



Annual Report 2014





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“ We have a 252-year history, but we’re writing the most pivotal chapter now. We are boldly transforming to meet the changing needs of Canadians. It means more than adapting to mail’s decline. It means growing as an e-commerce business, it means being innovative in our marketing mail business, it means being customer-centric and cost-competitive, and it means having an engaged workforce. There is a renewed sense of purpose for everyone at Canada Post. ”

Deepak Chopra
President and
Chief Executive Officer

By the numbers

Canada Post Group of Companies

(in millions of dollars)	2014	2013	% Change ¹
Operations			
Revenue from operations	7,982	7,563	5.5 %
Profit (loss) from operations	299	(193)	
Operating margin (%)	3.7 %	(2.6)%	
Investing and financing (expense) income²			
Profit (loss) before tax	269	(58)	
Net profit (loss)	198	(29)	
Cash provided by operating activities			
Cash provided by operating activities	592	326	81.6 %
Cash used in capital expenditures	(264)	(357)	26.0 %

Financial position			
Cash and cash equivalents	677	468	44.6 %
Total assets	7,584	6,667	13.8 %
Loans and borrowings	1,134	1,131	0.2 %
Equity of Canada	(2,035)	(391)	(420.4)%

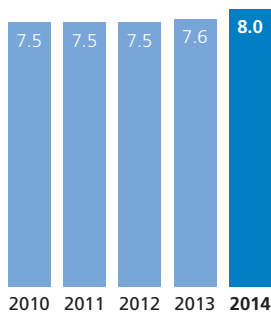
Volume			
Total volume – Consolidated (in millions)	9,129	9,448	(3.4)%
Domestic Parcels growth (Canada Post segment)	9.2 %	6.9 %	
Domestic Lettermail™ erosion (Canada Post segment)	(5.4)%	(4.8)%	
Transaction Mail volume decline per address	(6.1)%	(5.9)%	

Canada Post Corporation Registered Pension Plan			
Pension assets – Fair market value	20,917	19,244	8.7 %
Going-concern surplus (deficit) – To be funded ³	481	(296)	
Solvency deficit – To be funded ³	(6,813)	(6,345)	(7.4)%
Employer contributions – Current	251	258	(2.6)%
Employer contributions – Special	37	27	35.5 %

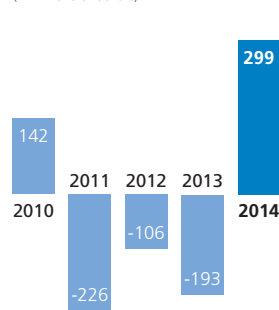
1. Adjusted for trading days, where applicable.
2. Includes gain on sale of capital assets and assets held for sale.
3. Number for 2014 is an estimate. Actuarial valuations for the Plan will be filed by June 30, 2015. Refer to Section 6.5 of the Management Discussion and Analysis on page 68 for additional details.

Canada Post Group of Companies

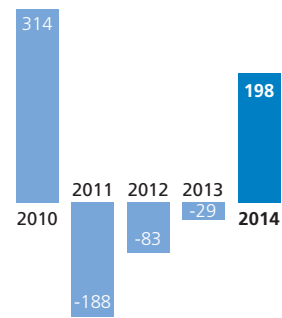
Revenue from operations
(in billions of dollars)



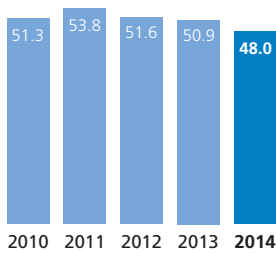
Profit (loss) from operations*
(in millions of dollars)



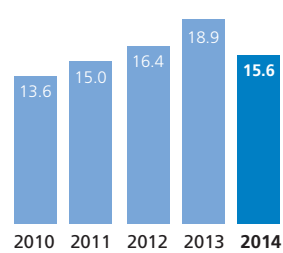
Net profit (loss)*
(in millions of dollars)



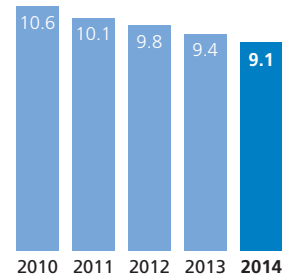
Labour costs
(percentage of revenue from operations)



Employee benefit costs*
(percentage of revenue from operations)



Volume
(in billions of pieces)



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

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

President's message

We have a 252-year history, but we're writing the most pivotal chapter now. We are boldly transforming to meet the changing needs of Canadians. It means more than adapting to mail's decline. It means growing as an e-commerce business, it means being innovative in our marketing mail business, it means being customer-centric and cost-competitive, and it means having an engaged workforce. There is a renewed sense of purpose for everyone at Canada Post.

When every aspect of your business is deeply entrenched in the daily habits of Canadians, change is not easy. Habits are hard to break, but in order to secure the very future of Canada Post, that is exactly what we needed to do.

With this year's profit, we are starting to see the results of our Five-point Action Plan. We are seeing strong growth in our Parcels business; the introduction of a tiered pricing structure for mail, in which those who use mail the most pay less, and those who use mail less frequently pay

When every aspect of your business is deeply entrenched in the daily habits of Canadians, change is not easy.



a bit more, is yielding benefits; our efforts to streamline mail processing into major urban centres is also paying dividends. Our plan is beginning to take hold.

In a fiercely competitive landscape of parcel delivery and advertising, our strategy is anchored in what we do best: deliver. We are transforming how we deliver because both necessity and opportunity tell us that makes sense. As for necessity, the unprecedented volume decline

of Lettermail places enormous pressure on our finances. To avoid becoming a burden on taxpayers, we must significantly reduce the costs of serving each address as well as streamline our own operations. This is the backdrop of the difficult decision to convert the last one third of addresses that still have delivery to the door to a community mailbox.

