Addressing the future

Annual Report 2004

CANADA POST POSTES CANADA

From anywhere... to anyone

A cause for celebration...

For 10 consecutive years, Canada Post Corporation has produced profits to the benefit of our Shareholder, our employees and all Canadians. This unprecedented record of success has produced high service performance standards and rising levels of customer and employee satisfaction. A decade of achievement is cause for celebration.

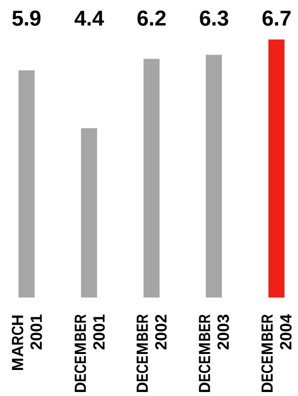
A case for change...

However, there are major challenges ahead brought on by rapid technological change. As the pace of electronic substitution continues to erode traditional lettermail volumes, it is clear that strategies must be revised to bring new product offerings to the marketplace. Now is the time to prepare the case for change.

Highlights

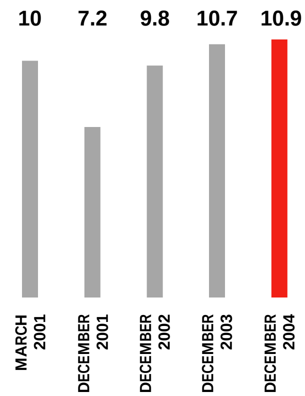
REVENUE FROM OPERATIONS

Billions of dollars



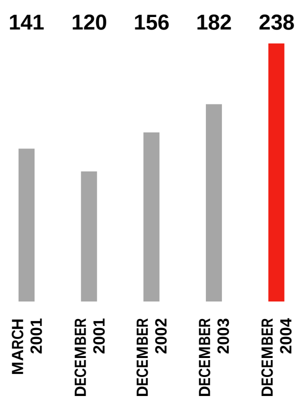
VOLUME*

Billions of pieces



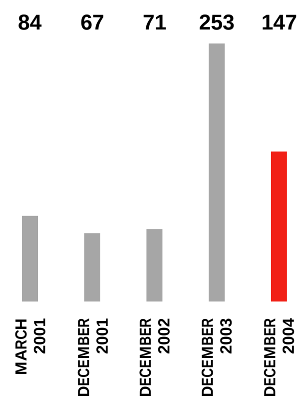
INCOME FROM OPERATIONS

Millions of dollars



REPORTED NET INCOME

Millions of dollars



On a consolidated basis, the Corporation processed 10.9 billion pieces during the 12-month period. Consolidated revenue from operations reached $6.7 billion and consolidated net income totalled $147 million.

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

Chairman's message

I am pleased to report Canada Post Corporation's financial results for the 12-month fiscal period ending December 31, 2004. The Corporation ended the period with net income of $147 million, a solid achievement against planned net income of $64 million. This extends the Corporation's record of profitability to 10 consecutive years.

The Corporation's decade of sustained success in achieving or exceeding its financial targets while continuously improving customer service reflects the strong commitment of Canada Post's management team and its dedicated employees.

In 2004, the Corporation paid a dividend of $63 million to the Shareholder, the Government of Canada. The return on equity for 2004 reached 12.1 per cent, a significant milestone and the achievement of one of the key objectives of the Policy Framework approved by the government in 1998. The total dividends paid to the Shareholder over the last five fiscal periods amount to $137 million.

Canada Post's business model has proven very successful and contributed to a long period of profitable results and strong service performance. Yet the changing needs of customers, driven by electronic substitution brought on through technological change, necessitates adjustments to strategies now in place.

The ongoing erosion of mail volumes triggered by technology is the most significant issue that threatens Canada Post's future profitability. Furthermore, the decline in mail volumes is occurring throughout the industrialized world. The integration of the North American market and globalization in general has increased the need for players offering global distribution.

Canada Post and its group of companies need to address these challenges to assure the sustainability of its businesses. It is imperative that the Corporation continues to invest in new products and services to generate the profits required to meet its obligations in the future.

On behalf of the Board of Directors, I have every confidence that our company will continue to evolve to meet the needs of Canadians, both individuals and businesses. Our record of success has provided a solid foundation for our future growth.

Gordon Feeney
Chairman of the Board of Directors

President's message

It gives me great pleasure to extend congratulations to each and every employee as we acknowledge our collective success in helping the Corporation achieve its tenth consecutive year of profitability.

In 2004, thanks to the continuing support of our 70,000 employees across the country, we recorded another year of strong financial results, our highest ever service performance rating and best ever level of customer satisfaction. It is clear that our workforce is focused on providing customers with the best possible service at the best possible prices.

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. During this period, our company has evolved into an organization that offers far more than mail delivery. The Canada Post Group, through partnerships and acquisitions, now provides a wide range of services with expanded international reach.

However, like other postal administrations, Canada Post operates in a complex and rapidly changing business environment. We must continue to innovate and review our business strategies to better meet customer needs and improve overall efficiency. We are facing new challenges over the next decade as we seek to develop additional sources of revenue to counter losses from the ongoing erosion of lettermail volumes.

Throughout this process of renewal, we will continue to build on the co-operative relationships forged with our employees. The shared values of trust and loyalty have served us well in recent years and will provide the building blocks for continuing to work together to preserve our future prosperity.

While the Canada Post of the future may not resemble the postal service of the past, we will work to ensure that new and relevant products are brought to the marketplace to meet the needs of Canadian consumers and businesses. Together, I am confident that we will continue to provide the highest levels of customer service that will extend our remarkable record of success.

Anne Joynt
President and Chief Executive Officer

2004: Our Scope

Canada Post'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.

Our record of success is a true reflection of our role in connecting Canadians throughout the land. Dedicated to providing reliable, affordable and universal service from coast to coast, we are proud to meet and exceed our commitment to deliver the highest standards of service to our customers in the most cost-effective manner. And faced with the new challenges of a rapidly changing business environment, we will continue to evolve to ensure our future success remains secure.

Through its presence in nearly every community across the country, Canada Post is a major contributor to the national economy. The Corporation has 70,000 full- and part-time employees, making it the seventh largest employer, and is ranked 40th among Canadian businesses in terms of consolidated revenue.

The Corporation spends $2.8 billion annually on goods and services, creating 30,000 additional jobs, primarily in the transportation and communications sectors. Each year, we deliver over 10 billion letters and packages to 31 million Canadians and over one million businesses and public institutions. These items are processed through 26 major plants and other facilities for delivery to 14 million addresses in Canada.

Our retail network is the most extensive in the country. There are more than 23,000 retail points of purchase, including full service postal outlets, franchises and stamp shops, where customers can access postal services. Our goal is to provide our customers with convenient access to a fully integrated suite of services that provides the best value.

The financial success achieved by the Corporation over the past 10 years has provided a solid foundation for future growth. To prepare for the emerging challenges triggered by new technologies, such as the erosion of lettermail volumes through electronic substitution, Canada Post has embarked on a process of renewal aimed at updating strategic goals.

In so doing, we will seek to place more emphasis on responding effectively to the needs of our customers while addressing the reality of lower mail volumes combined with higher delivery costs. Like other postal administrations, Canada Post must continue to seek innovative solutions that will provide the opportunity to maintain its vital role as a key enabler of business in the Canadian economy.

Addressing the future:

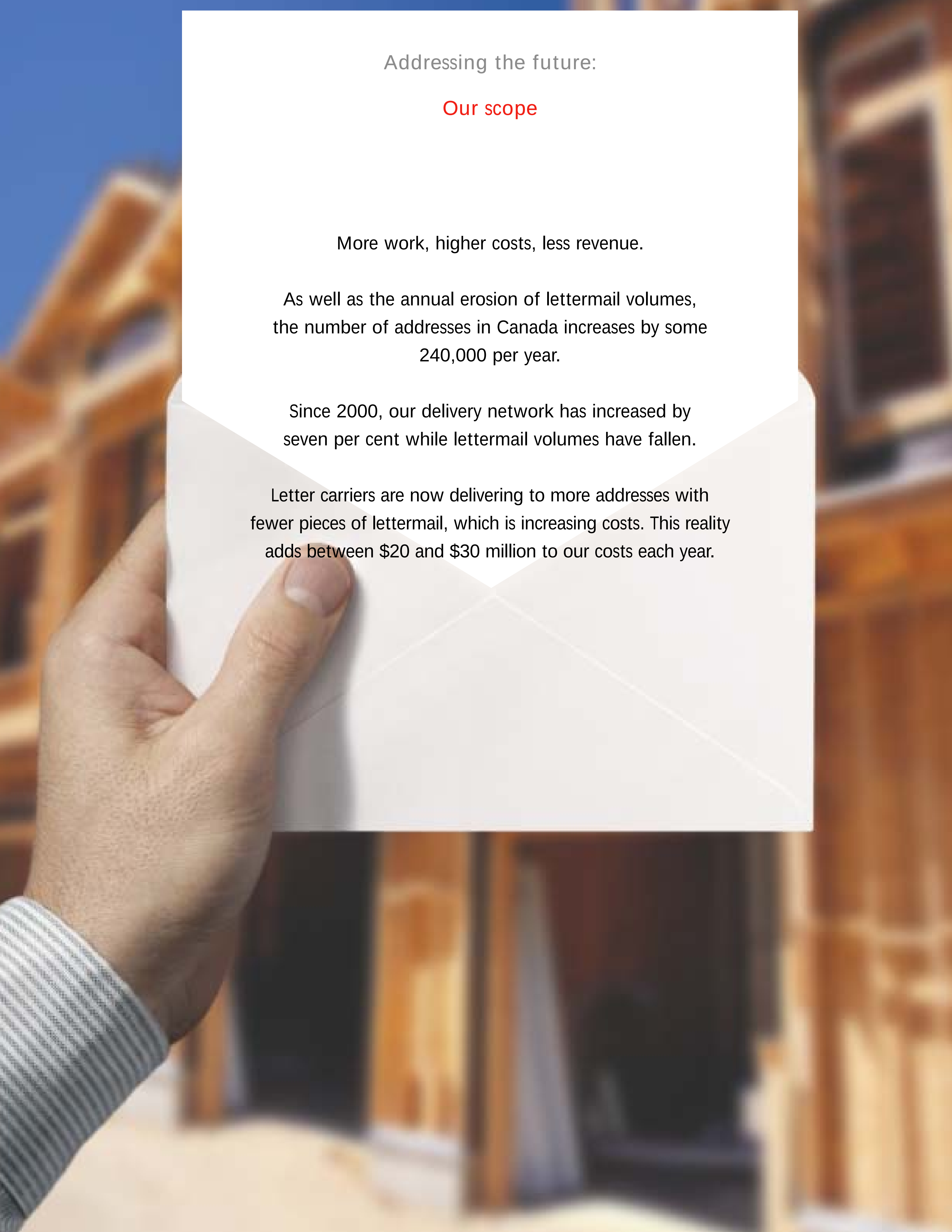
Our scope

More work, higher costs, less revenue.

As well as the annual erosion of lettermail volumes, the number of addresses in Canada increases by some 240,000 per year.

Since 2000, our delivery network has increased by seven per cent while lettermail volumes have fallen.

Letter carriers are now delivering to more addresses with fewer pieces of lettermail, which is increasing costs. This reality adds between $20 and $30 million to our costs each year.



2004: Our products

Lettermail remains a cornerstone of our business as well as an inexpensive and reliable means of sending personal greetings and business correspondence anywhere in the world. Canadians continue to enjoy domestic basic lettermail service at rates that are among the most competitive when compared to other industrialized countries. Within the G7 group of countries, Canada is consistently amongst the two least expensive nations.

In addition to our commitment to providing universal and affordable service, we have publicly committed for many years to deliver 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.

These service performance levels are measured throughout the year by an independent firm using test mailings deposited into the mailstream. In 2004, we exceeded our target of 96.0 per cent, reaching an on-time delivery performance score of 96.8 per cent.

Xpresspost is our fast and reliable alternative to regular mail, and at a much lower cost than courier. For businesses involved in marketing and selling, Addressed Admail is Canada Post's most economical direct mail service while offering the ability to target promotional messages to specific individuals and addresses. Unaddressed Admail is delivered to more than 14 million addresses, with geographic, demographic and lifestyle information available to further target messaging.

While earning our position of trust in the delivery of physical mail, the emergence of Internet-based eCommerce has opened the door to new opportunities for electronic solutions to meet the demands of the marketplace.

With epost, businesses and consumers can choose to use the Internet to send and receive critical documents online. epost connects Canadians with the companies and organizations they do business with through a consolidated, secure mail delivery network.

With an innovative range of eCommerce solutions, combined with our unmatched delivery network, we have extended our communications, distribution and logistics solutions with the goal of becoming the preferred supplier of value-added services.

These product offerings are essential to the long-term financial health of the Corporation. With lettermail volumes in decline throughout the industrialized world, postal administrations are facing rapid change in a challenging business environment. Canada Post, profitable for a decade, will make the transition to a more sustainable business model to secure a future that is financially and competitively relevant.

Addressing the future:

Our products

We are faced with a major challenge over the next decade, as we seek to develop new sources of revenue to counter losses from the erosion of lettermail. These volumes are declining worldwide at rates of one per cent or higher per year. In Canada, lettermail volumes have been declining at one to two per cent per year, resulting in significant lost revenue.

We will focus on increasing market share for core products as well as developing product extensions based on core competencies.

2004: Our customers

The drive for excellence in customer service remains at the foundation of everything we do. We are striving to provide the best service at the best prices and to anticipate the needs of the marketplace by offering new and better solutions. By acting as problem solvers for our customers, we can demonstrate why Canada Post is the best choice for their communications and delivery needs.

As a Crown corporation, Canada Post upholds its public policy obligations while competing vigorously but fairly in the marketplace. Through adherence to Canada's competition law, the Corporation brings added value to businesses and consumers, generates profits, and seeks to ensure its future growth.

A new program aimed at determining important drivers of customer loyalty and market share is being implemented to provide insight into our performance in the marketplace. This Customer Value Management process will significantly improve our ability to market and sell with more precision and to ensure improvement initiatives are targeted to maximize the impact on our business.

To monitor our progress, we have continued to measure the level of our customer satisfaction through independent surveys conducted throughout the year. In 2004, the satisfaction index for commercial customers rose three points to 81 per cent from the previous year, while the score for the small business and consumer segment rose two points to 77 per cent. We are firmly committed to uninterrupted improvement in our approach to customer service.

As part of our response to the growing complexity in the marketplace and the evolving needs of our customers, we have expanded to form the Canada Post Group. Whether there are demands for fast same-day delivery and overnight courier, or advanced technology processes and seamless third-party inventory and order processing management, the Canada Post Group supports customers at home and around the world.

Yet the fact remains that the Corporation is facing stiff competition operating in the new global environment. Our major competitors are international in scope and include private companies and other postal administrations. The Canada Post Group is seeking to address these challenges in order to protect and grow its position in the distribution and logistics market.

With consumer acceptance gradually catching up to the changes driven by technology, it is clear that a transition in corporate strategy is underway. This program of renewal will place more emphasis on operating profitable businesses, boosting productivity and offering services that our customers will want to buy. These changes will serve to protect our collective future prosperity and ensure that Canada Post continues to play an integral role in the lives of our customers.

Addressing the future:

Our customers

The fight to maintain and increase our customer base has never been more competitive.

The Canada Post Group lags far behind its global competitors in terms of size and scale, global reach, and ability to invest. This has already resulted in increased international competition in our domestic distribution business.

Most customers (businesses and individuals) have at least adapted to some degree to electronic communications. As a result, e-mail and electronic billing and payments provide an economical alternative to lettermail.

2004: Our people

Our continuing ability to meet and exceed our service and performance targets reflects the outstanding contribution of our workforce and the results they have achieved. To build on this success, we must extend the partnership we have forged with our employees to ensure they become a competitive advantage.

Canada Post's ability to connect Canadians wherever they live is demonstrated in the day-to-day interaction of our employees with our customers. In communities in every corner of the country, we are involved in activities and events that serve to strengthen and unite our society.

Through volunteerism, hundreds of thousands of children from across Canada and around the world receive a letter from Santa Claus every year. For more than two decades, thousands of our own employees have helped Santa answer his mail. Although these letters arrive in more than 20 different languages, each child receives a personalized response in his or her own language.

