

Postal Transformation

Canada Post's \$2-billion modernization program will improve efficiency and productivity, allow us to respond better to changing markets, and help keep employees healthier and safer. 2009 brought us much closer to these goals.

With Postal Transformation, the company's technology leaps forward several generations. We are replacing mail-processing equipment from the 1970s and 1980s with leading-edge machinery capable of sorting mail faster, more accurately and more thoroughly. These machines can sort mail down to the individual letter carrier's route and place it in the order he or she travels the route.

Our industry calls this sequencing. After a 2009 full of planning, purchasing of equipment and preparation, sequencing will arrive in Winnipeg in 2010 and fan out in numerous other centres across the country before long. It will greatly reduce the amount of sorting carriers still do by hand. This time savings allows us to build efficiency into our new delivery model.

The way Canada Post delivers the mail has remained essentially unchanged for decades. Postal Transformation's updated technology and processes will modernize an outdated approach. Just as this modernization is unprecedented, so too is the degree of consultation the company has undertaken with its unions and employees.

Our new delivery model will also make its debut in Winnipeg in 2010. It will make use of the time letter carriers save by not having to manually sort so much mail. They will also be able to deliver parcels, collect mail from retail postal outlets and clear street letter boxes, all because most routes eventually will become motorized.

In 2009, letter carriers and health and safety experts were involved in testing the new light-duty vehicle our carriers will use.

This involvement helped with the company's decision in 2010 to purchase 1,175 fuel-efficient, ergonomic Ford Transit Connect™ mail trucks—the model those letter carriers preferred.

Using a "park-and-loop" system on their routes, letter carriers will park these vehicles at well-chosen spots to carry bundles of mail to the door on foot and loop back to the vehicle. They will also be able to make individual delivery stops for single, multiple or centralized points of delivery, reducing the weight they have to bear at any given time. The vehicle eliminates the need to use relay boxes on the routes and also offers letter carriers warmth and shelter when needed.

Early in 2009, Canada Post letter carriers learned when they visited their peers in North Dakota that sequencing and the park-and-loop method have proven safe and efficient for the United States Postal Service ("USPS") for more than a decade. This is also true of carrying two light bundles of mail in one arm, which our letter carriers are adopting. We are encouraged that the USPS saw a decrease in injuries for letter carriers after introducing sequencing, and we look forward to seeing similar results.

During their shifts, letter carriers will also be able to update our database of addresses by using a new tool called Edit Book. Canada Post needs to continuously maintain an accurate, current inventory of addresses to improve and add to existing services.

Throughout 2009, we continued our consultations with our unions about the impact of Postal Transformation. We



In every aspect of Postal Transformation, we continued in 2009 to plan for employees' health and safety.

For example, we designed a "letterflattainer" with employees' input. This container is a basic tool of the trade used by thousands of our employees in our plants, depots and retail to help collect, sort and process the mail every day. During 2009, we took the best design elements from postal services around the world but we also had hundreds of Canada Post employees try out the design along with newly designed carts. These efforts helped us create a unique letterflattainer with, for example, smaller dimensions that make for lighter loads. This will reduce weight by 30 per cent.



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met 30 times, for example, with the Canadian Union of Postal Workers at the national level, 13 times as a national joint health and safety committee, and on numerous other occasions to obtain agreement on the new work methods and standards for delivery.

Winnipeg benefits first from Postal Transformation. The opening in 2010 of this city's flagship mail-processing plant is a milestone. Located on 27 acres near James Armstrong Richardson International Airport, the plant replaces a 50-year-old plant downtown. Its innovative design demonstrates Canada Post's commitment to creating a safer, healthier workplace for employees and to protecting the environment.

While Winnipeg plans for state-of-the-art Lettermail sorting machines to sequence Lettermail items, it is also preparing for the new delivery model, having used Edit Book to achieve 99 per cent accuracy in addresses. The first of two new delivery depots in Winnipeg will also open in 2010. The Southwest depot, in an industrial park nine kilometres from City Hall, will consolidate three existing depots and portions of two other depots.

Winnipeg illustrates how much effort goes into preparing employees for change. For example, hundreds participated in a trade show to learn about the new work centres and equipment. A survey showed that 98 per cent of employees are proud that Winnipeg is leading the country into the Modern Post.

Winnipeg, after all, is just the start. In the coming months, Montréal, Toronto and Hamilton will also get new equipment. The Gateway facility in Mississauga, Ontario,

already saw major revamping in 2009, which included replacing its obsolete packet and bag sorters and construction of 24 new docks.

Postal Transformation has involved customers, too, through numerous consultations in 2009. They helped us plan many of our improvements. One example is the introduction of the Machineable Presort option for Addressed Admail™ items in January 2011. We continue to work with our customers to plan a smooth transition to the Modern Post.

In 2009, our Shareholder, the Government of Canada, helped us bring the benefits of Postal Transformation to customers and employees by increasing our borrowing limit to \$2.5 billion from \$300 million.

Our Postal Transformation plans will allow us to achieve the maximum possible benefits from an investment reduced from earlier forecasts of a \$3.1-billion spending program. We are focusing on the specific projects that are most crucial and those that will generate the highest return. Among other things, we will automate mail processing in all major cities across Canada. By 2017, when our plan is fully implemented, we forecast that modernization will generate annual savings of approximately \$250 million.

Postal Transformation—including the new delivery model—is crucial to sustaining our company because it offers greater efficiency, the opportunity to reduce our costs, improved service, and the flexibility to adopt new products, features and services.

By continuing to modernize, Canada Post is confident it can remain competitive.



We have assured our people and our unions that Postal Transformation will not result in layoffs. In future, Canada Post will need fewer people to operate, but the reduction will occur naturally as thousands of employees retire or choose to leave during the next several years. Efficient technology and processes mean the company will not have to replace all of the employees who leave. By taking advantage of this attrition, we will reduce our annual operating costs.

As the company and employees saw in a tough 2009, savings are vital to protecting secure jobs, and maintaining benefits and pension plans.