In the sea of digital advertising, a targeted, personalized and creative marketing mail piece is proving more effective. Marketing mail puts a brand directly into its customers' hands. New categories of marketing mail such as samples, loyalty cards and monthly subscriptions are creating brand new opportunities for our customers. Digital and physical are seamlessly complementing each other and we are excited about the possibilities for our marketing mail business.

As we pursue our transformation, we are acutely aware of our important responsibilities to rural and northern communities. These communities are excited to be part of the e-commerce revolution. They now have access to products across the globe, and we are proud to be delivering the online world right to their door or just around the corner. Equally remarkable is the opportunity being enabled by Canada Post for small businesses that can now market their products not just across town, but across the globe using Canada Post's low-cost shipping solutions.

We are the physical in the digital economy. We are the crucial human link in the online shopping experience. We complete the journey – for the item itself, for the shopper and for the retailer. We bring the virtual economy to life. Our dedicated employees delivered a record number of packages for Canadians, and the

We are the crucial human link in the online shopping experience. We complete the journey – for the item itself, for the shopper and for the retailer. We bring the virtual economy to life.

best on-time delivery performance on record, this past holiday season. Through our innovative seasonal weekend deliveries and Delivered Tonight same-day service, we delivered millions of parcels introducing a whole new level of customer convenience to Canadians.

As we look to the future, we remain grounded in the fact that we are just getting started. There is much work ahead to ensure a long-term, sustainable future for Canada Post, its employees and the customers it serves, without becoming a burden on the taxpayers.



Deepak Chopra
President and
Chief Executive Officer



“Customers’ needs change daily. You have to adapt to their needs. We try to listen and respond. They are customers, that’s the bottom line.”

— Andy Bush, mail service courier,
Ottawa, Ont.



With its incomparable delivery reach and retail network, Canada Post is well positioned to meet the needs of consumers and retailers. We place valued items and effective marketing right in people's hands. That ability spells opportunity.

Our business

E-commerce is booming in Canada – and it is our future. More Canadians are shopping online each year. Industry analysts have forecasted double-digit annual growth rates in their online spending for years to come.

In response, retailers are creating new ways to support consumers through their shopping journey. We're working hand-in-glove with them. We provide our insights, technology and tailored shipping solutions – on top of reliable service. Busy consumers also crave convenience – like the parcel pickups and returns they can do easily and nearby at one

of thousands of post offices. We're placing parcel lockers in the lobbies of high-rise buildings – a convenience suggested by an employee who delivers to condos in Vancouver.

Online shopping is growing our business from a position of strength (we already deliver nearly two out of every three parcels that Canadian consumers order online). In 2014, Parcels revenue from our top 25 e-commerce customers rose by almost 30 per cent.

We're poised to grow in another business, too. People like to know about the store,

restaurant or service that just opened around the corner and about great sales. Businesses know that smart marketing generates results. What they need are effective, targeted and affordable campaigns. The digital environment is cluttered with ads. But a compelling marketing piece mailed to the right customers is something people can touch, read, remember and respond to. Compelling marketing mail works – and we're reinventing it. For us, it's a \$1.2-billion business.

A business in transition

A secure and sustainable postal service for the digital age. That's the goal behind our historic transformation, and the goal of the Five-point Action Plan we began to implement in 2014. The early results are promising.



Together, the Plan's five initiatives will secure the postal service for all Canadians. Four of the five are projected to generate – once fully implemented – combined annual financial benefits worth \$700 million to \$900 million.

Community mailboxes

Our five-year community mailbox initiative is one of the most complex actions we are taking to transform our business. We began last year to transition the first of the one third of households that still receive their mail at the door to community mailboxes. As 2015 began, roughly one million households were either converted or were informed they would be converting in 2015.

For affected customers, our goal is to make their transition as smooth as possible. That's why we conduct an extensive local consultation months before the boxes go in the ground. We invite municipal officials to work with us. We also communicate with residents, informing them of each



step, seeking their feedback, and speaking directly to those living adjacent to proposed sites.

We are also ensuring that all customers have continued access to their mail and parcels. We met with groups that represent seniors and persons with disabilities and created an accommodation program based on best practices. A trained team works with individuals on a case-by-case basis to tailor solutions that will meet their unique needs.

This initiative makes a major contribution toward reducing costs. It also helps us serve customer needs by providing a secure and convenient delivery method for items ordered online, including retail products, identification cards and prescription medications.

A new approach to Lettermail pricing

On March 31, 2014, Canada Post introduced a new tiered stamp pricing structure for letters.

This change in prices helped to increase Lettermail revenue in 2014. The ongoing erosion of mail volumes continued in 2014, at a level consistent with the erosion experienced in recent years. There is no increase for the stamp price in 2015 for mailing letters in Canada.

Franchise post offices

The initiative to strengthen our retail network is achieving its target benefits. We opened 73 franchise postal outlets in 2014, in almost every province. Franchise operations offer the same services as corporate post offices, but they are typically more convenient as they offer longer hours, better parking and the chance to do more shopping in one place. They also cost less to operate.

To realign them with customer traffic patterns, Canada Post adjusted hours in a number of corporate post offices. Throughout this process, we have advised the community, and respected the *Canadian Postal Service Charter*

and the moratorium on closing rural post offices.

Streamlining operations

We are taking advantage of our investments in automation to improve the efficient flow of mail and parcels, while continuing to meet service standards. Results so far are encouraging as operational costs are decreasing.

Addressing labour costs

We continue to reduce our workforce through attrition. Collective agreements, including the job security provisions, continue to be respected. Canada Post and two bargaining agents successfully negotiated two new collective agreements in 2014. Both agreements minimize the impact of change on existing employees, and help to address labour costs.