Our company also reaches out to the grassroots through ongoing promotion of the Canada Post Literacy Awards, targeted to recognize the achievements of those directly involved in helping Canadians who have difficulty reading and writing. By raising public awareness and supporting the efforts of individuals, organizations, educators and businesses involved in overcoming barriers, we are striving to make a meaningful contribution to this societal challenge.

Employee support is also demonstrated through our efforts to protect the environment. Canada Post was the first Crown corporation to commit to helping the federal government reduce its emissions of greenhouse gases under the Kyoto Protocol. Employees are now involved in numerous programs for promoting energy conservation.

Through these and other programs, we value the role of our employees in supporting our company, in the workplace, and at home. Together, we are building a renewed relationship of trust and loyalty. New agreements with our bargaining agents have secured working relationships free of labour discord to the benefit of all our stakeholders.

As we move forward, attrition rates and employee retirements will increase substantially over the next several years, in line with the aging Canadian workforce. This has begun to place strains on the cost of funding employee benefit packages and will necessitate measures to keep these costs in line in order to preserve them for future years.

Addressing the future:

Our people

Our costs are rising faster than our revenues. An estimated 65 per cent of overall expenses are attributed to salaries and benefits, which continue to grow.

While the employee base is shrinking through attrition, the ongoing wave of retirements of the baby boom generation will lead to higher pension and benefit costs. The challenge will be to ensure these costs are kept in line to ensure their long-term viability.

2004: Our stamps


CANADA
Jean Paul Lemieux

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 the direction and management of the business, activities and other affairs of the Corporation. It is responsible for overseeing Canada Post on the government's behalf by holding management accountable for performance, long-term viability and achievement of its objectives. To fulfill these responsibilities, the Board exercises judgment in the following four general areas:

- establishing the strategic direction for Canada Post;
- safeguarding the resources of Canada Post;
- monitoring corporate performance; and,
- reporting to the Crown.

The Board of Directors of Canada Post is comprised of 11 members, including the Corporation's President and Chief Executive Officer. The Chair and the President and Chief Executive Officer are Governor-in-Council appointees. Each Director is appointed by the Minister with the approval of the Governor-in-Council. Each member brings her/his unique and valuable experience and judgment 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 Chair.

INDEPENDENCE OF THE BOARD

Traditionally, the position of the Chair and that of the Chief Executive Officer are separate, although both are Governor-in-Council appointments. In addition, the Board holds its meetings without the presence of management unless its presence is required for presentations or reports, and the Audit Committee regularly meets in camera with the Corporation's auditors. Furthermore, the Board, its committees and individual directors may engage independent counsel and advisors upon request and at the discretion of the Board.

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.

In February 2004, the Board of Directors of Canada Post asked the Corporation's external auditors, Deloitte & Touche, to undertake a wide-ranging and thorough examination of Canada Post's sponsorship, marketing and advertising activities as well as Canada Post's management practices. The examination covered the period 1996 to 2003 and was initiated in response to questions raised by the Auditor General. The report was provided to the Minister Responsible for Canada Post Corporation on July 27, 2004, and publicly released on July 29, 2004.

Recognizing that the Deloitte examination brought to light issues with respect to oversight and governance, the Board moved forward with a comprehensive action plan to address these issues. This included the implementation of a whistleblower mechanism and the approval of a revised delegation of authority to both prevent and/or detect transactions such as those that occurred in the past.

In 2004, the Board, assisted by its Corporate Governance Committee, continued a number of initiatives aimed at enhancing corporate governance with a view to the best interests of the Corporation, the government and other key stakeholders. The governance structure for the pension fund is consistent with the existing governance structure for the Board, but it brings investment capabilities and strategies that match the best private-sector pension funds. The administration of the pension fund will ensure the interests of our employees are well served.

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

In addition, the Board has received recommendations on the changing role and obligations for its Audit Committee. These changes relate to the enhanced responsibility to consider fraud and error in financial statements issued by the Canadian Institute of Chartered Accountants in 2004 with respect to the Corporation's external auditors and the Audit Committee's role in exercising due diligence over the external and internal audits. In accordance with these recent recommendations, 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.

Ombudsman's report

The year 2004 has been one of adjustments for the Office of the Ombudsman. The trend that developed over the previous years regarding requests for assistance continued in 2004. While the total number of complaints received in the Office has slightly decreased (4.5%), the number of complaints actually requiring full investigations and written responses has increased substantively (23%). This brought additional burden on staff members involved in the handling of customer cases.

To prevent backlogs in the processing of customer complaints while maintaining the same level of resources, a structural realignment became necessary. Although this realignment allows my office to continue to provide quality and timely service to our customers, it is assessed on a regular basis to ensure the workload on any individual remains manageable.

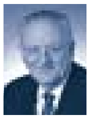
Another milestone of 2004 was the replacement of our two aging databases with a single more efficient one. Over the years, as the number of complaints increased in the Office, the two original databases became increasingly slower and communication between them frequently resulted in system errors that either slowed down or completely paralyzed our activities for short periods of time. In addition to the refined processing of information, the new database provides improved security enhancements and maintenance screens to enable self-assessment of basic software problems as opposed to having to call an expert technician every time a problem occurs. To facilitate the synergy between the two institutions, the new system is now compatible with Canada Post nomenclature and its structure. For example, the same geographical divisions as Canada Post are used in the gathering and reporting of statistics. The new system is gradually being implemented.

Again this year we have submitted a few recommendations to Canada Post, all aimed at improving postal service for all Canadians. It is important to remind ourselves that Canada Post is not bound by my recommendations and I rely on persuasion to convince proper authorities of the appropriateness of my recommendations. Over the years, all recommendations from the Ombudsman have been accepted and implemented, however, one recommendation made this year has been rejected. The rationale is explained in the Ombudsman's annual report.

I would be remiss not to underline the excellent co-operation again received from Canada Post executives during the course of the year. In addition, the professional relationship developed between my staff and their Canada Post counterparts, at head office or in the regions, contributes to better sharing of information and diligent resolutions of complaints which in the end is all to the benefit of our shared customers.

Michel Tremblay

Board of Directors



Gordon Feeney

Toronto, Ontario
Chairman of the Board
Canada Post Corporation

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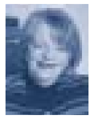
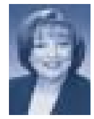


Anne Joynt
B.Sc.

Ottawa, Ontario
President and CEO
Canada Post Corporation



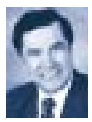
Vivian G. Albo
B.A., B.Comm. (Hons.)

Winnipeg, Manitoba

Terri M. Lemke
PFP

Saskatoon, Saskatchewan
Partner
Wellington West Capital Inc.

✿★●



Michel Lemoine
Eng., LL.L.

Montreal, Quebec
Management Counsel,
Mediation and Arbitration

✲▲

Gérald Préfontaine
FCA

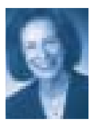
Ottawa, Ontario

■▲

Cedric E. Ritchie
O.C.

Toronto, Ontario
Corporate Director and
Former Chairman and
Chief Executive Officer
The Bank of Nova Scotia

♦✲▲●



Anne Smith
FCSI

Charlottetown,
Prince Edward Island

✲★

Louis P. Salley
B.A., LLB.

Vancouver, British Columbia
Partner
Salley Bowes Harwardt
Barristers & Solicitors

✲●

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

Officers of the Corporation

✣ Anne Joynt
President and
Chief Executive Officer

✣ Jacques Côté
Chief Financial Officer (2004)
Chief Operating Officer
(effective January 24, 2005)

✣ Stewart Bacon
Senior Vice-President
Customer Relationship
Management

Michel Diotte
Vice-President Field Operations

Douglas Greaves
Vice-President
Pension Fund and
Chief Investment Officer

✣✚ Alain Guilbert
Vice-President
Communications

✣ Cal Hart
Senior Vice-President
Marketing and
Product Management

Peter Melanson
Vice-President
Enterprise Sales

Mhoire Murdoch
Vice-President
Customer Service Network

✣ Louis F. O'Brien
Vice-President
Business Transformation and
Sourcing Management

Clary Ottman
Vice-President
Finance and Comptroller

✣ Lynn Palmer
Vice-President
Human Resources

✣ Gerard Power
Vice-President
General Counsel and
Corporate Secretary

✣ Mary Traversy
Vice-President Operations
Transformation

Laurie Murray
Corporate Auditor

C. Dereck L. Millar
Corporate Treasurer and General
Manager, Pension Services

As of January 31, 2005

✣ Member of the Management Executive Committee
✚ Member of the Stamp Advisory Committee

The Management Executive Committee is the President and Chief Executive Officer's principal advisory body for day-to-day management and consists of senior management from key functions of the Corporation. The Committee also serves as a forum for cross-functional communication at the executive level.

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 (Corporation) for the year ended December 31, 2004. The MD&A should be read in conjunction with the consolidated financial statements and accompanying notes beginning on page 49 of this Annual Report. 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 document has been derived using the same financial and management information systems as those used to prepare the consolidated financial statements. As a result, the information included in this MD&A has undergone a rigorous process to ensure its validity and integrity.

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. Any doubt about materiality is resolved in favour of disclosure.

The MD&A contains "forward-looking" statements about the Corporation's objectives, strategies, financial condition and results of operations. These statements are based on our current expectations about the markets we operate in and on various estimates and assumptions made by management based on the best available information. These "forward-looking" statements are subject to uncertainties that may cause the results to be materially different from the projected outcomes. We cannot provide any assurance that the results or performance expressed or implied in "forward-looking" statements will occur as stated.

CORPORATE VISION AND OBJECTIVES

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.*"

To achieve that vision, for the past several years the Corporation has relied on five strategic priorities: defend current business, grow competitive business, achieve operational excellence, make employees a competitive advantage and enhance corporate equity. These strategic priorities have served the Corporation well and built a solid base from which to move forward. However, like other postal administrations, Canada Post operates in a complex and rapidly changing environment. It must continue to innovate and review its strategies on a regular basis in order to meet its challenges.

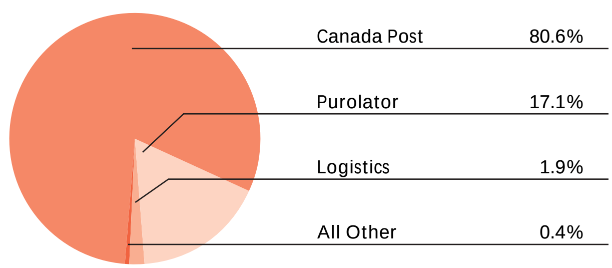
OUR BUSINESS

Over the 23 years since incorporation in 1981, Canada Post Corporation has evolved into an organization that offers more than mail delivery. The Corporation now provides a wide range of services with expanded international reach through partnerships and acquisitions.

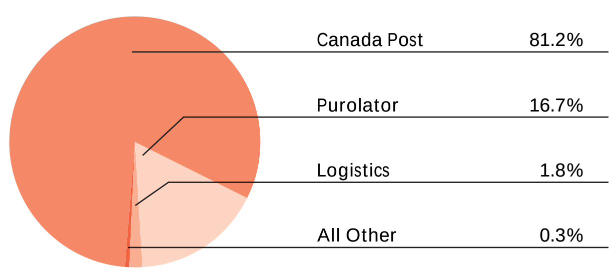
The extended line of business is collectively called the Canada Post Group (Group). The Group includes Purolator Courier Ltd. (Purolator), Progistix-Solutions Inc. (Progistix), Intelcom Courrier Canada Inc. (Intelcom), EPO Inc. (epost™), Innovapost Inc. (Innovapost) and Canada Post International Limited (CPIL).

Within the Group, the distribution of revenues by segments[1] is as follows:

Revenues by segment – 2004



Revenues by segment – 2003

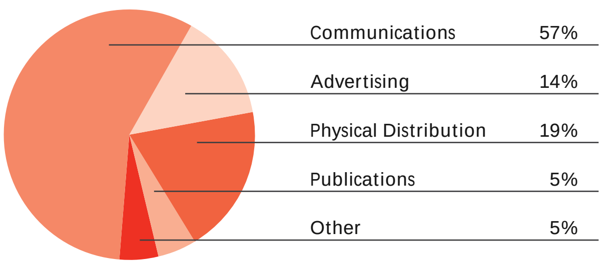


[1] Consistent with the presentation in the consolidated financial statements, the MD&A considers the Corporation on a consolidated basis and on the basis of its segments. See note 18 to the consolidated financial statements.

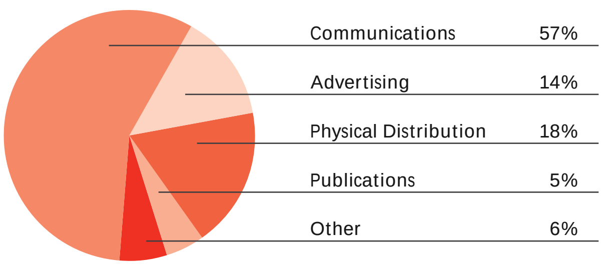
Canada Post Segment

The Canada Post segment represented over 80% of the Corporation's revenues in 2004. As shown in the chart below, which presents the main sources of revenues by market, the relative importance of each market remains unchanged from 2003:

Operating revenues by market – 2004



Operating revenues by market – 2003



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

Among Canada Post's advertising services, Addressed Admail™ offers the ability to target promotional messages to specific individuals and/or addresses. Dimensional Addressed Admail™ gives advertisers the opportunity to drive new sales by offering consumers product samples. Unaddressed Admail™ consists of printed matter and product samples that are not addressed to a specific address.

Physical Distribution services include Regular Parcel™, Xpresspost™, Expedited Parcel™ and Priority Courier™ products for domestic destinations. For international destinations, products include Purolator International™, Xpresspost-USA™, Xpresspost-International™, Expedited Parcel-USA™, Commercial Expedited Parcel-USA™, Air Parcel™, Surface Parcel™, Air Small Packet™ and Surface Small Packet™. Regular Parcel is the most economical packet and parcel shipping service available. Xpresspost is an economical express shipment alternative to more costly courier services. Expedited Parcel and Expedited Parcel-USA are ground parcel services for businesses sending high volumes to business and residential addresses. Priority Courier provides guaranteed delivery by noon the next day between major centres.

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

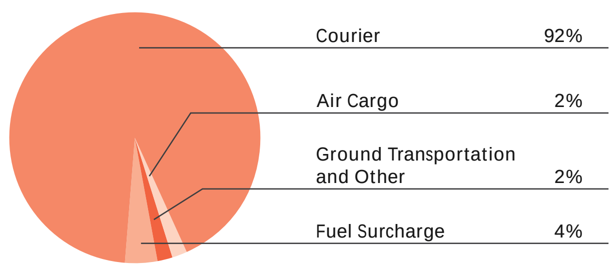
Other sources of revenue include items such as money orders, postal box rentals, mail redirection services, retail and philatelic products, and non-postage fees.

Purolator Segment

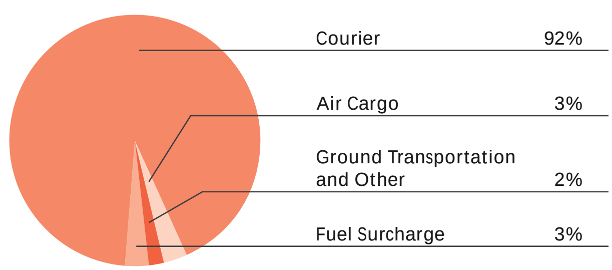
Purolator is Canada's leading overnight courier company, with approximately 12,500 employees providing express delivery to more communities in Canada than any other courier. Through an extensive air and ground network, Purolator offers next-business-day delivery in the U.S. as well as delivery to some 220 countries worldwide.

The following chart shows the Purolator segment's operating revenue by market for the years ended December 31, 2004 and 2003.

Operating revenues by market – 2004



Operating revenues by market – 2003



Canada Post, directly and indirectly through a wholly owned subsidiary, owns 90.5% of the common shares of Purolator.

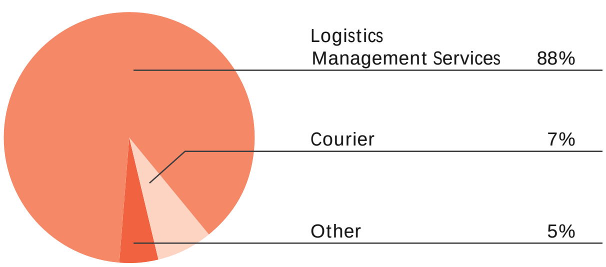
Logistics Segment

The Logistics segment is comprised of Progistix, a subsidiary, 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.

