** 13,548	13,790	13,605
Per cent increase	**1.8 %**	1.9 %	–	1.4 %	2.2 %
Pick-up points (in thousands)	**1,018**	997	1,004	992	979
Per cent increase (decrease)	**2.1 %**	(0.7) %	1.2 %	1.3 %	0.9 %

* In 2003, the Corporation implemented and enhanced the methodology that allocates revenues earned from the sale of stamps and postage meter fills to the communications and physical distribution markets. The methodology yields different comparatives for these two markets and as such there is a discontinuity in numbers between 2005/2004/2003 and prior periods. For December 2003 and thereafter, incoming international mail is also classified in the communications and physical distribution markets instead of the “other revenue” category, therefore impacting volume by market segment.

** For December 2002, percentage changes are expressed as a comparison to the 12 month period ended December 2001. For December 2001, percentage changes are expressed as a comparison to the nine month period ended December 2000.

*** The increase in the number of full-time employees in 2004 is largely attributable to the transitioning of 6,150 rural and suburban mail carrier contractors to employees.

**** In 2004, the Corporation introduced enhanced technology to improve the accuracy and reliability of points of delivery information. Restatement was completed for 2003 but the information was not available for years prior to 2003.