“Canada Post has been an amazing partner. We always get high marks from our customers based on their fast and reliable delivery. They’re critical to the confidence our customers have in Hudson’s Bay.”

— Bill Tracy, EVP, Supply Chain, Logistics and Global Sourcing, HBC



A Hudson's Bay employee packages an iconic blanket at the company's Toronto, Ont. distribution centre.

As the lines between in-store and online shopping blur, retail is experiencing a massive shift. With its e-commerce and shipping solutions, Canada Post is supporting the transformation of the country's retailers – the small, the large and the iconic, like Hudson's Bay.

Our customers

Perhaps it's the access to brands such as Topshop or Kate Spade. Or those Wednesday morning emails announcing another incredible one-day sale on a popular item like Bench jackets or Heys luggage. Or that the iconic stripe pattern has become hip – not nostalgic hip, but hip hip.

Whatever their reasons, Canadians are loving **Hudson's Bay**. Innovative store renovations, trendsetting brands and smart marketing all contribute to its staggering resurgence. But it's Hudson's Bay's digital evolution that's really striking.

"The digital channel has seen dramatic double-digit growth," says Bill Tracy, EVP, Supply Chain, Logistics and Global Sourcing at HBC. "But we're not satisfied – and we're not stopping."

Since relaunching its e-commerce channel, Hudson's Bay has invested heavily in IT, logistics, mobile technology and Web design. It has also embraced aggressive change. The payoff? It's not just a digital player, it's a leader, with omni-channel services such as ship-from-store that enable shoppers to move seamlessly across all channels.

In this retail environment, customer expectations are at an all-time high, and satisfaction isn't guaranteed until the order is delivered. That's where Canada Post comes in, providing its logistical support and delivery expertise to complete the shopping experience.

"Canada Post has been an amazing partner," says Tracy. "We always get high marks from our customers based on their fast and reliable delivery. They're critical to the confidence our customers have in Hudson's Bay."

Our customers Parcels

It's no surprise that **Frank & Oak** ranks among the most innovative e-commerce companies, given that the Montréal menswear start-up has undeniably redefined the meaning of retail. "We believe our customers want more than just a transaction," says co-founder and COO Hicham Ratnani. "They want an experience."

The company's customers represent a demographic Ratnani believes has been underserved: 18- to 35-year-old men who want to dress and live well.

Since its 2012 launch, every aspect of Frank & Oak's strategy feeds that target.

Along with high-quality fashions at affordable prices, customers can access a monthly curated selection

of clothes to try on in the comfort of their homes, DJ playlists and digital content catered to young and educated urban men.

The company is continually evolving to serve a generation whose relationship to technology is constantly changing. Right now that means upping its omni-channel capacity.

So why would this tech-savvy upstart team up with a 252-year-old company?

Ratnani explains that shipping is a massive part of e-commerce, and not just the last mile. Frank & Oak needs flexibility, logistics and collaboration. Thanks to its digital transformation, Canada Post is best positioned to meet those end-to-end needs.

"Canada Post is creating innovative out-of-the-box solutions for North America. They really believe in the e-commerce revolution – and they understand where the world is going."

"Canada Post is creating innovative out-of-the-box solutions for North America. They really believe in the e-commerce revolution."





When **Simons** launched its e-commerce website back in 2010, it made less than \$1,000 the first day – which triggered a tiny pang of doubt. But only for a moment. Online sales began to grow rapidly, and today it's the Quebec City-based retailer's fastest-growing channel. Continual change underpins its digital success. "We were planning our next website before we even launched the first one," says CEO Peter Simons.

Though its e-commerce is defined by reinvention, it's also grounded by a brand identity that remains firm. Simons knows itself, and its customers – loyal and devoted – know Simons. The fashion and decor retailer is renowned for its superb customer service, wide range of prices and active

"It's no longer enough to just be cool – customers want more. E-commerce is growing up."

community participation, including supporting local design and art in its stores.

As retailers add more authentic in-store experiences, Simons says they're also looking to humanize e-commerce. "It's no longer enough to just be cool – customers want more. E-commerce is growing up." The key is integrating physical and digital so they become more than the sum of their parts – and this balance, he predicts, will fluctuate throughout the future.

Ensuring his e-commerce channel can handle ongoing change was a major factor behind partnering with Canada Post.

"Canada Post is very open to change – and it's proactive," says Simons, adding that its unmatched delivery network is crucial to a company whose reputation rests on customer service. "We're happy with how we're working together to build these new realities."

Our customers Marketing mail



Photo: ©NATIONAL POST/Matthew Sherwood

Whether it's delivering product samples, announcing the launch of a new store or informing residents about an amazing sale around the corner, mail is the perfect way to connect with Canadians – even in the digital age.

At **Nerd Block**, the clientele is unabashedly geek over chic. Every month, the members of this fast-growing e-commerce start-up anticipate the arrival of a curated box of nerdy things, from *Teenage Mutant Ninja Turtles* action figures to classic *Doctor Who* T-shirts.

But the brain behind this venture doesn't just cater to nerds – he is one too. "My team and I know this market intimately," says founder and CEO Russ Montague, long-time toy lover, collector and self-confessed pack rat. "We are not nerd posers."

It all started with an idea "to take back the mail." Montague says that as a kid, he was excited to receive mail because it meant a birthday, Santa or some other special occasion. He believes mail still has the power to excite – and his would-be customers proved him correct, right from the start.

When Nerd Block launched in July 2013, the team anticipated it would receive 50 subscriptions over the initial month. Instead, it received 3,000 in the first 24 hours. Nerd Block now has tens of thousands of members, and every month the boxes sell out.