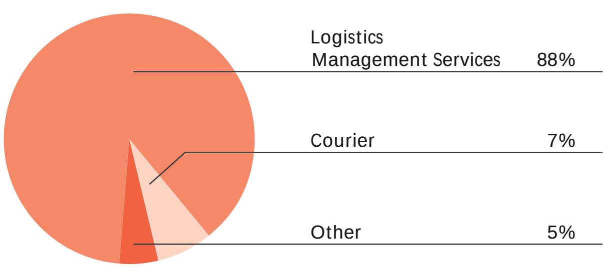
Progistix is the largest Canadian-owned third-party logistics company, providing supply chain management services for clients requiring complex solutions in the technology and retail industries. Supply chain services offered by Progistix consist of complete order management and inventory management services encompassing call centres, warehousing, and transportation activities. Progistix's largest customer represents 70% of total net revenue. Management continues to make efforts to broaden its customer base in order to reduce the risk associated with dependence on a single large customer.

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

Operating revenues by market – 2004



Operating revenues by market – 2003



All Other Segment

The All Other segment includes CPIL, epost and Innovapost. Canada Post's equity interest in these companies is 100%, 97.19% (100% as of February 11, 2005) and 51%, respectively.

The role of CPIL has been to market Canadian postal technology, expertise and business processes in the international postal consultancy market. The company has successfully assisted 69 countries with over 183 projects since its inception in 1990. CPIL owns 100% of Nieuwe Post Nederlandse Antillen N.V. (NPNA), which operates the postal and postal banking concession in the Netherland Antilles in the Caribbean. The results of NPNA are consolidated with CPIL. In 2004, CPIL ceased active marketing and selling of its services.

epost is a web-based electronic bill presentment and payment (EBPP) service that enables Canadian businesses and consumers to send and receive electronic mail, deliver and pay bills, and send preferred advertising messages in a secure and private environment. In July 2004, epost acquired the webdoxs service thereby advancing the EBPP market in Canada with a registered user base of over 1.6 million. The synergistic effects of this consolidation had immediate benefits for both businesses and consumers in Canada, as the epost service is now able to deliver over 200 distinct electronic documents from 100 different Canadian businesses potentially to the 11.5 million Canadians who bank online.

Innovapost, an information technology service provider, is a joint venture between Canada Post and CGI Group Inc. Its business objective is to provide world-class information technology services and to ensure that information technology investments are leveraged across the entire Canada Post Group. Innovapost services include the development, maintenance, and operation of the computing and information systems required by the Group. Within the operations of Innovapost, infrastructure services are subcontracted to CGI, and Innovapost provides all application development and maintenance services.

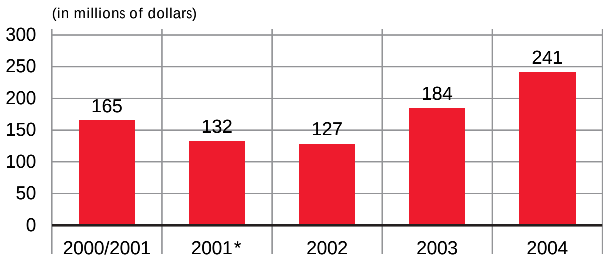
OPERATING RESULTS

Consolidated Results

This is the 10th consecutive year of profit for Canada Post Corporation. The Corporation ended the fiscal year with a consolidated net income of $147 million, a decrease of $106 million from the comparative period[2] primarily due to an increase in income taxes of $162 million. The consolidated income before taxes and non-controlling interest was $241 million, an increase of $57 million from the prior year. Revenue from operations increased by $307 million, a year-over-year increase of 4.8%. Cost of operations increased by $251 million or 4.1% over the prior year, which is consistent with the increase in revenue from operations. Non-operating income increased by $1 million compared to the prior year. Income taxes increased to $93 million from the net income tax recovery of $69 million recorded in the previous year.

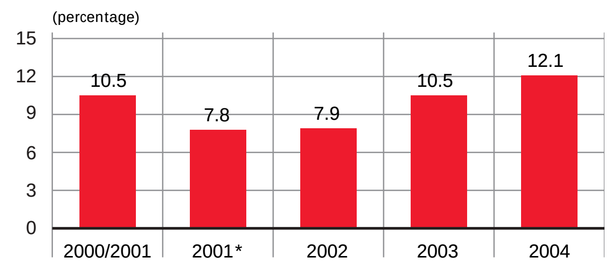
[2] The comparative period is the twelve-month period January 1, 2003 to December 31, 2003.

The Corporation's consolidated income before income taxes over the last five fiscal periods amounted to $849 million.



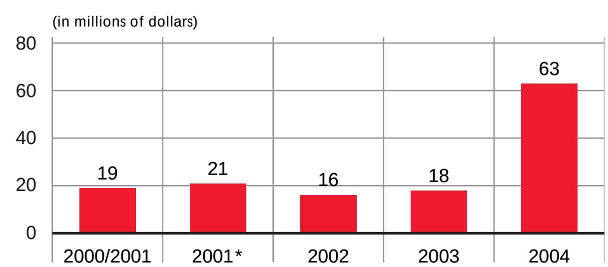
*Represents the nine-month fiscal period April 1, 2001, to December 31, 2001.

The return on equity of Canada for 2004 reached 12.1%. This represents a significant milestone and the achievement of one of the key objectives of the Policy Framework approved by the Government of Canada, Canada Post's Shareholder, in 1998. The following chart illustrates the return on equity of Canada 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 $99 million from $15 million in 2003. In 2004, the Corporation paid a dividend of $63 million. The total dividends paid to the Shareholder over the last five fiscal periods amount to $137 million.



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

Segmented Results

Canada Post Segment

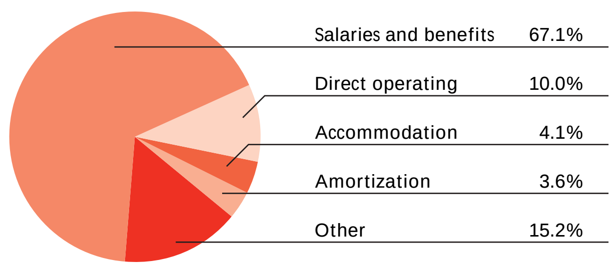
Canada Post contributed $197 million of income before taxes to the 2004 consolidated results, an increase of $33 million from 2003. This performance is a result of revenue growth, strong overall cost control, savings relating to information system costs, and a lower employee termination benefit cost.

Revenues – Canada Post generated net operating revenue of $5,382 million in 2004, an increase of $217 million over the $5,165 million achieved in 2003. This revenue increase was primarily generated through pricing changes and revenue growth initiatives.

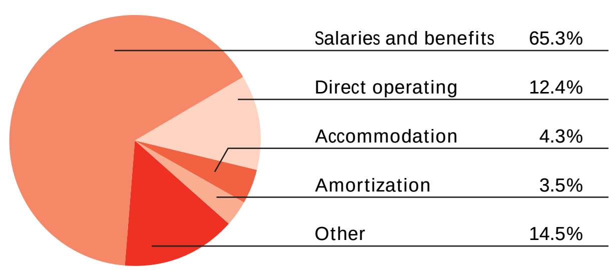
From a market perspective, the $217 million revenue increase was comprised of $105 million increase in Communications, $77 million in Physical Distribution, $47 million in Advertising and $17 million in Publications, offset by a $29 million decrease in revenue from other services.

Expenses – The following chart shows the breakdown of cost of operations:

Cost of operations – 2004



Cost of operations – 2003



The cost of operations increased by $173 million from $5,024 million in 2003 to $5,197 million in 2004. Explanation of the 2004 increase in cost of operations is detailed below.

Salary expenses increased by $249 million over the prior year to reach $2,838 million in 2004. The increase was mainly due to two factors: the inclusion of rural and suburban mail carriers who, as a result of the 2003 collective bargaining process between Canada Post and the Canadian Union of Postal Workers (CUPW), gained employee status in 2004; and, 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). Salary expenses were offset by a $110 million reduction in contracted delivery costs as a direct result of the changed status of the rural and suburban mail carriers.

Employee benefit costs (net of income from segregated cash and investments) decreased by $43 million from $693 million in the prior year to $650 million in 2004. This decrease was primarily due to lower employee termination benefit costs following the cessation of the future benefit entitlements for years of service for management and exempt employees as well as CUPW members. However, the impact of the decreased termination benefit costs was partially offset by inflationary pressures, the extension of statutory and pension benefits to rural and suburban mail carriers commencing in 2004, and reduced income from segregated cash and investments following the pay-out of funds by mid-year to settle termination benefit entitlements.

Contracted collection, processing and delivery non-labour costs decreased by $104 million from $622 million in 2003 to $518 million in 2004 primarily due to the impact of the rural and suburban mail carriers' change in employment status.

Accommodation costs decreased by $6 million to $212 million in 2004. This decrease reflected the results of space rationalization and efficiency initiatives that exceeded inflationary pressures.

Amortization expenses totalled $190 million in 2004, an increase of $16 million from the prior year. This increase was primarily due to vehicle replacement and new software acquisitions.

Other expenses increased by $61 million from $728 million in 2003 to $789 million in 2004. International settlement costs contributed $68 million of the increase primarily due to a one-time settlement received in 2003. Program expenses contributed $36 million of the increase as a result of investments in three major initiatives: Address Improvement Program, Supply Chain Management Program, and Retail Office Automation initiative. These cost increases were partially offset by a decline in information system costs of $38 million as a result of contractual efficiencies as well as savings with Innovapost.

Purolator Segment

Purolator's contribution to the Corporation's consolidated income before taxes was $50 million for 2004, an increase of $7 million from the comparative period. This represents the fourth consecutive year of increased profitability for Purolator.

Purolator provides a range of services to customers. Courier service revenue represented the majority of Purolator's revenue base, at 92% of its total revenue for 2004. Courier revenue of $1.1 billion in 2004 was 7.1% higher than the prior year. The increase in revenue was generated by a 3.6% increase in volumes, driven by customer-specific growth initiatives and a restructure of the sales and marketing organization. This restructure resulted in a strong organizational focus on yield management initiatives and provided improved information about each package. These changes have allowed Purolator to provide its customers with enhanced information about their shipments and provide timely and accurate invoices.

Air cargo services provided $26 million, or 2.3%, of Purolator's total revenue for the year. A shift in the shipping patterns of Canada Post, a significant Purolator customer, resulted in air cargo revenues being 4% lower than the prior year.

Linehaul services provided to U.S. customers continued to perform well in 2004, increasing 45.2% from the prior year in spite of the challenges created by a strong Canadian dollar. This component of revenue, at $22 million, represented 1.9% of revenue for the year.

Costs were generally higher than in the prior year due to increased volumes especially in Western Canada and the U.S. Total personnel costs exceeded the prior year by 5.3%, mainly driven by higher volumes and wage rate increases.

Direct operating costs associated with pick-up and delivery expenses, including owner operator costs, fuel expense and vehicle costs, were also higher than the prior year consistent with increased volumes. Year-over-year increases in jet fuel and gasoline prices were the main drivers of higher fuel expenses along with greater volumes.

Investments in technologies, while driving depreciation costs, aided Purolator in securing more profitable volumes and ensuring the capacity to deal with volume growth. Management focus on discretionary spending continued to offset overruns in direct operating expenses.

Logistics Segment

The Logistics segment contributed $5 million to the Corporation's consolidated income before taxes in 2004, an increase of $4 million over the comparative period.

Revenue from operations increased by $13 million from $124 million in 2003 to $137 million in 2004. The increase in revenue was primarily attributable to a full year of operations servicing relatively new clients and continued year-over-year growth from existing clients.

The cost of operations increased by $9 million from $122 million in 2003 to $131 million in 2004. This was mainly due to increases of $2 million in salaries and benefit costs, $4 million in transportation and fleet maintenance costs, and $3 million in occupancy and building maintenance costs. A key driver of these increases was the impact of a restructuring program implemented in the fall of 2004 to enhance competitiveness.

All Other Segment

The All Other segment recorded an operating loss of $8 million in 2004, an increase of $5 million from the $3 million loss incurred in 2003.

Revenue from operations decreased by $18 million from $210 million in 2003 to $192 million in 2004. Innovapost's revenue decreased due to savings provided to customers and a reduction in the volume of application development work. epost's revenue remained flat compared to 2003. CPIL increased its revenue by $1 million to $18 million in 2004. While CPIL's consultancy and technology revenue declined due to a lack of new sales, growth in concession revenue stemming from NPNA's full year of operations (compared to eight months in 2003) allowed CPIL to increase its revenue.

In line with the All Other segment's decrease in revenue, the cost of operations decreased by $14 million from $213 million in 2003 to $199 million in 2004.

Performance to Plan

The following chart presents the Corporation's consolidated performance for the 2004 fiscal year compared to its Corporate Plan projections:

(in millions of dollars)

	Actual $	Plan $	Variance $
Revenue from operations	**6,651**	6,749	(98)
Cost of operations	**6,413**	6,627	214
Income from operations	**238**	122	116
Non-operating income (expense)	**3**	(4)	7
Income before income taxes	**241**	118	123
Income tax expense (benefit)	**93**	55	(38)
Net income before non-controlling interest	**148**	63	85
Non-controlling interest in net income of subsidiaries	**1**	(1)	(2)
Net income	**147**	64	83

Consolidated revenue from operations was $98 million lower than planned. This variance can be summarized as follows:

(in millions of dollars)	$
New revenue initiatives	(42)
Decrease in volume/mix	(59)
Product revenue re-alignment	(24)
Settlement with foreign postal administrations	22
Revenue from courier and air cargo services	20
Miscellaneous	(15)
Variance in consolidated revenue from plan	(98)

In spite of a good growth performance, the revenue shortfall of the Canada Post segment was $103 million less than plan. This shortfall was more prominent in the first half of the year, reflecting a slowdown in spending in the public sector prior to the federal election. Revenue was also impacted by certain new initiatives that generated major process changes for which some of the benefits have not yet been realized.

Consolidated cost of operations was $214 million lower than plan, totalling $6,413 million compared to the $6,627 million planned. The most significant variances to plan are summarized as follows:

(in millions of dollars)	$
Employer contribution to benefits net of income from segregated cash and investments	54
Operating and administrative efficiencies	35
Product cost re-alignment	24
Information technology operating efficiencies	12
International settlements with other posts	25
Operating costs related to new projects and initiatives	32
Miscellaneous	32
Variance in consolidated cost of operations	214

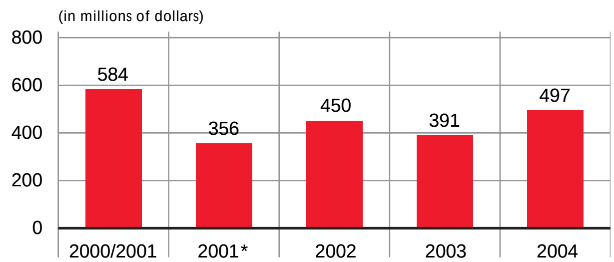
The positive variance to plan was driven primarily by the Canada Post segment. A lower than planned settlement in employee termination benefits for employees represented by CUPW, along with a gain on the sale of long-term bonds related to the cessation of the benefit, created a favourable impact to the employee contribution benefits. Continued efforts from the business units to improve business and operating processes and to enforce cost-containment measures continued to generate savings. Lower than planned volume from both domestic and international markets and decreased project spending also resulted in lower operating costs.

Income taxes increased from $55 million projected in the plan to an actual of $93 million, a variance of $38 million, mainly as a result of the positive variance of $123 million for income before income taxes and non-controlling interest.

Capital/Liquidity Sufficiency

Cash and cash equivalents at the end of 2004 totalled $497 million, an increase of $106 million from $391 million at the end of 2003.

Cash levels for the past five years are shown in the chart below:



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

Cash provided from operating activities decreased by $180 million on a year-over-year basis. More specifically, while operating activities in 2003 provided $48 million cash, operating activities in 2004 used $132 million cash. The $132 million cash used in operating activities was attributed to $919 million in pension, other retirement and post-employment benefit payments and a $74 million increase in non-cash working capital, offset by $861 million in cash flow from net income after adjusting for items not affecting cash. Pension, other retirement and post-employment benefit payments increased from $488 million in 2003 to $919 million in 2004 primarily due to payments to employees represented by CUPW and management and exempt employees for the cessation of employee termination benefit entitlements.

Cash provided by investing activities totalled $141 million for the year, an increase of $439 million compared to $298 million cash used in investing activities in 2003. The $141 million cash provided by investing activities was attributed to a $375 million decrease in segregated cash and investments, offset by $222 million used in the acquisition of property, plant and equipment and $12 million in various other investing activities. Canada Post spent over $94 million on collection, delivery and process improvement, as well as approximately $64 million on property improvements and facility consolidation programs.

Cash provided from financing activities decreased by $94 million from $191 million in 2003 to $97 million in 2004. The $97 million provided in 2004 was attributed to $181 million in transitional support received from the Government of Canada to assist with the incremental costs incurred to establish the Canada Post Pension Plan, offset by $63 million in dividends paid, $19 million in repayment of long-term debt and $2 million in other financing activities.

In developing its financial management plan, the Corporation takes into consideration its long-term strategy, its Policy Framework objectives, 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 following elements are expected to impact the liquidity of the Corporation over the coming year.

- Canada Post's Policy Framework objectives include the achievement of earnings before interest and taxes (EBIT) of $175 million and return on equity of Canada (ROE) of 11%. While in 2004 the Corporation generated EBIT of $238 million and achieved ROE of 12.1%, we anticipate a reduction in EBIT to $151 million and in ROE to 6.2% for 2005.
- 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 once ROE reaches 11%. Based on 2004 results, the dividend is expected to be approximately $59 million for fiscal 2004, subject to Board of Directors approval.
- To support financial performance, the Corporation will seek to make important investments in operational improvements and in growth opportunities. The Corporation's capital budget for capital assets, acquisitions, and equity investments is planned at $425 million for 2005. Investment is required to grow the Corporation's competitive business, defend its current business and achieve operational excellence. These investments will be funded primarily through cash generated by the Corporation's operating activities but also through debt, if required.
- As the Canada Post Pension Plan had a solvency shortfall of $184 million as of December 31, 2003, an actuarial valuation must be filed annually with the pension regulator, the Office of the Superintendent of Financial Institutions. In 2004, the Corporation made a solvency deficit contribution of $53 million to the Pension Plan. In addition, to address the solvency deficit, the Corporation transferred $78 million of excess assets, as determined by the Plan actuary, from the Canada Post Corporation Supplementary Retirement Arrangement to the Plan. The latest solvency shortfall as of December 31, 2004, as determined by the Plan actuary, is estimated at $1,274 million. This increase in solvency shortfall is due primarily to a decline in long-term real interest rates. The Corporation is required to fund this shortfall by further solvency shortfall contributions over a five-year period. Based on this estimate, the Corporation plans to fund a further contribution of $309 million to the Plan in 2005, 2006 and 2007 and $258 million in 2008 and 2009. By comparison, planned solvency shortfall contribution noted in last year's MD&A was $107 million annually from 2004 to 2007.

Balance Sheet Analysis

Segregated cash and investments – The segregated funds are held for employee termination benefits and other retirement benefits. The balance decreased from $925 million in 2003 to $530 million in 2004, an overall decrease of $395 million. The decrease is as a result of a pay-out from the segregated funds due to the curtailment of employee termination benefits for management and exempt employees and for CUPW members ($455 million). 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 the Pension Plan and funding the liability for employee retirement dental and life insurance benefit plans.

The weighted average rate of return on the funds held for employee termination benefits was 6.3%, a decrease of 0.5% compared to 2003. The lower rate of return was due to holding short-term securities in preparation for payments from the portfolio.

The weighted average rate of return on the funds held for retirement benefits earned during 2004 was 3.7%, unchanged from 2003.

Accounts receivable – Accounts receivable increased by $22 million from $455 million in 2003 to $477 million in 2004. Canada Post's international settlements increased by $14 million, primarily due to increased receivables from the United States Postal Service, while Progistix's customer receivable increased by $10 million.

Future income tax assets – Future income tax assets decreased by $129 million from $314 million in 2003 to $185 million in 2004. The decrease was mainly due to the one-time tax impact of the curtailment of the termination benefit plan.

Property, plant and equipment – Capital assets decreased by $12 million from $1,733 million in 2003 to $1,721 million in 2004. This decrease was the net result of $222 million in acquisitions, $216 million in amortization and $18 million in various capital asset activities. In 2004, the Group invested in capital assets to renew its physical infrastructure at a rate marginally lower than disposals, amortization and retirements.

Accounts payable and accrued liabilities – Accounts payable and accrued liabilities increased marginally by $1 million from $405 million in 2003 to $406 million in 2004.

Accrued other retirement and post-employment benefits liability – Accrued other retirement and post-employment benefits liability decreased by $276 million to $1,843 million in 2004. The decrease was primarily attributable to a $448 million decrease in the employee termination benefit liability. However, this was partially offset by an increase of $150 million in retirement health-related benefits liabilities due to increased medical costs and an increase of $22 million in various other retirement and post-employment benefits.

Financial Developments

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

Current Year Accounting Changes

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

Generally Accepted Accounting Principles – The Canadian Institute of Chartered Accountants (CICA) Handbook Section 1100 was issued in October 2003. It establishes standards for financial reporting in accordance with GAAP and clarifies the relative authority of various accounting pronouncements and other sources within GAAP. This Section also provides guidance on sources to consult when selecting accounting policies and determining appropriate disclosures when a matter is not dealt with explicitly in the primary sources of GAAP. There have been no significant changes to the accounting policies applied in the preparation of the Corporation's financial statements resulting from adoption of this standard.

Employee future benefits – In fiscal year 2004, the Corporation adopted the recommendations of the CICA dealing with incremental disclosure related to employee benefit plans (CICA Handbook Section 3461).

Revenue recognition – The Emerging Issues Committee issued Abstracts in 2004 that provide additional guidance on *Revenue Recognition, Revenue Arrangements with Multiple Deliverables, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts, and Accounting by a Customer for Certain Consideration Received from a Vendor.* Since the Corporation's revenue recognition policies, described in Note 2(f) to the Financial Statements, already incorporated the guidance in these Abstracts where applicable, no accounting policy changes were required.

Impairment of Long-Lived Assets – The CICA issued Accounting Handbook Section 3063 *Impairment of Long-lived Assets*, which became effective for years beginning on or after April 1, 2003. Section 3063 establishes standards for the recognition, measurement and disclosure of the impairment of long-lived assets, and applies to long-lived assets held for use. An impairment loss is recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. This section replaces the previous standard for write-down provisions of property and equipment. In 2004, there were no significant adjustments resulting from the application of this new section.

Asset Retirement Obligations – Effective for fiscal years beginning on or after January 1, 2004, the new CICA Handbook Section 3110 *Asset Retirement Obligations* provides guidance on the recognition and measurement of obligations associated with the retirement of property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. A liability at fair value is recognized in the period in which it is incurred, when a reasonable estimate of the fair value of the obligation can be made. The associated costs are capitalized as part of the carrying value of the related asset and depreciated over its remaining life. No adjustments were made to the consolidated financial statements as a result of application of the guidance in Section 3110.

Future 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.

Variable interest entities – In June 2003, the CICA issued Accounting Guideline 15, *Consolidation of Variable Interest Entities*, effective for fiscal years beginning on or after November 1, 2004. A variable interest entity is any type of legal entity that is not economically controlled by traditional voting equity, but rather by contractual or other financial arrangements. The Corporation is currently identifying any potential arrangements which could meet the definition of a variable interest entity, and determining the impact, if any, this would have on the consolidated financial statements of fiscal 2005.

Financial Instruments – In January 2005, the CICA issued three accounting standards related to financial instruments: *(i) Financial Instruments—Recognition and Measurement (ii) Hedges* and *(iii) Comprehensive Income,* effective for fiscal years beginning on or after October 1, 2006, although earlier adoption is permitted. All financial instruments, including derivatives, are to be included 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 as a result of 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.

CAPABILITY TO DELIVER RESULTS

The following summary provides a status on significant capabilities developed in 2004.

Canada Post Segment

Marketing and Product Development

Customer Value Management – A new program to better understand customers' needs, Customer Value Management, will provide Canada Post insights into what drives value in the marketplace. This new tool will focus product development and marketing programs as well as the manner in which Canada Post serves customers in the coming years. It is expected that baseline information will be established in 2005 that will be used to develop market plans in 2006.

Direct Mail and Catalogues – Canada Post's Direct Mail and Catalogues services continued to support the growth of Canadian businesses in 2004. Canada Post demonstrated its commitment to the Direct Marketing industry with the launch of several marketing campaigns aimed at supporting the direct marketing efforts of firms. In addition, a number of product initiatives were launched to look closely at how Canada Post can improve and provide new services and capabilities in this area. These initiatives will continue in 2005 and will be supported by the Customer Value Management program.

Online Registration for VentureOne™ Customers – Serving as another example of Canada Post's commitment to the small business market, Canada Post launched online registration for its VentureOne small business preferred customer program. The new online feature provides small business with the option of immediate access to the On-line Business Centre and eligibility for the business rates that apply under the VentureOne program.

SmartMoves – The 1.3 million Canadians who move each year rely on Canada Post's ability to track their change of address. In 2004, Canada Post took an important step forward by acquiring the assets of *SmartMoves*. The acquisition included the *SmartMoves* magazine and website that physically and electronically provide information and tips to consumers on moving and that provide a mechanism to distribute Canada Post's Change of Address (COA) form. The primary benefits for Canada Post of acquiring these assets are reduced time to market compared to building the technology in-house, continuity in service to clients, and immediate revenue streams. The services and advertising offered by *SmartMoves* will be consolidated with Canada Post's recently launched Online Authentication and electronic COA services when the fully-featured multi-media online "Movers Portal" is launched in 2005. This integration will create a robust portal that provides consumers with one-stop shopping for their move requirements. In addition, it gives Canada Post an opportunity to grow its business by leveraging the *SmartMoves* book and its high traffic website for the provision of other services. It will also provide a multi-channel media for customer advertising campaigns.

Electronic Postmark Service – At the 23rd Universal Postal Union (UPU) Congress in Bucharest, Romania, Canada Post led the successful adoption of a proposal to amend the UPU Convention to legally define the electronic postmark and formally recognize it as a new optional postal service, enabling member postal administrations to further their role in the provision of electronic communications.

Deliver to Door/Deliver to Parcel Box Service – Canada Post launched a new service in 2004 supporting commercial customers with mobile technicians and service representatives. We now provide these customers with early morning delivery of parts and supplies in a dedicated parcel box located at a Canada Post depot located directly in their territory.

International Mail Settlement – This initiative, launched and implemented in 2004, has improved the way inbound and outbound international mail information is captured by employing the use of new processes and tools. This will enable terminal dues settlements to be managed more quickly and accurately.

Commercialization of the International Product Offering – This initiative improved a number of key elements in the suite of international products. Improvements included the extension of discounted rates to Air and Surface Parcels and Small Packets; expansion of the list of countries served by Xpresspost-International and the addition of a signature feature to that service in some locations; and, the introduction of a new rate structure and value-added services to the Letter-post product. All of these new elements contributed significantly to our ability to facilitate commercial sales of our international products.

Infrastructure, Human Resources, Partnerships, Strategic Alliances and Investments

Infrastructure – Canada Post continues to maintain the most extensive retail network in Canada with approximately 6,700 full-service outlets and approximately 16,700 stamp dealers. Documents and parcels are processed through 23 urban sorting plants and approximately 500 letter carrier depots, using approximately 6,800 vehicles, for delivery to 13.8 million commercial and residential addresses in Canada. This extensive retail and delivery network provides for access to, and delivery of, numerous postal, retail, commercial, financial and government products and services.

Human Resources – Canada Post continues to build on its human resource strategy of becoming an employer of choice. Working collaboratively with employees, unions and team leaders, Canada Post continues to seek new ways of ensuring its more than 70,000 employees are engaged, productive, recognized and valued. The company's ability to successfully recruit, retain and manage people to deliver value to customers will allow Canada Post to deliver consistent and reliable results now and into the future.

The three-year collective agreement with Public Service Alliance of Canada/Union of Postal Communications Employees (PSAC/UPCE), which represents approximately 2,500 employees, expired on October 31, 2004. In July 2004, negotiations between the parties began. PSAC/UPCE commenced rotating strikes on December 9, 2004. On December 17, 2004, Canada Post presented PSAC/UPCE with a final offer. The Union agreed to present the offer to its membership for a vote with a recommendation to reject it. This resulted in the immediate suspension of strike activity and the temporary restoration of the expired collective agreement. The subsequent vote, which occurred in February 2005, led to the acceptance by PSAC/UPCE employees of the final offer made by Canada Post. This will now form the basis of a new collective agreement with an expiry date of August 31, 2008.

Partnerships and strategic alliances – The Corporation continues to seek opportunities that will contribute to the expansion of its service offering, from both geographical and product perspectives. Building on its recent successes, Canada Post has been assessing various opportunities with potential partners that will contribute to the launch of new products and services, increasing the value to its customers and generating additional revenue. The main focus of future partnerships and alliances will be in the areas of technology and value-added communication, distribution and logistics services.

Technological and capital investments – Canada Post annually invests significant amounts in the maintenance and expansion of its extensive infrastructure as well as in technological improvements. These investments are made to increase efficiency and maintain the Corporation's ability to deliver a high quality of services to all its customers. In 2004, Canada Post continued to invest in software initiatives and increased automation as well as upgrading its physical infrastructure. This capital spending allowed the Corporation to maintain its competitiveness and to make improvements to operational and business processes.

In 2004, Canada Post delivered four significant projects: Employee Relationship Management (ERM) Project, Supply Chain Management Program, Retail Outlet Automation Program and the Address Improvement Program.

The implementation of the ERM project completed the original Business Transformation program. With ERM now in place, Canada Post has completed a major transformation of all processes related to time and leave, benefits administration, health and safety, and compensation and payroll and now provides employees with self-serve access to information about these employment matters.

The Supply Chain Management Program is a series of initiatives designed to enable Canada Post to improve its delivery capability by enhancing the visibility and quality of mail delivery across a number of product lines and to replace outdated, inflexible legacy systems. The first two initiatives, In-line Cubing and the eSignature, were implemented in prior years and are now fully operational. In 2004, Event Manager was also implemented. These initiatives are providing management with better information to further improve revenue collection and delivery capabilities.

The Retail Outlet Automation project has extended point of sale automation to 1,000 smaller retail sites to provide better tools to service customers and to manage the outlet as well as to extend Canada Post's reach for services requiring an automated infrastructure. The planned rollout was successfully completed in 2004.

The Address Improvement Program will replace the outdated legacy system for managing addressing information and provide a flexible platform to support future operational improvements and development of addressing services. The program is expected to be completed in 2005.

Purolator Segment

Purolator's vision to be recognized as the Canadian leader and a major North American provider of integrated distribution solutions requires a customer-driven culture. In support of that vision, in 2004 Purolator tested the premium less-than-truckload (LTL) market. Providing LTL service is a significant opportunity for Purolator, as many of its current customers require a premium LTL service with courier-like attributes such as scanning and real-time track and trace. In late September, a pilot service was launched under the LTL brand "PCL Freight". Focusing on destinations in Southern Ontario and Quebec, this pilot service was well received by customers and growth targets have been set for 2005 as the network expands to major Western and Eastern Canadian destinations.

Purolator continued to enhance tracking capabilities in 2004. These capabilities will make it easier for customers to do business with Purolator, allow them to track their packages using their own reference number and enable them to locate their package at every step of the shipping process. In addition, Purolator continued to develop and enhance its online capabilities. This allows easier access to Purolator's products and services and advances Purolator's objectives of increased automation and improved customer service.

To ensure its customers' transportation and distribution needs are met, Purolator opened a new mini-hub facility in the west end of Toronto in the late spring of 2004 to accommodate future volumes and improve productivity. As the facility ramped up operations in the third quarter, it was used to divert product from the main hub that was shut down for a day due to a fire in a neighbouring building, helping to maintain service levels.