Toy companies have begun lining up to get their items into Nerd Block boxes, seeing the opportunity to expose their products and their brand to a large number of potential customers. The mail, Montague says, is an effective way to convey marketing messages, and build your customer base. He knows that from experience.

After a double win at the inaugural Canada Post E-commerce Innovation Awards™ in 2012 – where his first company, ShirtPunch, won the Best New E-business and Consumer Champion awards – Montague

used his direct mail prize to help launch Nerd Block. The Canada Post sales team used addressing data to target the areas where ShirtPunch customers lived, and blanketed them with a direct mail postcard announcing Nerd Block's launch.

It was a huge success.

Montague credits Canada Post and its sales team for taking him and his business seriously when no one else would. "Canada Post looked at our potential, at what we could become tomorrow. They bet on us – and that has been instrumental."

"Canada Post looked at our potential, at what we could become tomorrow. They bet on us – and that has been instrumental."

— Russ Montague,
Founder and CEO, Nerd Block

Our customers Marketing mail

Few companies have achieved the level of marketing prowess that **IKEA** has. The popular home and decor giant consistently produces some of the most creative and memorable marketing in the industry, and it does so on multiple platforms, including TV, digital, social media – and, perhaps surprisingly, the mail.

“We use direct mail because it works,” says Agamemnon Spiridoulias, Direct Marketing Manager at IKEA. “You have to look at your full media mix – different media do different things. Direct mail is a traffic driver. When we drop a flyer, we see the effects instantly – it brings customers in the door.”

While IKEA distributes 90 million flyers every year, its most-anticipated mailing remains the much-loved IKEA Catalogue. Though the company produces an identical digital version for its website, it still sends millions of print catalogues to waiting customers.

Spiridoulias believes one reason for the print catalogue’s enduring popularity is that people want it in their hands. They leave it on their coffee tables and display it on

their bookshelves. Plus, because it’s out only once a year, every August, customers look forward to receiving it.

Given the importance of direct marketing, great service is important to IKEA. “That’s why we like Canada Post,” says Spiridoulias. “Their service is dependable and their carriers are professional – this is what they do.”

“We use direct mail because it works. When we drop a flyer, we see the effects instantly – it brings customers in the door.”



Since opening in 2009, **Caplansky's Delicatessen** in Toronto has become a local institution, famous for its flavour-packed smoked meat sandwiches. But when owner Zane Caplansky was starting out, he was – like many entrepreneurs – just trying to get noticed.

Without a budget for marketing, Caplansky made valuable use of social media, including Facebook and Twitter. He appeared on the TV shows *Dragons' Den* and *Diners, Drive-ins and Dives*, and in foodie blogs, such as *Chowhound*. He sponsored sports teams, arts groups and charities that were active in his community.

He also knew of a marketing tool that would enable him to target specific neighbourhoods and

“I had used Precision Targeter before, so I had high expectations that it would be successful. And it was – we saw a 25-per-cent increase in customer traffic.”

demographics – Canada Post's Precision Targeter.™ Using the free online service, Caplansky launched a marketing mail campaign in which he sent his menu along with a discount offer to households within postal codes he selected.

“I had used Precision Targeter before, so I had high expectations that it would be successful. And it was – we saw a 25-per-cent increase in customer traffic.”

Now, thanks to his incredible food and his marketing efforts, Caplansky is in the midst of expanding.

“As a small business you need quick, easy and effective marketing solutions. I would encourage any small business to look at Canada Post – they offer a great way of getting the word out.”

Our customers Transaction Mail

Though volumes continue to decline, Transaction Mail still holds value. Just as digital communication is changing how people shop, it's changing how they do their personal business – and opening up niche opportunities for traditional mail.

While the digital economy has fuelled growth in parcels and offered new possibilities for direct mail, it has eroded the Transaction Mail business. Canadians mailed almost 1.4 billion fewer pieces of Domestic Lettermail in 2014 than in 2006. However, the digital economy is opening up exciting niche opportunities. One area of growth is evidence mail, including birth certificates, health cards, credit cards and licences.

Because Canadians often prefer digital communication for its ease and convenience, government agencies, financial institutions and other organizations are transforming to enable customers to obtain more identification online.

Canada Post is supporting this digital endeavour by providing secure, cost-effective and convenient delivery of evidence mail, while our vast retail infrastructure and unparalleled delivery network helps organizations reach every household in Canada.

One government organization Canada Post supports is **ServiceOntario**. The one-stop government shop provides services of all kinds to residents of Canada's most populous province. In 2005, it was enabling digital transactions of a limited number of services. As residents showed increasing preference for its online channel, ServiceOntario invested in its online system, making it more efficient, robust and convenient. The number of services available online have now jumped to 43.

The results have been impressive. Wait times for receiving identification documents have dropped. In 2004, people waited up to 20 weeks for a birth certificate due to significant backlogs. Nearly a year later, a major modernization effort resulted in online orders for birth certificates being sent by courier within 15 days.

Usage increased steadily over time and, in August 2012, ServiceOntario turned to

Canada Post as a reliable and cost-effective solution to mail birth certificates ordered online for regular service. In 2013, ServiceOntario sent more than 216,000 birth certificates and 221,000 certified copies of birth registrations either by mail or by courier.

Quality physical fulfillment is vital to its ability to serve its online customers. "Security and integrity of service are key for us," says Eric Everett, Manager, New Business, in the Partnerships and Business Development Branch of ServiceOntario. "Canada Post's reach and established infrastructure, trust and reliability – all are definitely factors."

Though customers' needs for mail are changing in the digital economy, Transaction Mail will hold value in a future where physical fulfillment is still needed.



“Security and integrity of service are key for ServiceOntario. Canada Post’s reach and established infrastructure, trust and reliability – all are definitely factors.”