To maintain Purolator's leadership position, Purolator must compete effectively beyond the Canadian border. A U.S. cross-border strategy is in development to enable Purolator to carve out its unique market position by focusing on key border markets and to provide unique solutions that meet customers' cross-border needs. Efforts will focus on technology integration with partners to enhance customs clearance and border visibility. In the fall of 2004, Purolator made significant enhancements to its U.S. manifesting system to allow for compliance with regulatory requirements as well as improve the overall operations to the U.S. This has a direct impact on customers, as fewer holds at the U.S. border will lead to a reduction in costs in processing this freight.

The introduction of a new revenue-reporting tool, coupled with the strength of its costing system, allows Purolator's sales professionals and management to track customer accounts and quickly identify changes in customer behaviour and trends, enabling Purolator to react quickly to new customer needs.

Purolator made significant investments in 2004 to develop a more comprehensive and compelling brand promise that reflects its unique position as Canada's largest courier. Through an aggressive, national advertising campaign, the Purolator brand is being developed into a best-in-class brand that has a strong perception amongst business people and Canadians. Future revenue growth will be dependent on strong yields. Investments in marketing and branding will help support yield targets.

A strong brand will help customer retention and enhance employee loyalty. Purolator's capability to deliver results is dependent not only on technology and processes but also, and more importantly, on its people. In the fall of 2004, Purolator performed an internal effectiveness survey of its employees. The findings from this survey will be used to help identify investments and initiatives that will progress Purolator towards its goal of being an employer of choice.

Logistics Segment

Progistix brings value to customers by helping them reduce operating costs and improve operating performance and customer service. By working closely with clients, Progistix designs solutions to meet and exceed client expectations.

To ensure Progistix provides value to its customers and shareholders, it has assembled a team of supply chain professionals with extensive experience in solutions design, project management, process engineering, and technology development. With this diverse team, Progistix can create solutions to meet client operating and service objectives and bring value to clients and their customers.

In addition, Progistix brings value to the Group by enabling Canada Post to broaden service offerings to Canadian businesses, ensuring Canada Post is able to offer complete end-to-end supply chain services to customers.

In 2004, Progistix continued the implementation of services for a new client, which resulted in moving its operations into a new facility. In addition, the company implemented a SAP™ warehouse management system module to better serve Canada Post.

All Other Segment

Innovapost – Innovapost brings value to the Group by reducing costs and improving service levels. This value creation is directed through a management team with significant experience in the postal and physical distribution industries. Innovapost can also leverage its relationship with strategic partners such as CGI and Accenture Inc. to bring high quality planning, implementation and ongoing service delivery to its customers.

In 2004, the transition of infrastructure management services to CGI was completed with no significant service interruptions. This exercise along with the in-sourcing of application management services and other initiatives have contributed to reduced operating expense to Canada Post. Innovapost also significantly improved its customer and employee satisfaction ratings, and achieved ISO 9001 certification in both its operating facilities. In addition, the company maintained profitability, paid a total dividend of $8 million to its voting shareholders, and began to implement a standard approach to testing and rolling out new application that will improve reliability and cost performance going forward.

epost – In July 2004, epost acquired certain assets of the webdoxs service from Emergis Inc. (formerly BCE Emergis Inc.), which included contracts with the remaining major financial institutions in Canada and their webdoxs service mailers that were not already part of the epost service. The webdoxs acquisition is an important element of epost's strategy to position itself as the preferred supplier for document presentation in Canada. The epost technology platform and business model will be used as the core of the new combined business which is available to the 11.5 million Canadians now banking online.

The synergy resulting from the combined webdoxs and epost services will position the Corporation as the leader in the EBPP market. This market has demonstrated significant growth potential due to the decreased cost and improved operational efficiencies inherent with electronic communications. The completion of the technical integration of the two services will provide seven out of ten critical bills in all markets across Canada which holds significant value for the Group as Canada Post's multi-channel delivery strategy will enable it to retain customers who may wish to use electronic communications services as an alternative to Lettermail.

CPIL – During the year, the Corporation made a decision to transfer future sales of postal technology to Innovapost and to limit the sales activity of CPIL. As a result, CPIL did not aggressively pursue new opportunities. This contributed to the decline in new sales discussed in Operating Results on page 25. CPIL's wholly owned subsidiary, Nieuwe Post Nederlandse Antillen N.V., has sufficient resources along with support from Canada Post to deliver its concession mandate in the Netherland Antilles.

Key Performance Indicators

Canada Post employs both financial and non-financial indicators to evaluate its performance and guide decision-making. The Policy Framework, established with the Government of Canada in December 1998, sets out the Corporation's long-term financial and service goals for these indicators.

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.

Non-financial Indicators

Service 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 mailstream 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 2004, Canada Post achieved an on-time service performance score of 96.8% for Lettermail, exceeding the corporate target of 96% by 0.8%. The variations in performance across regions were very low, indicative of a stable process and consistency in achieving high-level performance. The Lettermail delivery performance was achieved despite the challenges posed by some exceptional weather conditions throughout Canada, most notably in February in the Atlantic region which resulted in the declaration of a province-wide state of emergency in Nova Scotia.

For 2005, it is expected that Canada Post will maintain its high-quality Lettermail service throughout urban and rural Canada despite occasional challenges to its delivery activities.

Customer Satisfaction

The Customer Satisfaction measurement program is designed to provide an indicator of customer loyalty and to provide customer information that will assist Canada Post in further developing 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 quarterly.

In 2004, Canada Post made changes to the composition of the Commercial Customer Satisfaction Index, which required a restatement of the base at the commencement of the year. The restated base was 78%, and the 2004 target was set at 80%. In keeping with best practices, the 2004 target was set at two points above the previous year's actual results.

The Customer Satisfaction score achieved for 2004 was 81%. The success was in large part due to improvements achieved in the levels of after-sale service provided to commercial customers.

The Customer Satisfaction Index score in 2004 for the small business and consumer segment was 77%, two points higher than the 2003 performance score of 75%.

The focus for 2005 will be to continue improvement efforts on customers' after-sale service experience and to transition to a customer-value-based measurement for 2006.

Employee Satisfaction

Canada Post employs over 70,000 employees across the country. Given the service-based nature of the business, employees play an important role in the success of the company. Canada Post continues its efforts to make employees a competitive advantage by energizing human resources and developing a flexible partnership with the unions that represent its employees.

The annual Employee Satisfaction measurement, conducted by an independent third party, considers, among other things, satisfaction, capability and commitment. The 2004 Employee Satisfaction Index score was 71%, up from 69% in 2003 and marginally below the 2004 target of 72%.

The focus in 2005 will be looking beyond employee satisfaction to employee commitment, or engagement. Canada Post has very high levels of employee commitment to 'stay' and the company is developing a corporate approach to channel that commitment to drive a high performance workforce.

Corporate View of Performance Measurement

In 2004, Canada Post made significant progress in enhancing corporate accountability through a corporate performance measurement framework that structures quantitative operational results into customer, employee and process views of performance, and instituted a periodic review of performance trends, issues, analysis and action plans.

Canada Post will continue to implement this performance measurement framework in 2005, focusing on performance against targets for all core business processes and on the controlled production and review of the scorecard results, thereby focusing management decision-making attention on critical business issues.

CORPORATE RISK AND MANAGEMENT

Risk Management Process

Risk management is key to the achievement of the Corporation's objectives and future viability and success. The Corporation is subject to a number of internal and external risks. Failure to properly implement and execute corresponding strategies can impact the Corporation's operations and results.

The Corporation has identified business process owners within the Group who are responsible for business processes and the management of related internal and external risks. The process owners possess the subject-matter expertise required to address the various risk matters related to their respective area. In 2004, the critical areas of sourcing management (exception payments and sole/single source contracting); security (threats, including fraud and theft); and, information technology (infrastructure security) were addressed. Increased management and Board of Directors accountability for managing risk was implemented through a more formal reporting process.

Through an annual planning exercise, risks that could impede the organization's ability to achieve its objectives are identified and assessed, as is the effectiveness of controls to mitigate those risks. Where appropriate, strategies are developed to mitigate the impact on the Group's business. Senior management has the responsibility to identify, monitor and assess risks of the Group throughout the year and work with operational units to implement measures that will effectively manage and mitigate these risks.

Risk Elements and 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

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.

Labour Relations

The Group is a labour-intensive business that depends on its employees to achieve overall success and customer value. Continuous service is critical to the operations of the Group. Perceived or actual service disruption could have significant impact on the financial results as well as long-term customer relations. The risks related to labour disruptions expose the Group to a significant threat.

At Canada Post, over 95% of employees are unionized and enjoy competitive wages, benefits and working conditions. Canada Post's management and the unions/associations recognize the need to work together and maintain open communication. This is achieved by treating the unions/associations as important partners of the company and involves high-level interaction between the executives of the unions/associations and management, including information sharing and problem solving.

Expired Collective Agreement

Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE) – See discussion included in the Capability to Deliver Results section.

Active Collective Agreements

Canadian Union of Postal Workers – Urban Postal Operations – Canada Post and the CUPW, which represents approximately 44,000 urban postal operations employees, have a four-year collective agreement which expires January 31, 2007. Since signing a new collective agreement on September 30, 2003, Canada Post has been implementing the new provisions of the collective agreement that provide for improving its business and controlling benefit costs.

Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (RSMC) – Canada Post and the RSMCs are currently one year into an eight-year collective agreement with guaranteed funding to finance wage increases and benefits. Over 6,000 contractors have successfully been transitioned as employees of Canada Post. There is a re-opener clause in the collective agreement that calls for negotiation commencing in the fall of 2005 with an interest arbitration occurring if no agreement is reached.

Active Collective Agreements Expiring in 2005

Association of Postal Officials of Canada (APOC) – The collective agreement with the APOC, which represents approximately 3,000 employees, will expire on March 31, 2005, with a "*final offer selection arbitration*" clause to ensure resolution of disputes without a labour disruption. Negotiations commenced in late February 2005 with a two-day workshop for the bargaining teams facilitated by the Federal Mediation Services.

Canadian Postmasters and Assistants Association (CPAA) – The collective agreement with CPAA, which represents approximately 9,000 employees, will expire on December 31, 2005, with a "*final offer selection arbitration*" clause to ensure resolution of disputes without a labour disruption. Negotiation for a new collective agreement will begin in the fall of 2005.

Purolator's collective agreement with the clerical employees in the province of British Columbia, represented by the Public Service Alliance of Canada, expires on March 31, 2008. Purolator's collective agreement with the clerical employees in the province of Quebec, represented by the Communications, Energy and Paperworkers, expires on December 31, 2009. The National Operations Collective Agreement, which covers the vast majority of Purolator employees, represented by the International Brotherhood of Teamsters (Teamsters), expires on December 31, 2007.

Four separate clerical collective agreements with the Teamsters expired on December 31, 2004. These agreements represent a small group of Purolator employees. Purolator anticipates successfully concluding a new collective agreement with each bargaining unit by the end of the first quarter of 2005.

Human Resources

The average age of employees at Canada Post is higher than the average age of all Canadians. Consequently, Canada Post is heading into an extended period of increased attrition and approximately 80% of this attrition will come from retirements. The increased attrition trends are forecasted to remain high for the next eight to 10 years, making attrition a major driver of the Corporation's human resource strategy. These demographic changes at Canada Post will place increased pressure on the company as it manages the risk associated with the loss of knowledge, skill and experience held by retiring employees. Canada Post is using workforce planning and knowledge transfer best practices to identify risk areas and is actively pursuing action plans aimed at ensuring that it is recognized as an employer of choice. Increased focus will be placed on areas such as talent management, succession planning, learning and development, 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.

Increasing Employee Benefits Costs

The cost of employee benefits continues to rise as a result of changes in employee demographics and significant increases in health care costs nationally. Like most Canadian employers, these increases represent significant financial risk for Canada Post as we aim to deliver benefit programs that provide value to employees and are competitive and affordable. In 2004, Canada Post implemented strategies to better manage escalating health care costs. Specifically, employee premiums were implemented and a drug formulary to help control rising prescription drug costs was introduced. Furthermore, the primary risk exposure associated with pension, other retirement and post-employment benefits is to a decline in long-term real interest rates that may result in higher obligations and future expenses. This area will continue to be managed and assessed carefully as Canada Post seeks creative solutions to balance company risk and employee compensation.

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. The key to managing operational risk is to ensure key policies and procedures are implemented and monitored.

Technology

The Group deals with a high volume of transactions from mail delivery to courier packages to logistic solutions. In order to provide world-class customer service, each aspect of the service must be carefully controlled. There is a high inherent risk associated with controlling such a high volume of transactions on a daily basis.

The Group is reliant on information systems that provide seamless service to customers. Innovapost provides a strong resource pool with a wide range of knowledge, physical resources and business-resumption strategies that enable management to more effectively mitigate technological risks associated with environmental issues, computer viruses and overall system security.

Retail Network

Canada Post has the most extensive retail network in Canada with approximately 6,700 full-service outlets and approximately 16,700 stamp shops. The urban post office network is largely a private-sector dealer network (75%) while the rural network of post offices remains almost entirely corporately owned and operated (82%).

The costs of the retail network in rural Canada continue to grow at or above the rate of inflation. While Canada Post is committed to providing service in rural Canada, the high cost of maintaining this network as it exists today continues to put pressure on Canada Post's financial resources.

Canada Post is re-examining its retail strategy in order to better define and improve the level of access to services customers can expect while seeking ways to make the retail network more efficient and cost-effective.

Transportation

There are a number of challenges facing the transportation industry in general, which will impact 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 11th, 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 could impact Canada Post's ability to meet its delivery service standards and 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. All indications point to continued pressure on fuel costs due to the unstable conditions in the oil-producing areas of the world.

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 Shareholder 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 advantage.

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 may result in higher contributions required to meet pension obligations. In 2004, the Plan's assets earned a very competitive double-digit return. However, this was offset by an unexpected 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 Plan's financial statements.

At year-end, the Plan's most significant concentration of credit risk is with the Government of Canada and the Provinces of Ontario and Quebec. This concentration is related primarily to the holding of $1.7 billion of securities issued by the Government of Canada, $282 million issued by the Province of Ontario, and $223 million issued by the Province of Quebec.

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 into the Plan 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 Pension Plan Statement of Investment Policies and Procedures. The Pension Committee, the Investment Committee and the Board of Directors all participate in the oversight of pension investments.

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. The following section summarizes significant developments in 2004 in two areas: internal controls and governance and oversight.

Internal Controls

Management has been proactive in disclosing information that typically would only be required to be disclosed by companies whose securities are traded in a public market. An internal control framework that sets the standards for effective design, operation and evaluation of internal controls over financial reporting was piloted during the year in a few key transactional processes in order to test and further develop documentation, assessment tools and methodologies. For 2005, Canada Post will roll out the internal control framework and expand the existing indicators of internal control to all key transactional processes. The goal is to reach a voluntary certification of internal control.

During 2004, management issued a policy, "Disclosure of Improper Activities in the Workplace", commonly referred to as "whistleblowing", to encourage employees, acting in good faith, to report potential improper activities. A third-party service provider will independently manage a toll-free telephone number, a website and mail services to provide anonymity to the employees.

The internal control framework and whistleblowing policy will enable 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 in the United States and similar regulatory developments underway in Canada and worldwide.

Governance and Oversight

In February 2004, the Board of Directors of Canada Post asked the Corporation's external auditors, Deloitte & Touche, to undertake a wide-ranging and thorough examination of Canada Post's sponsorship, marketing and advertising activities as well as Canada Post's management practices. The audit covered the period 1996 to 2003 and was initiated in response to questions raised by the Auditor General of Canada. The report was provided to the Minister responsible for Canada Post Corporation on July 27, 2004, and publicly released on July 29, 2004. Recognizing that the Deloitte & Touche examination brought to light issues with respect to oversight and governance, the Board moved forward with a comprehensive action plan to address these issues, including the implementation of a whistleblower mechanism and the approval of a revised delegation of authority to ensure that problematic transactions that occurred in the past could not take place without being identified through oversight mechanisms.

BUSINESS OUTLOOK

Canada Post Segment

Growth

The Canadian economy performed well in 2004 and is expected to remain relatively healthy for several years in a low inflationary environment. Canada Post will continue to face challenges from escalating cost pressures from health care costs, high fuel prices, strong growth in points of call, and lower delivery density. The ability to increase price is constrained by the existence of a price-cap formula for increases to the domestic basic letter rate and the low inflation environment. Competitive pressures will also continue to intensify as courier companies and other posts strive to gain market share in the global express and logistics markets. Consequently, cost containment will continue to be a requirement if financial targets are to be realized.

Canada Post anticipates approximately 4% increase in consolidated revenue for 2005, after adjusting for differences in the number of trading days. The improvement is expected to result predominantly from price action by Canada Post, further enhanced by subsidiary revenue growth. The most significant subsidiary impact comes from Purolator, which forecasts approximately 4% increase in revenues. Without specific additional cost-cutting initiatives, it is anticipated that Canada Post's consolidated expenses will increase by over 5% (after adjusting for trading days) in 2005, driven by increases in labour-related costs, fuel costs and an increase in points of delivery that need to be served. Specifically, commencing in 2005, non-statutory benefits for the rural and suburban mail carriers will be extended to include one additional week of vacation time and vision and hearing benefits.

The Corporation is putting in place the key measures required to maintain the profitability of the communications and distribution businesses and address the changing needs of customers. Canadians value what the post office has to offer and improving customer value has been an important goal for Canada Post. Canada Post needs to improve its flexibility to take advantage of opportunities to better respond to customer needs and improve cost efficiency. The Corporation has the opportunity to play a stronger role as a key enabler of business in Canada. It needs to stake a place for itself amidst global companies and it needs to integrate its capabilities into multiple communications channels.

Canada Post is also very sensitive to the deeply entrenched role of mail delivery in the lives of Canadians and is committed to maintaining an affordable universal postal service. The Corporation will focus on ensuring the long-term sustainability of this service by improving profit per point of delivery. It will seek to integrate its various communication products across channels to offer a seamless set of solutions.

Technology has provided the company with opportunities to develop innovative solutions to better meet customer needs, improve operational efficiency and reduce indirect labour costs. It has, however, also created new competition – viable electronic alternatives to Lettermail and marketing mail.

Volume Erosion

The ongoing erosion of mail volumes is the most significant issue that threatens Canada Post's future profitability. Driven primarily by electronic substitution, traditional mail volumes are declining throughout the industrialized world at rates ranging from one to more than three per cent per year. Furthermore, the decline in mail volumes is hastened by a growing trend toward the consolidation of invoices by large companies whereby two or more operating divisions combine separate billings into one single invoice. Technology advancements are making electronic business simpler, more secure and less expensive for both billers and consumers.

The business and government sectors, which generate approximately 90% of Canada Post's Lettermail and Addressed Admail volumes, have the greatest incentive to adopt electronic alternatives. It is believed that in excess of 75% of the information currently sent by mail is now available online. Due in part to the webdoxs acquisition, epost electronic presentment and payment transactions have increased fourfold on a monthly basis since the beginning of 2004. Going forward, the epost business is positioned to provide significant growth potential as businesses embrace the inherent opportunities for decreased cost and improved operational efficiencies from electronic communications.

While volumes are decreasing, the number of addresses in Canada continues to rise resulting in a reduction in the number of mail pieces per point of delivery, or mail density, and an increase in the cost of delivery. After adjusting for the federal election, Lettermail volumes declined slightly in 2004 continuing a trend that began in 2000. The expected continuation of this trend puts at risk the sustainability of a model that has served the Canadian economy well.

Evolution of the Distribution Business

Global industry consolidation has also created competitive pressures as large international shipping and delivery companies are applying their massive scale and reach to put pressure on prices and competitive offerings. By exercising massive leverage in the development of technology and brand, through global purchasing relationships, and taking advantage of vast international scale and density in key markets, these foreign players are making this sector increasingly challenging for a nationally based operator.

The distribution and logistics market is extremely competitive both domestically and internationally. Domestically, the logistics segment has been growing at a rate above inflation, while the distribution and delivery segment has matured over the last few years. The slowdown has limited the ability of Canada Post to leverage this sector and offset the decline in Lettermail. The international market has grown much faster and is dominated by well-capitalized firms, including some postal administrations. They have been acquiring, consolidating and allying with courier, air freight, logistics and ground carrier firms in Asia, Europe and North America to broaden scale and reach. Their goal is to control end-to-end international networks enabling a high level of quality control from product receipt to final delivery.

The ongoing integration of the North American market and globalization in general has increased the need for players offering a global reach. While Canada Post has a strong domestic suite of services, it lacks the same level of global reach. This shortfall contributes to the Canada Post Group's reliance on its competitors for delivery abroad. Further, some global players have also made significant investments to expand their retail and online presence, positioning them to reach the consumer and small business segments, the source of a significant portion of Canada Post's business.

The Canada Post Group needs to address these challenges over the next five years to assure the sustainability of its distribution and logistics businesses. The focus will be on defining an integrated strategy that will leverage the sales capabilities. The following sections note specific strategies by each company within the Group to address the risks associated with this sector.

Purolator Segment

The 2005 plan builds on the direction set in 2004 – improve cost, service and margin performance by being a low-cost provider, improving customer satisfaction and generating incremental, profitable revenue. The focus will be on growing revenue through emphasis on yield management with growth in cross border markets while continuing to seek productivity improvements. These improvements will be achieved through process and efficiency gains, brand enhancement, sales force effectiveness and technology investments.

Logistics Segment

The North American logistics outsourcing market continues to grow at approximately 10% to 12% per year. In addition, industry consolidation is driving towards four to six global mega-providers. Competition remains fierce. Wholesalers and distributors are emerging as new sources of competition in addition to the traditional, global third-party logistics providers.

Clients are demanding global infrastructure and capability. As well, outsourcing decisions for large, multinational organizations are commonly being made outside of Canada. This positions Progistix's major competitors in a strong state since they are global, foreign-controlled corporations. In order for Progistix to compete with the larger global third-party logistics organizations, it needs to continue to expand its market presence in Canada and in the U.S. through a combination of organic growth and acquisitions or partnerships.

All Other Segment

Innovapost – Innovapost revenues are dependent upon the level of information technology activity at Canada Post and Purolator. In 2005, revenue is expected to remain flat as Canada Post completes the development of its long-term strategy. Operationally, Innovapost will continue to improve its internal business processes and information systems to world-class level, consolidating its position as the provider of information technology services to the Canada Post Group while expanding its customer base beyond the Group to other postal administrations.

CPIL – CPIL will focus on consultancy, while Innovapost will market Canadian postal technology. CPIL's subsidiary, NPNA, will continue to operate the concession in the Netherland Antilles and it is anticipated to continue to generate profits at current levels.

epost – The epost strategy was accelerated significantly in 2004 with the acquisition of Emergis Inc.'s webdoxs service which has the potential to transform the business. The effect of the webdoxs acquisition is expected to lead to a breakeven by 2007 and an improved long-term return. Short-term migration costs will increase cash requirements for 2005 as epost works toward the technical integration of both services onto a single platform.

STRATEGIC DIRECTION

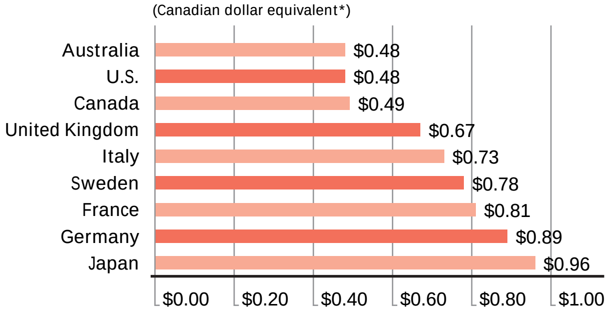
Canada Post Segment

For many years, the Corporation has operated under a business model that stressed diversification of products and services, general productivity, and efficient pricing. Diversification enabled strong gains through economies of scale and scope by offering new services such as shipping, logistics and advertising. Meanwhile, cost management and improved market pricing brought gains in both revenues and costs. That business model was very successful and contributed to a long period of profitable results and strong service performance for Canada Post.

Despite competitive pressures and Canada's geography, climate and low population density, Canada Post offers one of the lowest domestic letter rates in the industrialized world.

International Comparison of Basic Letter Rates

(Canadian dollar equivalent*)



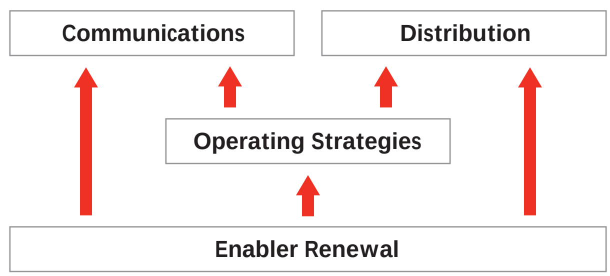
*Based on average exchange rates for 2004 provided by the Bank of Canada.

Canada Post's business model is now starting to show signs of vulnerability. Technological diversion of Lettermail volumes to electronic alternatives is outpacing the ability of the business model to accommodate the impacts. At the same time, the diversification strategy that has sustained the business is itself under attack; global industry consolidation has proven real and international competitors are applying their massive scale and reach to put pressure on prices and competitive offerings.

Canada Post is at a crossroads. A planned transition to a new business model at this time, while Canada Post is financially healthy and competitive, will enable the widest range of options to be pursued. The overriding principle is to serve Canadian consumers and businesses where and how they want to be served.

In 2004, Canada Post embarked on a process of strategy renewal to create a roadmap for the successful evolution of the business model. The process began with a fact-based view of the future, including market and customer needs, the needs of the Canadian public, international trends, technological evolution and disruption, a changing global regulatory environment, financial outlook, demographics, the workforce, and the changing face of the consumer.

During 2005, the process of strategy renewal will focus the Canada Post Group on its primary business of communications and distribution. Key operating strategies for mail operations and the corporate enablers will also be necessary to ensure success.



New strategic thrusts are being pursued to shape the company's future direction in four key areas:

Communications Market – Canada Post operates within a large communications marketplace, where mail is only one channel used in communications. Increasingly, the use of mail is driven by choice, not necessity. Sustainability of the postal business will increasingly depend upon the Corporation's ability to evolve and adapt to a transforming world. Canada Post is building from its strong and trusted capability in its traditional services to bring rich, channel-diverse and value-added services to a changing landscape. Canada Post has some of the required capabilities to achieve this today, but these capabilities operate too independently from one another. The strategic goals for this market involve bundling capabilities – new and old – to address the needs of Canada Post's customers.

Within the communications market, the focus will be on developing multi-channel solutions and on growing catalogue distribution and Direct Marketing in the Canadian business environment.

Distribution and Logistics – The Canada Post Group is a major provider of shipping and logistics services to all sectors of the Canadian economy, providing market-competitive services across a wide range of applications and needs. Canada Post is committed to providing world-class services to Canadians through a distribution and logistics business that complements the core postal business and generates healthy returns to help sustain the public postal network. The strategic goals for this market involve promoting Canada Post's leadership position and better leveraging its own capabilities and strengths.

Operations – Canada Post's operating cost structure is based upon a traditional obligation for postal service to Canadians. Protecting the sustainability of the postal service requires Canada Post, like other postal administrations around the world, to actively pursue improved processes, means and strategies to fulfill its service and financial obligations to Canadians. In a world of declining traditional mail volumes, Canada Post must improve its execution of service while managing its costs to the new mail volume reality.

Enablers – As Canada Post grows increasingly dependent upon the provision of competitive services at competitive levels of price and quality, it must ensure its business capabilities match or exceed those found in the general marketplace. Canada Post's Enablers strategy focuses on making the conditions right for the line functions of the business to be successful and to excel. A culture of performance and results will be critical to the success of all strategies at Canada Post.

The Canada Post Group is working to maximize synergy and ensure the proper alignment of its corporate strategy. As in prior years, the organization will continue to focus on growth, cost reductions, process improvements, and bringing value to customers through improved service. The distribution and logistics thrust includes Purolator and Progistix, while Innovapost and epost are important to the development of the communications market. Additional details on the segments' directions follow.

Purolator Segment

Purolator's strategic focus will be to institutionalize a customer-driven culture, improve service, cost and margin performance, create a competitive advantage through employees, and generate incremental profitable revenue while continually improving long-term competitiveness. Accordingly, in 2005 the company will focus on the following strategies:

- Strengthen business tools and infrastructure;
- Invest in technology to enhance integration with partners as well as to improve customs clearance and border visibility;
- Strengthen employee loyalty through the launch of a second Employee Share Ownership Plan; and,
- Explore the use of clean transportation technologies (Greening the Fleet initiative) by adding hybrid electric delivery vans to its fleet, making it the first courier company in Canada to begin the transition to hybrid electric vehicles.

Logistics Segment

Progistix's strategic direction is to continue to expand its presence in the market:

- Target new client acquisitions at $5 million or more;
- Focus on customer retention, especially in the renewal of major contracts;
- Leverage strong niche focus in service parts logistics; and,
- As opportunities occur, acquire businesses or establish partnerships to access the U.S. market.

All Other Segment

Key strategic initiatives in this segment include:

- Improving Innovapost's internal systems, processes and capabilities; transforming its application management and development services to world-class levels through the use of industry standard tools, processes and methodologies; and, seeking to selectively enter new markets to achieve a larger customer and revenue base through leveraging the applications it develops for the Group.
- Completing the integration of the webdoxs and epost services and expanding epost's market in the data repository and view-on-demand products, particularly in the area of wealth management and financial services.
- Managing postal consultancy services by CPIL through Canada Post's International Relations Group.

The Corporation of the future will look increasingly different from the postal service of yesterday – the change in postal fundamentals is inevitable. A new direction will help to ensure the long-term sustainability of the company for our Shareholder, our customers, our employees, and all Canadians.

Additional Information

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

Consolidated Ratios	Policy Framework	**December 2004 (12 months)**	December 2003 (12 months)	December 2002 (12 months)	December 2001 (9 months)	March 2001 (12 months)
Profitability						
(1) Return on equity of Canada *	11.0 %	**12.1 %**	10.5 %	7.9 %	7.8 %	10.5 %
(2) Operating profit margin		**3.6 %**	2.9 %	2.5 %	2.7 %	2.4 %
(3) Productivity	97.0 %	**96.4 %**	97.1 %	97.5 %	97.3 %	97.6 %
Leverage						
(4) Total debt to total capital **	40.0 %	**7.8 %**	9.6 %	12.0 %	7.3 %	6.6 %
(5) Cash flow to debt **		**(124.0)%**	38.4 %	278.2 %	(57.9)%	375.5 %
Liquidity						
(6) Current ratio **		**1.18**	1.09	0.97	0.95	0.99
(7) Gross interest coverage **		**21.29**	14.72	14.70	14.99	8.15
Investment						
(8) Cash flow to capital expenditures **		**(59.2)%**	19.0 %	103.9 %	(19.6)%	86.3 %
(9) Capital asset investment rate		**5.1 %**	5.9 %	9.7 %	5.8 %	7.1 %
Dividend payout						
(10) Dividend payout ratio ***	25.0 %	**40.0 %**	25.0 %	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.

** Prior period comparative figures have been recalculated to conform with the current period's presentation.

*** The dividend for December 2004 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, 2004, 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, 2004, 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 which 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, 2004, 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, 2004, 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, 2004.

Raymond Chabot Grant Thornton LLP

Limited Liability Partnership
Chartered Accountants
Ottawa, Canada
March 18, 2005

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 Contribution Analysis 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 contribution 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 59.4% 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, 2004, each of the markets and competitive services generated positive contribution. Under the methodology in the Annual Cost Study, a positive 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, 2004
(in millions of dollars)

Contribution of services by market

	Communications	Physical distribution	Advertising	Publications	Other	Total
Revenue from operations	$ 3,054	$ 1,031	$ 786	$ 252	$ 259	$ 5,382
Long-run incremental costs	1,416	865	414	183	171	3,049
Contribution	**$ 1,638**	**$ 166**	**$ 372**	**$ 69**	**$ 88**	**$ 2,333**

Contribution of exclusive privilege, competitive, and concessionary services

	Exclusive privilege	Competitive	Concessionary	Other	Total
Revenue from operations	$ 3,514	$ 1,481	$ 170	$ 217	$ 5,382
Long-run incremental costs	1,704	1,118	164	156	3,142
Contribution	**$ 1,810**	**$ 363**	**$ 6**	**$ 61**	**$ 2,240**

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, 2004

1. GENERAL

The Annual Cost Study calculates the 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.