— Eric Everett, Manager, New Business, Partnerships and Business Development Branch, ServiceOntario

As our customers' needs for postal services rapidly evolve, Canada Post employees are experiencing widespread changes – and they are rising to the challenge. We couldn't be prouder.

Our employees

Canada Post operates the largest retail network in Canada and provides a delivery reach unmatched by its competitors. Every day we deliver to 15.7 million addresses, including urban, suburban and rural households. Together, our 65,000 employees make it possible.

More than 11,000 full- and part-time employees ensure Canadians' mail and parcels are properly processed and sorted in our plants. Meanwhile, over 25,000 employees deliver items to each and every Canadian,

either to a community mailbox, to the door, to a parcel locker in a high-rise, to a rural mailbox or to a nearby post office.

Our employees have provided postal services to Canadians throughout our history. But with the rise of digital communications, Canada Post is undertaking a massive transformation – and that has profoundly affected not just the future of our company, but the working lives of tens of thousands of our employees in communities across the nation.

As we improve efficiencies and seek to bolster our leadership role in the intensely competitive business-to-consumer parcel delivery market, our employees are rising to several new challenges.

They are meeting higher expectations of service performance and customer service. In the plants and on the streets, our employees are executing the initiatives of the Five-point Action Plan designed to reorient the Corporation to a digital future.

(Continued)





“A lot of people are happy when we work weekends. People are very happy to get parcels on Saturday.”

— Ryan Zdrill, motorized delivery agent,
Winnipeg, Man.

Our employees

For example, the need to streamline delivery operations resulted in the reduction of 690 routes over 2014. Affected employees successfully managed the transition, taking on newly designed and larger routes by adopting process changes such as mail sequencing, route motorization and the transition to community mailboxes.

Employees are ensuring customers have access to real-time tracking of their online orders by increasing the number of parcel scans that provide parcel visibility throughout the delivery process.

Plant employees and delivery agents are successfully executing the complex logistics and communications required for our same-day service, Delivered Tonight.

We delivered 37 million packages over the holiday season. Both retailers and shoppers continue to share their appreciation of our delivery agents who provided often unexpected weekend delivery.


In Richmond, B.C., plant employees transitioned from manual sortation and older technology, to using leading-edge

automatic sortation equipment at the new state-of-the-art Pacific Processing Centre.

Delivery agents, plant employees and numerous key support employees across the country are also playing a pivotal role in converting affected customers from door-to-door service to community mailboxes – they are ensuring the transition is smooth, and fulfilling the needs of those in need of accommodation.



Employees at the Pacific Processing Centre shared in the excitement of the building's official opening in September 2014.



Canada Post President and CEO Deepak Chopra speaks with employees at the official opening of the Richmond, B.C., Pacific Processing Centre in September 2014.

Overall, Canada Post employees have done a tremendous job of delivering on all that's been asked of them.

Our workforce is also playing an integral role in the online shopping experience. Because we are the carrier that delivers the majority of e-commerce packages to consumers, our employees are representing retailers who trust Canada Post to be an extension of their customer experience.

Though browsing, buying and tracking are done digitally, delivery itself is physical. Packages are delivered by people to people – by our employees to Canadians. In e-commerce, we provide the human touch.

Though browsing, buying and tracking are done digitally, delivery itself is physical. Packages are delivered by people to people – by our employees to Canadians.

We would like to thank our employees for all they have done to enable our ongoing transformation and to help us be competitive in this digital age.

We are genuinely impressed by, and proud of, the work they have accomplished throughout 2014. Change is not easy, but over and over our employees are rising to

numerous challenges. We are confident that Canada Post will succeed in the future, because our workforce is showing the dedication and perseverance to help get us there.

Oh, Canada!



Local communities are the foundation of this country, and Canada Post is a part of them all. We are proud to celebrate our national history, while supporting the generation that will take charge of the future.

Delivering the holidays for Canadians

Delivering the holidays has always been important to our business, but with more and more Canadians shopping online, it has taken on new meaning. At Canada Post, our people start planning for the next holiday season almost before they take the Christmas lights down for another year.

Why do we start planning so early? Because we know that the holiday season is a make-or-break period for the businesses that ship with us. Shoppers have high expectations, especially when it comes to gifts for friends and loved ones. As well, in today's digital world, gift givers and receivers use technology to track our progress, and they tell us how we are doing in real time.

To bolster our existing team of dedicated employees, we hired an additional 3,900 people to work in plants and to help us

deliver the holidays. Together, our people achieved the best December for on-time delivery of parcels on record.

In our peak holiday season of 2014, we delivered a record 37 million packages to Canadians. Almost 2 million of those packages were delivered over 10 weekends, often surprising customers with a Saturday or Sunday delivery.

Service like that, with the unmatched capability to serve every address in Canada, makes us the market leader in business-to-consumer parcel delivery.

Another great honour we have is the privilege of being the trusted confidant to Santa Claus. In 2014, thousands of Canada Post employees, current and retired, volunteered more than 250,000 hours to help Santa reply to more than 1.5 million letters he received from children across Canada and around the world.



A little girl receives a parcel in this image from the Delivering the online world™ 2014 holiday campaign.



Oh, Canada!

Telling Canada's story one stamp at a time

Our stamp program celebrates the stories, individuals and landmarks that are an integral part of our national fabric, and our 2014 stamp lineup nicely captured the nation's immense breadth of scope and personality.

In the winter, we honoured freestyle skier Sarah Burke, curler Sandra Schmirler and figure skater Barbara Ann Scott with a new stamp issue in honour of their memorable athletic achievements in winter sports.