(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 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 which 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 controls 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 the Management Executive Committee 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 and 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. Accordingly, each year, the Governor in Council appoints the Corporation's external auditors after giving consideration to the recommendations of the Corporation's Board of Directors on this matter. Deloitte & Touche LLP were reappointed for the current year. 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
March 11, 2005

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, 2004 and the consolidated income and equity of Canada statement and consolidated cash flow statement for the year then ended (pages 49 to 73). 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, 2004 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 11, 2005

Consolidated Balance Sheet

As at December 31 (in millions of dollars)	**2004**	2003
Assets		
Current assets		
Cash and cash equivalents	**$ 497**	$ 391
Short-term investments	**60**	40
Segregated cash and investments	**25**	482
Accounts receivable	**477**	455
Income tax recoverable	**105**	80
Prepaid expenses	**81**	101
Current portion of future income tax assets	**42**	193
	1,287	1,742
Segregated cash and investments (note 4)	**505**	443
Property, plant and equipment (note 5)	**1,721**	1,733
Accrued pension benefit asset (note 6)	**497**	374
Future income tax assets (note 7)	**143**	121
Other assets (note 9)	**161**	145
	$ 4,314	$ 4,558
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	**$ 406**	$ 405
Salaries and benefits payable	**350**	396
Deferred revenue	**151**	153
Deferred transitional support	**83**	83
Outstanding money orders	**48**	46
Other short-term liabilities	**8**	10
Current portion of long-term debt	**21**	21
Current portion of accrued post-employment benefit liability	**25**	482
	1,092	1,596
Long-term debt (note 10)	**76**	92
Future income tax liabilities (note 7)	**23**	11
Accrued other retirement and post-employment benefit liability (note 6)	**1,818**	1,637
Other long-term liabilities	**38**	40
	3,047	3,376
Non-controlling interest	**13**	12
Equity of Canada	**1,254**	1,170
	$ 4,314	$ 4,558

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)	2004	2003
Revenue from operations	**$ 6,651**	$ 6,344
Cost of operations		
Salaries	**3,349**	3,071
Benefits	**749**	782
Collection, processing and delivery	**915**	994
Accommodation	**282**	283
Amortization	**221**	200
Other	**897**	832
	6,413	6,162
Income from operations	**238**	182
Non-operating income (expense)		
Investment and other income	**14**	21
Interest and other expense	**(11)**	(19)
	3	2
Income before income taxes	**241**	184
Income tax expense (benefit) (note 7)	**93**	(69)
Net income before non-controlling interest	**148**	253
Non-controlling interest in net income of subsidiaries	**1**	–
Net income	**147**	253
Retained earnings (deficit), beginning of year	**15**	(220)
	162	33
Dividend	**63**	18
Retained earnings, end of year	**99**	15
Contributed capital	**1,155**	1,155
Equity of Canada	**$ 1,254**	$ 1,170

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

Consolidated Cash Flow Statement

Year ended December 31 (in millions of dollars)	2004	2003
Cash flows from (used in) operating activities		
Net income	**$ 147**	$ 253
Items not affecting cash:		
Accrued pension, other retirement and post-employment benefits	**520**	516
Amortization	**221**	200
Future income tax expense (benefit)	**141**	(90)
Other (income) expense, net	**13**	9
Transitional support offsetting pension reform incremental costs	**(181)**	(103)
	861	785
Pension, other retirement and post-employment benefit payments	**(919)**	(488)
Change in non-cash operating working capital items (note 13)	**(74)**	(249)
	(132)	48
Cash flows from (used in) investing activities		
Business acquisition (note 3)	**(10)**	–
Net decrease in other receivables	**–**	46
Net (increase) decrease in investments and segregated cash	**375**	(101)
Acquisition of property, plant and equipment	**(222)**	(251)
Other investing activities, net	**(2)**	8
	141	(298)
Cash flows from (used in) financing activities		
Transitional support received from the Governement of Canada	**181**	204
Repayment of long-term debt	**(19)**	(20)
Proceeds from long-term borrowing	**–**	19
Dividend paid	**(63)**	(18)
Other financing activities, net	**(2)**	6
	97	191
Net increase (decrease) in cash and cash equivalents	**106**	(59)
Cash and cash equivalents, beginning of year	**391**	450
Cash and cash equivalents, end of year	**$ 497**	$ 391

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

Notes to Consolidated Financial Statements

(December 31, 2004)

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. A summary of the significant accounting policies 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™), Canada Post International Limited (CPIL) and CPC/Borderfree Partnership are the principal subsidiaries while the joint ventures consist of Intelcom Courrier Canada Inc. (Intelcom) and Innovapost Inc. (Innovapost).

(b) Investments • Temporary investments consist of investment grade fixed income securities carried at cost, which approximate fair value due to the short period to maturity. Investments with maturities of three months or less from the date of acquisition are presented as cash equivalents. Investments with original maturities greater than three months but no more than one year are presented as short-term investments. The time weighted average rate of return on the temporary investments held as at December 31, 2004 is 2.5% (2003 – 3.1%).

In addition, the Corporation has other investments that are held in investment grade fixed income securities with maturities ranging from one month to 10 years. Investments in bonds are valued at amortized cost whereas investments in money market instruments are carried at cost. The Corporation has segregated these other investments, along with certain cash, for the sole purpose of managing cash flows relating to the liability for some of its accrued other retirement and post-employment benefits (note 4).

(c) Property, plant and equipment • Land, buildings 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.

Acquisitions 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Amortization is provided on a straight-line basis over the estimated useful lives of the following assets:

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

Amortization is provided on a diminishing balance basis at an annual rate of 30% for all passenger and light-duty commercial vehicles. Amortization of an asset under development commences when the asset is substantially complete and ready for productive use.

(d) Goodwill • Goodwill represents the excess of the purchase price of a business acquired over the fair value of the identifiable net assets acquired. Goodwill is tested for impairment at least annually, or more frequently if an analysis of 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. For that purpose, the fair value of a reporting unit is estimated using the expected present value of future cash flows.

(e) Intangible assets • Intangible assets consist of acquired service contracts and a license agreement recorded at cost and amortized on a straight-line basis. Acquired service contracts are amortized over the term of the respective contract plus the period of first renewal option, if any, for a total term not exceeding 10 years. The license agreement is amortized over a 36 month period.

(f) Revenue recognition • Most revenue arises from providing communications, physical distribution, advertising, publications and other mail delivery products/services. Communications consist of Lettermail and electronic hybrid services. Physical distribution consists of courier and parcels. Advertising consists of 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 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 and the lease inducements received during the year are also deferred. The incentive is amortized on a straight-line basis over the term of the contract while the lease inducements 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) **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.

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. The transitional support also included the funding of the liability assumed by the Corporation as of October 1, 2000 for the plans providing dental and life insurance benefits to employees upon retirement. A note receivable from the Government of Canada was initially recorded for the funding of these liabilities. 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 recognized only when received. Originally, it was applied against the incremental costs arising in the year, with the residual transitional support recorded as installments on the note receivable. In 2003, the note receivable was fully reimbursed and the remaining balance of the transitional support was deferred. Going forward, the entire amount of transitional support will be 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 accountable 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 10 year period, the average duration of these obligations.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Purolator, Progistix and Innovapost have adopted the same accounting policies as the Corporation except that their plan assets are valued at fair value for the purpose of calculating the expected return on plan assets and the corridor.

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

As at December 31	2004		2003	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Canada Post Corporation	11 years	9 to 11 years	11 years	10 to 11 years
Purolator	12 to 17 years	N/A	13 to 17 years	N/A
Progistix	14 years	17 years	14 years	16 years
Innovapost	13 years	N/A	13 years	N/A

(h) 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 case of changes in income tax rates. Each change resulting from a revaluation is recognized in the financial results of the year of change.

(i) 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.

A subsidiary of CPIL, located in the Netherlands Antilles, is considered a self-sustaining foreign operation. Consequently, its assets and liabilities are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Revenues and expenses are translated at the average rate of exchange during the year. Exchange gains and losses, if any, arising from the translation are deferred and shown as a separate component of equity of Canada.

(j) Measurement uncertainty • The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In particular, the following balances contain significant estimates: accrued pension benefits, accrued other retirement and post-employment benefits, future income taxes and salaries and benefits payable. Actual results may differ from the estimates.

(k) Comparative figures • Certain prior year comparative figures have been reclassified to conform with the current year's presentation.

3. BUSINESS ACQUISITION

On July 7, 2004, a subsidiary of the Corporation, epost™, acquired certain assets of the competing webdoxs electronic document presentment and payment service from BCE Emergis Inc. ("Emergis") for a total purchase price of $15 million, including $10 million of cash and $5 million in deferred payments. The following table summarizes the estimated fair value of the assets acquired at the date of acquisition.

(in millions of dollars)

Customer contracts	$	11
Other intangible assets		1
Intangible assets subject to amortization		12
Goodwill		3
Total assets acquired		15
Less: Deferred payments		5
Cash paid for the assets acquired	**$**	**10**

Emergis has committed to provide services for the integration of the webdoxs service with the existing epost™ functionality until January 7, 2006. The estimated cost to be paid by the Corporation for the services for the period of January 1, 2005 to January 7, 2006 is approximately $7 million.

4. 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)		**2004**		2003
Employee termination benefits	$	134	$	565
Other retirement dental and life insurance benefits		396		360
		530		925
Less current portion		25		482
	$	**505**	$	443

The time weighted average rate of return on the investments held as at December 31, 2004 is 6.3% (2003 – 6.8%) for employee termination benefits and 3.7% (2003 – 3.7%) for other retirement dental and life insurance benefits.

The fair value of segregated cash and investments as at December 31, 2004 is $134 million (2003 – $574 million) for employee termination benefits and $400 million (2003 – $363 million) for other retirement dental and life insurance benefits. The fair value of the investments represents their market value.

5. PROPERTY, PLANT AND EQUIPMENT

As at December 31 (in millions of dollars)			2004	2003
	Cost	**Accumulated amortization**	**Net carrying value**	Net carrying value
Land	$ 238	$ –	$ 238	$ 238
Buildings	1,554	891	663	670
Leasehold improvements	144	97	47	48
Plant equipment	720	535	185	209
Vehicles	169	87	82	66
Sales counters, office furniture and equipment and software	773	573	200	206
Office equipment and software under capital leases	58	33	25	38
Other equipment	647	417	230	217
Assets under development	51	–	51	41
	$ 4,354	**$ 2,633**	**$ 1,721**	$ 1,733

Amortization expense relating to property, plant and equipment is $216 million (2003 – $197 million).

6. 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 funded pension plan is 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. On January 1, 2004, rural and suburban mail carriers joined the pension plan, increasing pension expense for the year by $13 million. New eligibility rules and participation hours, and a new pensionable earnings definition applying to part-time and temporary employees, also increased pension expense.

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 rules and the provisions of labour contracts.

The Corporation's employee termination benefit 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 employee termination benefit plan was curtailed for management and exempt employees in 2002 and for Canadian Union of Postal Workers (CUPW) employees in 2003. Both groups of employees no longer earn benefit entitlements for years of service after December 31, 2003. In 2004, most management and exempt employees, and most CUPW employees, received the cash value of their accrued termination benefits based on their salary on December 31, 2003, whereas the rest of these employees opted to defer receipt of their benefit until departure, at which time the accrued termination benefit would reflect their salary earned on departure. Also in 2004, Public Service Alliance of Canada (PSAC) employees were provided the same options in a new collective agreement (i.e. the option of receiving the cash value of their accrued termination benefits in 2005 based on their salary as of December 31, 2004 or deferring receipt of their benefit until departure). Under both options, the accumulation of years of service is frozen as of December 31, 2004. Consequently, a decreasing number of employees are covered by the employee termination benefit plan. Employees represented by the Association of Postal Officials of Canada and the Canadian Postmasters and Assistants Association fall under the old rules whereas PSAC employees, as well as management and exempt employees and CUPW employees who have elected to defer their payment until departure are covered by the new rules. Following these transactions, a settlement loss of $8 million (2003 – $2 million) and a curtailment loss of $4 million (2003 – $70 million) were recognized.

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

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.

6. 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. 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. However, 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. The amounts impacted by these events can only be transferred to the Corporation once regulatory approval has been obtained. Had these amounts been included in the estimated transfer amount, the amount transferred would have increased by up to $10 million plus interest. A defined contribution provision was later added to Progistix's pension plan.

The other retirement and post-employment benefit plans pertaining to Progistix's employees consist of medical, dental and vision benefits, a retiring allowance program and life insurance after retirement. Progistix later amended its benefit plans to a flex program enabling employees to customize their benefit packages to their individual needs. Progistix pays the full cost of these benefits.

The accrued benefit obligations and the fair value of plan assets are measured for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the 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, 2003	December 31, 2004
Purolator	December 31, 2003	December 31, 2004
Progistix	December 31, 2003	December 31, 2006
Innovapost	N/A	January 1, 2005

Cash payments for employee future benefits, consisting of cash contributed by The Canada Post Group to its funded pension plans and cash payments directly to beneficiaries for its unfunded other benefit plans, amount to $919 million (2003 – $488 million). The Corporation's contributions to its pension plan included special solvency payments of $131 million (2003 – $107 million) as the Corporation started to recognize its funding obligation.

6. 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)	**2004**		2003	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Balance, beginning of year	$ 9,611	$ 2,616	$ 8,065	$ 2,282
Decrease in liability assumed under pension reform	–	–	(96)	–
Current service cost	476	82	381	99
Past service cost	–	–	13	–
Interest cost	613	137	555	153
Benefits paid	(149)	(536)	(105)	(77)
Actuarial losses	481	354	798	175
Plan amendments	10	1	–	(86)
Divestiture	(5)	–	–	–
Curtailment	–	4	–	70
Settlement	–	(17)	–	–
Balance, end of year	11,037	2,641	9,611	2,616
Plan assets				
Fair value, beginning of year	9,336	–	7,860	–
Actual return on plan assets	1,014	–	1,051	–
Employer contributions	383	–	411	–
Employee contributions	138	–	119	–
Benefits paid	(149)	–	(105)	–
Divestiture	(5)	–	–	–
Fair value, end of year	10,717	–	9,336	–
Funded status of plans – surplus (deficit)	(320)	(2,641)	(275)	(2,616)
Unamortized net actuarial loss	1,017	863	890	570
Unamortized past service costs	16	(79)	7	(91)
Unamortized transitional obligation	–	14	–	18
Unamortized funding excess	(216)	–	(248)	–
Accrued benefit asset (liability)	**$ 497**	**$ (1,843)**	$ 374	$ (2,119)
Presented in the consolidated balance sheet as:				
Accrued pension benefit asset	$ 497	$ –	$ 374	$ –
Current portion of accrued post-employment benefit liability	–	(25)	–	(482)
Accrued other retirement and post-employment benefit liability	–	(1,818)	–	(1,637)
	$ 497	**$ (1,843)**	$ 374	$ (2,119)

6. 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)	**2004**		2003	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations	$ 10,923	$ 2,641	$ 9,519	$ 2,616
Fair value of plan assets	10,470	–	9,043	–
Funded status – plan deficit	**$ (453)**	**$ (2,641)**	$ (476)	$ (2,616)

The fair value of total pension plan assets consists of:

As at December 31	**2004**	2003
Equity securities	**63 %**	63 %
Debt securities	**30 %**	31 %
Other	**7 %**	6 %
	100 %	100 %

6. 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)	**2004**			2003		
	Incurred in year	**Adjustments***	**Recognized in year**	Incurred in year	Adjustments*	Recognized in year
Pension benefit plans						
Current service cost, net of employee contributions	$ 358	$ –	$ 358	$ 275	$ –	$ 275
Interest cost	613	–	613	555	–	555
Return on plan assets	(1,014)	333	(681)	(1,051)	432	(619)
Actuarial losses on accrued benefit obligations	481	(480)	1	798	(798)	–
Plan amendments	10	(9)	1	–	1	1
Amortization of funding excess	–	(32)	(32)	–	(47)	(47)
Defined benefit costs	448	(188)	260	577	(412)	165
Defined contribution costs	1	–	1	1	–	1
Pension benefit costs	449	(188)	261	578	(412)	166
Transitional support from the Government of Canada	(153)	–	(153)	(77)	–	(77)
Net pension benefit costs	**$ 296**	**$ (188)**	**$ 108**	$ 501	$ (412)	$ 89
Other benefit plans						
Current service cost, net of employee contributions	$ 82	$ –	$ 82	$ 99	$ –	$ 99
Interest cost	137	–	137	153	–	153
Actuarial losses on accrued benefit obligations	354	(318)	36	175	(151)	24
Plan amendments	1	(12)	(11)	(86)	85	(1)
Curtailment loss	4	–	4	70	–	70
Settlement loss	8	–	8	2	–	2
Amortization of transitional obligation	–	4	4	–	4	4
Defined benefit costs	586	(326)	260	413	(62)	351
Transitional support from the Government of Canada	(28)	–	(28)	(26)	–	(26)
Net other benefit costs	**$ 558**	**$ (326)**	**$ 232**	$ 387	$ (62)	$ 325