In the spring, we celebrated five of Canada's 17 UNESCO World Heritage sites with a set of stamps that shared with the

world the outstanding beauty and striking perspectives of Canadian landscapes.

Last summer, we recognized Canada's contribution to country music and comedy with two different stamp issues featuring five acclaimed musicians and five funny people. Tommy Hunter, k.d. lang, Renée Martel, Hank Snow and Shania Twain reflected the remarkable variety within the Canadian – and international – country music scene. Jim Carrey, Olivier Guimond, Mike Myers, Catherine O'Hara and Martin Short were chosen for their uncanny ability to make us laugh.

In the fall, new stamp collections captured Canada's favourite pastime honouring Canada's seven NHL® teams featured on the iconic Zamboni® ice resurfacing machine and the legendary defencemen of the Original Six™ era.

The incomparable Bobby Orr of the Boston Bruins® led a stellar lineup that also included Tim Horton (Toronto Maple Leafs®), Pierre Pilote (Chicago Black Hawks®), Red Kelly (Detroit Red Wings®), Doug Harvey (Montreal Canadiens®) and Harry Howell (New York Rangers®).





Grant recipient Zajac Ranch for Children in Mission, B.C., provides a safe haven for those living with chronic, life-threatening or debilitating medical conditions. Campers are encouraged to overcome their fears by trying new things.

Making a real difference in the lives of children

The Canada Post Community Foundation for Children delivers a brighter future to children and youth in Canada.

The Foundation takes a grassroots community approach to raising money. It uses our vast network of post offices across the country. Funds are raised through donations at the counter, the sale of special fundraising stamps and employee fundraisers in each community.

This approach has helped the Foundation grant more than \$2.8 million to more than 215 community projects in 2013 and 2014.



In 2014, the Foundation granted more than \$1.3 million in vital support to 107 community organizations across Canada. The Foundation intends to grant an additional \$1.2 million in 2015.

The money raised has helped support a wide range of special initiatives. It has helped children with terminal illness go to summer

camp, and has reduced waiting times for teens seeking mental health support. It has provided therapy dogs for children who have experienced trauma, and contributed to literacy programs to improve the job prospects of disadvantaged youth.

The Foundation also contributed to breakfast programs, playground equipment, computers in classrooms, nutrition classes, sports initiatives and libraries across the country.

Accountability Chairperson's message

The Board of Directors is focused on ensuring that Canada Post can continue to serve Canadians as a sustainable, financially self-sufficient business.

To achieve this, the Corporation has embarked on a historic transformation with its Five-point Action Plan. 2014 was the first full year of the plan's implementation, and the Board's due diligence helped to ensure that it was being executed effectively. Of necessity, the plan's changes are unfolding on an ambitious scale, but Canada Post made significant early progress during the year.

The Corporation has also demonstrably taken into account the impact of change on customers, communities and employees. On the conversion to community mailboxes, for example, it has fully informed them, invited their feedback, and tailored its solutions where possible. While the Board is pleased with the thoughtful approach and solid momentum so far, there is much work left to do before Canada Post will be sustainable for the next generation.

Equally important is the sustainability and affordability of Canada Post's defined benefit pension plan. Management is diligently working with all stakeholders, including unions, to find alternatives that will help achieve that goal. The Board will maintain a sharp focus on these crucial initiatives.



I was privileged to be appointed as Chairperson after my predecessor, Marc A. Courtois, retired. Having served seven years on the Board, I am grateful to be able to offer experience and continuity for this institution. Canada Post continues to play a vital role for the economy and for Canadians. By adapting to Canadians' changing needs for physical delivery, Canada Post is not simply adapting to the digital age. By delivering the physical fulfillment of countless digital transactions, it is a vital e-commerce linchpin.

Going forward, the Board will continue to exercise diligence as the Five-point Action Plan proceeds. It also looks forward to supporting management as it builds on growth in

e-commerce, develops new and more convenient services for small businesses and sharpens its focus on customers. Canada Post's transformation is off to an excellent start. The Board and I are confident in Canada Post's leadership and in the eventual outcome of the journey toward a sustainable Canada Post.

A handwritten signature in blue ink, reading "Siân M. Matthews".

Siân M. Matthews
Chairperson of the
Board of Directors

Board of Directors



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



Thomas Cryer ■★
FCPA, FCA
Rosseau, Ontario



**The Honourable
Stewart McInnes** ✨♦+
Q.C.
Halifax, Nova Scotia



Iris Petten ✨●
Conception Bay South,
Newfoundland and Labrador



William H. Sheffield ☆★★
Vancouver, British Columbia



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



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



Andrew B. Paterson ▲●
Winnipeg, Manitoba



Alain Sans Cartier ★ ✨+
L'Ancienne-Lorette, Quebec



Donald Woodley ♦●+
Mono, Ontario

- Chairperson of the Audit Committee
- ♦ Chairperson of the Corporate Governance and Nominating Committee
- ☆ Chairperson of the Human Resources and Compensation Committee
- ▶ Chairperson of the Pension Committee
- ✦ Chairperson of the Strategic Initiatives Oversight Committee
- ▲ Member of the Audit Committee
- ✨ Member of the Corporate Governance and Nominating Committee
- Member of the Human Resources and Compensation Committee
- ★ Member of the Pension Committee
- ✦ Member of the Strategic Initiatives Oversight Committee

One seat is currently vacant.

As of March 12, 2015

Officers of the Corporation

President and Chief Executive Officer
Deepak Chopra

Group President
Jacques Côté
Physical Delivery Network

Senior Vice-Presidents
Wayne Cheeseman
Chief Financial Officer

René Desmarais
Parcels

Stéphane Dubreuil
Strategy, Corporate Marketing and
Digital Channel

Douglas Jones
Delivery and Customer Experience

Scott G. McDonald
Chief Human Resources Officer

Mary Traversy
Business Transformation

André Turgeon
Chief Information Technology Officer

Vice-Presidents

Bonnie Boretsky
General Counsel and Corporate Secretary

Bill Davidson
Engineering

Murray Dea
Real Estate

Stephen Edmondson
Customer Relations

Graeme Gordon
Digital Channel

Douglas Greaves
Pension Fund and Chief Investment Officer

William (Bill) Gunton
Marketing and Commercial Products

Ann Therese MacEachern
Human Resources

Barbara MacKenzie
Finance and Comptroller

Susan Margles
Government Relations and Policy

Serge Pitre
Sales

Jo-Anne Polak
Communications and Public Affairs

Brian Wilson
Mail Processing and Network

As of March 12, 2015

Michael O'Bryan Corporate Auditor
Steven Galezowski Corporate Treasurer

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

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

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

The Board of Directors is composed of 11 members, including the President and Chief Executive Officer, all of whom are Governor-in-Council appointees. As of March 12, 2015, one seat is temporarily vacant. As overseer of an \$8-billion commercial enterprise, the Board brings strong business judgment and expertise to the stewardship of Canada Post.

To provide oversight for such a large and complex organization, directors devote 25 to 30 days a year to Board work. In 2014, the Board met seven times and its committees met a total of 19 times.

Gender diversity on the Board

Canada Post recognizes the relationship between gender diversity and corporate performance. Working with the shareholder, the Board ensures that highly qualified female candidates are identified for any vacant positions. It works closely with the office of the Minister of Transport to recommend potential candidates that will provide the skills needed by the Board and also address its commitment to diversity. The Board currently has 20 per cent female members, including the Chairperson. It is focused on growing this number as it identifies new candidates in 2015.

Employee diversity is a business imperative in today's world. The Board has established an Equality in Employment policy for the

Corporation and regularly reviews its performance in this area.

Independence of the Board

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

Committees of the Board

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

and the Pension Committee. In 2013, the Strategic Initiatives Oversight Committee was created to provide oversight of the development and implementation of major initiatives such as the Five-point Action Plan.

Board effectiveness

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

Subsidiaries

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

Governance in principle

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

More information can be found in the Corporate Governance section of canadapost.ca.

Ombudsman's report

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

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

In 2014, the Office received 4,885 appeals, a modest 3-per-cent increase over 2013. Of these, 2,708 cases were investigated. In 58 per cent of cases, some corrective action was required – compared to 60 per cent in 2013. In the remaining 42 per cent of the cases, the investigation supported Canada Post's actions.

Almost half the appeals did not result in an investigation because customers appealed before giving Canada Post time to complete its review, or customers were unable to provide sufficient information.

A total of 1,315 appeals investigated were related to the *Canadian Postal Service Charter*, a 5-per-cent increase year over year. The Office investigated 7 per cent fewer cases regarding security and privacy of the mail than it did in 2013.

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



Ombudsman
CANADA POST • POSTES CANADA

Accountability Canadian Postal Service Charter

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

Our compliance to the Charter for 2014 is presented in blue italics after each clause.

Preamble

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

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

Universal service

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

All 15.7 million Canadian residential and business addresses were served, and international inbound and outbound services were provided to 192 countries.

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

Approximately 7,300 rural and suburban delivery routes served about 4.5 million addresses.

Approximately 3,700 postal outlets served rural customers.

Affordable rates

3. Canada Post will charge uniform postage rates for letters of similar size and weight, so that letters to Canadian addresses will require the same postage, regardless of the distance to reach the recipient.

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

4. As required by the *Canada Post Corporation Act*, Canada Post will charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.

On March 31, 2014, the price of Permanent™ (or "P") stamps bought in booklets, coils and panes became \$0.85 per stamp. The price of a single stamp became \$1.



5. Canada Post will provide advance notice of and publicly advertise proposed pricing changes for regulated letter mail products and consult with consumers during the rate-setting process.

All changes to regulated postage rates were published in the Canada Gazette to allow for consideration of public input prior to final Government of Canada approval.

Frequent and reliable delivery

6. Canada Post will deliver letters, parcels and publications five days a week (except for statutory holidays) to every Canadian address, except in remote areas where less frequent service may be necessary due to limited access to the community.

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

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

Canada Post served every address in Canada in 2014. To start the year, one third of households still received mail delivery to the door, while the other two thirds were already receiving mail and parcels through community mailboxes, grouped or lobby mailboxes, end-of-lane rural mailboxes or to a post office.

8. Canada Post will deliver letter mail:

- Within a community within two business days;
- Within a province within three business days; and
- Between provinces within four business days.

In 2014, the on-time service performance for Domestic Lettermail delivery was 94.3 per cent.

Convenient access to postal services

9. Canada Post will provide an extensive network for accessing postal services that includes retail postal outlets, stamp shops and street letterboxes, as well as access to information and customer service through Canada Post's website and call centres.

In addition to almost 6,300 full service postal outlets and thousands of places to buy stamps, Canada Post offered 24/7 access to canadapost.ca for online services, such as tracking a package, registering a change of address and purchasing postage.

Canada Post also provided 200,000 collection points where postal items can be deposited (and 714,000 rural mailboxes, which are also collection points).

(Continued)

Accountability Canadian Postal Service Charter

10. Canada Post will provide retail postal outlets, including both corporate post offices and private dealer operated outlets which are conveniently located and operated, so that:

- 98 per cent of consumers will have a postal outlet within 15 km;
- 88 per cent of consumers will have a postal outlet within 5 km; and
- 78 per cent of consumers will have a postal outlet within 2.5 km.

In 2014, 98.8 per cent of Canadians lived within 15 km of a postal outlet, 90.7 per cent within 5 km, and 79.3 per cent within 2.5 km.