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

6. 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	**2004**		2003	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Consumer price index (CPI)	3.0%	3.0%	3.0%	3.0%
Accrued benefit obligations:				
Discount rate	6.0% to 6.3%	5.1% to 6.5%	6.3% to 7.0%	5.5% to 6.5%
Long-term rate of compensation increase	CPI+0.5% to 1.0%	CPI+0.5% to 1.0%	CPI to CPI+1.0%	CPI+0.5% to 1.0%
Benefit costs:				
Discount rate	6.3% to 6.5%	5.5% to 6.5%	6.5% to 6.9%	5.9% to 6.9%
Expected long-term rate of return on plan assets	CPI+4.0% to +4.5%	N/A	CPI+4.0% to 4.8%	N/A
Long-term rate of compensation increase	CPI to CPI+0.5%	CPI+0.5% to 1.0%	CPI to CPI+1.0%	CPI+0.5% to 1.0%
Assumed medical drug/health care cost trend rates:				
Initial health care cost trend rate	N/A	CPI+6.0% to 7.0%	N/A	CPI+5.0% to 7.5%
Cost trend rate declines to	N/A	CPI+2.0% to 2.5%	N/A	CPI+2.0%
Year that the rate reaches the rate it is assumed to remain at	N/A	7 to 10 years	N/A	8 to 12 years

Assumed medical drug or 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 medical drug or health care cost trend rates would have had the following effects for 2004:

(in millions of dollars)	**Increase**	**Decrease**
Total of service and interest cost	**$ 30**	**$ (23)**
Accrued benefit obligations	**$ 396**	**$ (303)**

7. 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)	**2004**	2003
Net future income tax assets (liabilities)		
Property, plant and equipment	$ 29	$ 36
Accounts payable and accrued liabilities	13	17
Salaries and benefits payable	20	23
Obligations under capital leases	14	23
Accrued pension, other retirement and post-employment benefits	84	198
Other	(2)	2
Net future income tax assets	**$ 158**	$ 299
Presented in the consolidated balance sheet as:		
Future income tax assets		
Current	$ 42	$ 193
Long-term	143	121
	185	314
Future income tax liabilities		
Current (included in other short-term liabilities)	(4)	(4)
Long-term	(23)	(11)
Net future income tax assets	**$ 158**	$ 299

Deductible temporary differences for which no future income tax assets have been recognized amount to $1,185 million (2003 – $1,162 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.

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

Year ended December 31 (in millions of dollars)	**2004**	2003
Current income tax expense (benefit)	$ (48)	$ 31
Current income tax reduction for previously unrecognized differences in salaries and benefits payable	–	(10)
Future income tax expense (benefit) relating to:		
Origination and reversal of temporary differences	145	49
Previously unrecognized difference in post-employment benefits	(4)	(142)
Reduction in tax rate	–	3
Income tax expense (benefit)	**$ 93**	$ (69)

7. INCOME TAXES (continued)

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)	**2004**	2003
Income before income taxes	$ 241	$ 184
Federal tax at the applicable tax rate of 33% (2003 – 37%)	$ 79	$ 68
Provincial tax	10	6
Large corporation tax	5	6
Tax effect of expenses that are not deductible for income tax purposes	–	2
Reduction for previously unrecognized differences in salaries and benefits payable	–	(10)
(Increase) decrease in future income taxes resulting from:		
Previously unrecognized difference in post-employment benefits	(4)	(142)
Reduction in tax rate	–	3
Other	3	(2)
Income tax expense (benefit)	**$ 93**	$ (69)

8. GOODWILL

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

Year ended December 31 (in millions of dollars)				**2004**	2003
	Purolator segment	**Logistics segment**	**All other segment**	**Total**	Total
Balance, beginning of year	$ 120	$ 7	$ –	$ 127	$ 133
Goodwill acquired during the year	–	–	3	3	–
Impairment losses	–	–	–	–	(2)
Dilution arising from subsidiary issuance of share capital	–	–	–	–	(4)
Balance, end of year	**$ 120**	**$ 7**	**$ 3**	**$ 130**	$ 127

9. OTHER ASSETS

As at December 31 (in millions of dollars)	**2004**	2003
Goodwill (note 8)	$ 130	$ 127
Intangible assets		
Customer contracts, net of accumulated amortization of $8 million (2003 – $5 million)	21	12
Other intangible assets, net of accumulated amortization of $3 million (2003 – $1 million)	1	2
Other	9	4
	$ 161	$ 145

Amortization expense relating to intangible assets and other assets is $5 million (2003 – $3 million).

10. LONG-TERM DEBT

As at December 31 (in millions of dollars)	**2004**	2003
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	12	18
Obligations under capital leases expiring at various dates through December 2006, secured by the underlying assets	25	40
Notes due to Emergis, bearing interest at the Bank of Canada overnight rate plus 1%, maturing in December 2007 and December 2008	5	–
	97	113
Less current portion	21	21
	$ 76	$ 92

Interest expense on long-term debt is $8 million (2003 – $10 million).

10. LONG-TERM DEBT (continued)

The future minimum payments are as follows:

(in millions of dollars)	Bank loan and notes	Capital leases
2005	$ 6	$ 15
2006	6	11
2007	3	–
2008	2	–
Total minimum payments	17	26
Less amount representing interest at rates of 5.25% and 9.75%	–	1
Balance of the long-term debt	**$ 17**	**$ 25**

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, 2004 (2003 – $85 million).

The estimated fair value of the bank loan, the obligations under capital leases 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 alleging discrimination by the Corporation concerning work of equal value. One complaint was filed by the Public Service Alliance of Canada in 1983, retroactive to October 16, 1981, when Canada Post Corporation became a Crown corporation. The Tribunal's hearings and final argument of the parties were completed in August 2003. The parties at present are waiting for a decision of the Tribunal. 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. Canada Post Corporation, therefore, was successful in eliminating potential liability for 10 years of wage adjustments. This complaint was refiled in November 1992 and the Commission referred this complaint to conciliation. 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) In accordance with the purchase agreement entered into in June 2001 for Progistix, an additional consideration of $4 million is payable, based on the annual achievement by Progistix of a specified threshold of revenue from the vendor in each of the calendar years 2001 to 2005, inclusive.

(c) The Corporation and Purolator have made certain commitments that apply upon expiration of certain agreements with their information technology service provider. These agreements were signed for a 10 year period commencing in 2002. The Corporation and Purolator have agreed to purchase the assets that are being used on a dedicated basis at the time of expiration of the agreements in an amount equal to net book value. In addition, upon expiration of the agreements, the Corporation and Purolator may be required to assume certain obligations related to the purchase of assets from the information technology service provider. It is not practicable, at this time, to determine the value of assets used on a dedicated basis, as well as the carrying value of related obligations, at the time of expiration 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.

(d) CPIL and its subsidiary entered into an agreement to provide postal and postbanking services for a period of 20 years to the residents of five Caribbean islands in the Netherlands Antilles. The assets transferred to the subsidiary must be replaced, maintained or kept in good working order, normal wear and tear expected, by CPIL and its subsidiary. 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 foreign entity at no cost, unless otherwise agreed to by the parties. It is not possible, at this time, to estimate the potential value of these assets.

(e) 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.

(f) 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.

(g) 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)	**2004**	2003
Change in non-cash operating working capital items		
(Increase) decrease in accounts receivable	$ (22)	$ 5
Increase in income tax recoverable and decrease in income tax payable	(27)	(109)
Increase (decrease) in accounts payable and accrued liabilities	1	(74)
Decrease in salaries and benefits payable	(46)	(42)
(Increase) decrease in other non-cash operating working capital items	20	(29)
	$ (74)	$ (249)
Supplementary information		
Interest paid	**$ 9**	$ 8
Income tax paid	**$ 28**	$ 127

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)	
2005	$ 125
2006	106
2007	91
2008	78
2009	49
2010 and thereafter	206
	$ 655

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:

As at, and year ended, December 31 (in millions of dollars)	**2004**	2003
Income statement		
Revenue from operations	$ 166	$ 190
Cost of operations	(151)	(178)
Non-operating income	1	–
Income before income taxes	**$ 16**	$ 12
Cash flow statement		
Cash flow from (used in) operating activities	$ 18	$ (3)
Cash flow from investing activities	11	11
Cash flow used in financing activities	(10)	(18)
Net increase (decrease) in cash and cash equivalents	**$ 19**	$ (10)
Balance sheet		
Current assets	$ 72	$ 54
Long-term assets	26	40
Current liabilities	(37)	(35)
Long-term liabilities	(25)	(28)
Net assets	**$ 36**	$ 31
Commitments	**$ 7**	$ 10

Innovapost derived 99.4% (2003 – 100%) of its revenue from operations with The Canada Post Group. The non-operating income stated above includes finance income of $1 million (2003 – $2 million) from a direct financing lease with the Corporation, as well as interest expense of $2 million in 2003 charged by the Corporation. Assets stated above include balances between The Canada Post Group and Innovapost; in particular, accounts receivable of $22 million (2003 – $24 million), a net investment in a direct financing lease of $23 million (2003 – $36 million), as well as deferred incentive paid of $10 million (2003 – $11 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** • Where Government policy requires the Corporation to provide services at rates less than cost for concessionary services such as Government free mail, literature for the blind and Northern Air Stage Services, the Government of Canada compensates the Corporation for foregone postage revenue from those sources. Compensation payments on behalf of postal users amounting to $60 million (2003 – $56 million) are included in revenue from operations. The Corporation has also incurred net operating costs of $4 million (2003 – $5 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, 2004, the amounts of accounts receivable and deferred revenue from these related parties are $11 million (2003 – $10 million) and $5 million (2003 – $11 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 in the last three months of the year whereby the Corporation provided $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.

Accounts receivable from a specific foreign postal administration are offset against accounts payable to that foreign postal administration, and settled on a net basis. The amounts reported in the consolidated balance sheet include $38 million (2003 – $26 million) of net accounts receivable from foreign postal administrations and $28 million (2003 – $29 million) of net accounts payable to foreign postal administrations, which is the normal basis used for these international settlements.

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 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	$ 375	$ 72	$ 13	$ (1)	$ –	$ 459
Amortization	(190)	(19)	(7)	(6)	1	(221)
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

18. SEGMENTED INFORMATION (continued)

Year ended December 31, 2003
(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 5,153	$ 1,059	$ 112	$ 20	$ –	$ 6,344
Intersegment revenue	12	20	12	190	(234)	–
Revenue from operations	$ 5,165	$ 1,079	$ 124	$ 210	$ (234)	$ 6,344
Income (loss) before the undernoted items	$ 315	$ 64	$ 9	$ –	$ (4)	$ 384
Amortization	(174)	(16)	(7)	(3)	–	(200)
Investment and other income	33	–	1	3	(16)	21
Interest and other expense	(10)	(5)	(2)	(3)	5	(15)
Income (loss) by segments	$ 164	$ 43	$ 1	$ (3)	$ (15)	190
Unallocated amounts and adjustments in consolidation						(6)
Income tax benefit						69
Net income						$ 253
Assets by segments	$ 4,595	$ 375	$ 67	$ 117	$ (590)	$ 4,564
Unallocated amounts and adjustments in consolidation						(6)
Total assets						$ 4,558
Acquisition of property, plant and equipment	$ 218	$ 33	$ 3	$ 2	$ (5)	$ 251

Historical Financial Information

(in millions of dollars)	December 2004 (12 months)	December 2003 (12 months)	December 2002 (12 months)	December 2001 (9 months)	March 2001 (12 months)
OPERATIONS					
Revenue from operations	**6,651**	6,344	6,154	4,441	5,945
Cost of operations	**6,413**	6,162	5,998	4,321	5,804
Income from operations	**238**	182	156	120	141
Per cent of revenue from operations	**3.6 %**	2.9 %	2.5 %	2.7 %	2.4 %
Non-operating income (expense)	**3**	2	(29)	12	24
Income before income taxes	**241**	184	127	132	165
Income tax expense (benefit)	**93**	(69)	56	65	81
Net income before non-controlling interest	**148**	253	71	67	84
Non-controlling interest in net income of subsidiaires	**1**	–	–	–	–
Reported net income	**147**	253	71	67	84
Return on equity of Canada *	**12.1 %**	10.5 %	7.9 %	7.8 %	10.5 %
Add back: Amortization of goodwill	**–**	–	10	8	10
Adjusted net income	**147**	253	81	75	94
BALANCE SHEET					
Assets					
Current **	**1,287**	1,742	1,138	958	1,124
Segregated cash and investments	**505**	443	835	701	598
Property, plant and equipment	**1,721**	1,733	1,687	1,573	1,489
Other **	**801**	640	442	445	442
	4,314	4,558	4,102	3,677	3,653
Liabilities and equity of Canada					
Current **	**1,092**	1,596	1,171	1,012	1,141
Accrued pension, other retirement and post-employment benefit liability	**1,818**	1,637	1,845	1,705	1,605
Other liabilities **	**137**	143	149	80	73
Non-controlling interest	**13**	12	2	–	–
Equity of Canada	**1,254**	1,170	935	880	834
	4,314	4,558	4,102	3,677	3,653

* 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.

** Prior period comparative figures have been reclassified to conform with the current period's presentation.

Historical Financial Information

	December 2004 (12 months)	December 2003 (12 months)	December 2002 (12 months)	December 2001 (9 months)	March 2001 (12 months)
ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT (in millions of dollars)					
Land and buildings	**48**	71	229	30	39
Operating equipment	**125**	75	58	134	80
Office and other equipment	**37**	77	44	41	66
Office and other equipment under capital leases	**–**	–	47	10	–
Assets under development	**12**	28	21	–	70
	222	251	399	215	255
OPERATING DIMENSIONS		*			
Revenue from operations by market segment (in millions of dollars)					
Communications market	**3,042**	2,941	2,507	1,800	2,536
Physical distribution market	**2,176**	2,022	2,157	1,572	2,041
Advertising market					
Addressed	**514**	493	472	366	497
Unaddressed	**272**	246	223	166	211
	786	739	695	532	708
Publications market	**252**	235	224	162	218
Other revenue	**395**	407	571	375	442
Revenue from operations	**6,651**	6,344	6,154	4,441	5,945
Per cent increase **	**4.8 %**	3.1 %	2.7 %	1.1 %	5.4 %
Volume by market segment (in millions of pieces)					
Communications market	**5,464**	5,408	4,611	3,300	4,774
Physical distribution market	**281**	283	306	225	311
Advertising market					
Addressed	**1,385**	1,370	1,383	1,083	1,506
Unaddressed	**3,198**	3,112	2,906	2,205	2,803
	4,583	4,482	4,289	3,288	4,309
Publications market	**540**	546	565	421	567
Total volume	**10,868**	10,719	9,771	7,234	9,961
Per cent increase (decrease) **	**1.4 %**	9.7 %	(0.7)%	(1.7)%	5.5 %

* 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 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.

Historical Financial Information

	December 2004 (12 months)	December 2003 (12 months)	December 2002 (12 months)	December 2001 (9 months)	March 2001 (12 months)
OPERATING DIMENSIONS (continued)					
Employment					
Full-time employees *	**61,409**	55,683	54,665	54,785	54,059
Part-time employees	**11,465**	10,867	9,509	11,306	11,708
Total employees	**72,874**	66,550	64,174	66,091	65,767
MAIL NETWORK					
Retail points of access	**23,352**	23,765	24,059	24,337	24,644
Per cent increase (decrease)	**(1.7)%**	(1.2)%	(1.1)%	(1.2)%	6.1 %
		**			
Points of delivery (in thousands)	**13,808**	13,548	13,790	13,605	13,312
Per cent increase	**1.9 %**	–	1.4 %	2.2 %	1.7 %
Pick-up points (in thousands)	**997**	1,004	992	979	970
Per cent increase (decrease)	**(0.7)%**	1.2 %	1.3 %	0.9 %	1.0 %

* 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.

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