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

There were 214 events potentially affecting ongoing operation of rural post offices. In 84 per cent of cases, retail services were maintained within the same community. The other 16 per cent of cases were resolved through services provided in nearby towns.

Secure delivery

12. Canada Post will take into consideration the security and privacy of the mail in every aspect of mail collection, transmission and delivery.

Canada Post is committed to taking all measures necessary to ensure the security and privacy of mail. Employees and contractors must follow standard security measures for the protection of mail in their care. Violation of this policy can result in removal from the workplace, suspension, termination of employment and prosecution under the law. In addition, the Security and Investigation Services group works with local, provincial and national law enforcement agencies on various investigative strategies to protect the mail and prevent crimes related to identity theft.

Community outreach and consultation

13. Where Canada Post plans to change delivery methods, Canada Post will communicate, either in person or in writing, with affected customers and communities at least one month in advance to explain decisions and explore options that address customer concerns.

In 2014, Canada Post began to convert the one third of households that still have delivery to the door to community mailbox delivery. As of early 2015, about one million households had either been converted or had been informed that they will be converting in 2015. We request feedback from residents early in the process through a survey to help us understand the preferences of each community and the issues that matter most to them. We also communicate

regularly with customers throughout the process, which takes about 10 months to complete, to keep them informed and answer their questions.

14. At least one month before deciding to permanently close, move or amalgamate corporate post offices, Canada Post will meet with affected customers and communities to jointly explore options and find practical solutions that address customer concerns.

In 2014, nine urban corporate post offices came under review. Affected customers and communities were notified and consulted at least one month in advance of any proposed change.

15. Each year, Canada Post will hold an Annual Public Meeting open to the public to provide an opportunity for the public to express views, ask questions and provide feedback to Canada Post.

Canada Post held its ninth Annual Public Meeting November 18, 2014, in Ottawa at Canada Post Place.

Responding to complaints

16. Canada Post will establish and promulgate complaint resolution processes that are easily accessible to customers and will address complaints in a fair, respectful and timely manner.

Customer questions or complaints can be directed to Canada Post through various means. In 2014, Canada Post received 3.6 million telephone calls and more than 547,000 electronic customer inquiries through email, fax, online forms, chat and social media.

17. The Canada Post Ombudsman will investigate complaints about compliance with the *Canadian Postal Service Charter* in situations where customers remain unsatisfied after they have exhausted Canada Post's complaint resolution processes.

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

Reporting on performance

18. Each year in its Annual Report, Canada Post will report on its performance against each of the expectations in this *Canadian Postal Service Charter*.

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

See the table on this page.

Reviewing the Charter

20. The Government will review the *Canadian Postal Service Charter* every five years after its adoption to assess the need to adapt the Charter to changing requirements.

Delivery method	Number of addresses*	% of total addresses	Average annual cost per address
Door to door	4,980,959	32%	\$289
Centralized point (e.g. apt. lobby lockbox)	3,957,753	25%	\$119
Group mailbox, community mailbox, kiosk	4,255,859	27%	\$111
Delivery facility (postal box, general delivery)	1,768,848	11%	\$58
Rural mailbox	713,642	5%	\$189
All methods	15,677,061	100%	\$167

* As at December 31, 2014

Other public policy programs

Government mail and materials for the blind

The *Canada Post Corporation Act* allows for mailing of letters free of charge between citizens and the Governor General, members of Parliament (MPs), the speakers of the Senate and the House of Commons, the Parliamentary Librarian and the Ethics Commissioner. MPs can also send up to four flyer mailings a year free of charge to their constituents.

The Act also provides for free mailing of materials for the blind. Visually impaired Canadians and many libraries across the country, including that of the Canadian National Institute for the Blind, send talking books and other materials free of charge across Canada and around the world.

Canada Post received a government appropriation of \$22 million in 2014 to help offset the financial impact of these programs on the Corporation.

Library materials

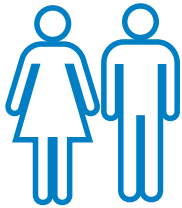
The Library Materials service is available to recognized public libraries, university libraries or other libraries that are maintained by non-profit organizations or associations and are for public use in Canada. The service provides reduced postage rates for eligible library materials circulated between a library and its patrons. Canada Post receives no appropriation or compensation of any kind from the government to offset the reduced postage rate.

Environment policy

Canada Post is committed to environmental protection in its operations. Canada Post has determined in accordance with sections 66 and 67 of the *Canadian Environmental Assessment Act, 2012* that, to the best of its knowledge, during 2014 its projects were not likely to cause significant adverse environmental effects.

Our size and scope

EMPLOYEES



65,000

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

FLEET



Almost

12,000

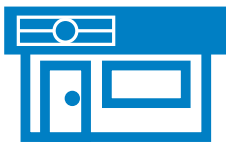
Canada Post-owned vehicles

ADDRESSES SERVED



15.7 million

RETAIL POST OFFICES

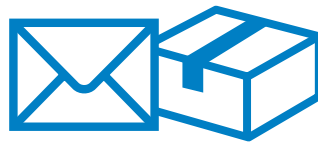


Almost

6,300

retail post offices across Canada

PIECES DELIVERED



More than

9 billion

pieces of mail, parcels and messages in 2014

RESIDENTIAL ADDRESSES

14.4 million*



BUSINESS ADDRESSES

945,000*

*In addition, more than 300,000 post office boxes serve residential or business customers.

ITEM TRACKING



More than

258 million

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

CANADAPOST.CA



175 million

visits to canadapost.ca in 2014 (includes visits to epost.ca)

PLANTS AND DEPOTS



21

processing plants

492

delivery depots