ANNUAL REPORT 2016

OUR JOURNEY TO BECOMING CANADA'S #1 PARCEL COMPANY

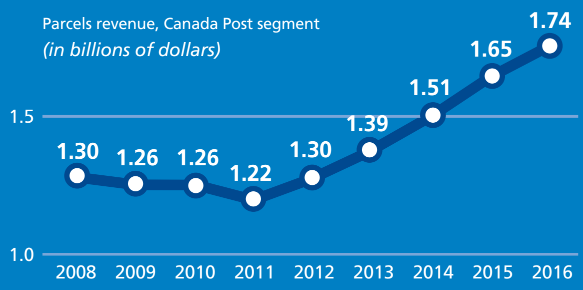
Our $55M profit before tax in 2016* marks the third consecutive year of profit. Driven by a comprehensive transformation plan, we are outrunning historic declines in Lettermail™ volumes.

* Canada Post segment

KEY FACTORS:

1 PARCELS REVENUE

Before 2011, our Parcels business was flat. In 2011, after closely analyzing macro trends in retail, we chose to focus on becoming the leader in e-commerce delivery. Since then, we've become Canada's No. 1 parcel company and grown annual Parcels revenue by well over half a billion dollars. We are now well positioned for long-term growth beyond 2017.



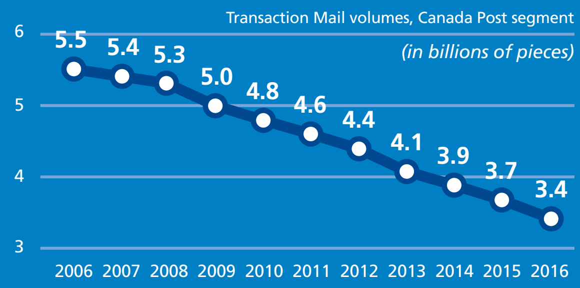
2 TRANSFORMATIONAL INITIATIVES

Canadians' needs for postal services have changed dramatically, and we've responded decisively. In 2016, earnings include approximately $440 million, which is the accumulated impact of major initiatives in recent years. They include a strategic price increase, improved productivity and more efficient delivery methods.

$440M
(approx.)

3 DECLINE OF LETTERMAIL

Due to digital technology, every postal service is seeing a drastic decline in mail volumes. Volumes of Transaction Mail – the letters, bills and statements that grew for decades until 2006 – fell by 7.8 per cent in 2016 alone. That decline represents a revenue shortfall of $256 million based on the average revenue per piece in 2016.



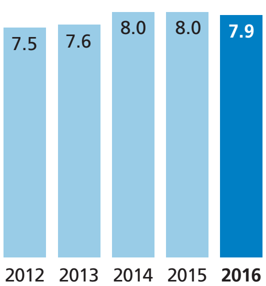
By the numbers
Canada Post Group of Companies

(in millions of dollars)	2016	2015	% Change
Operations			
Revenue from operations	7,880	8,006	(1.6) %
Profit from operations	149	169	(12.0) %
Operating margin (%)	1.9 %	2.1 %	
Investing and financing income (expense)[1]	(35)	(33)	(5.8) %
Profit before tax	114	136	(16.3) %
Net profit	81	99	(18.1) %
Cash provided by operating activities	597	595	0.2 %
Cash used in capital expenditures	(253)	(352)	27.9 %
Financial position			
Cash and cash equivalents	849	775	9.5 %
Total assets	7,792	7,720	0.9 %
Loans and borrowings	1,059	1,135	(6.7) %
Equity of Canada	(331)	(1,151)	71.3 %
Volume			
Total volume – Consolidated (in millions)	8,371	8,903	(6.0) %
Domestic Parcels growth (Canada Post segment)	9.0 %	13.5 %	
Parcels growth (Canada Post segment)	7.7 %	9.7 %	
Direct Marketing (Canada Post segment)	(5.3) %	0.2 %	
Domestic Lettermail erosion (Canada Post segment)	(7.6) %	(5.2) %	
Transaction Mail erosion (Canada Post segment)	(7.8) %	(6.1) %	
Transaction Mail volume decline per address	(8.8) %	(6.8) %	
Canada Post Corporation Registered Pension Plan			
Pension assets – Fair market value	23,150	21,968	5.4 %
Going-concern surplus – To be funded[2]	1,767	1,246	41.8 %
Solvency deficit – To be funded[2]	(6,745)	(6,269)	(7.6) %
Employer contributions – Current	241	243	(1.1) %
Employer contributions – Special	35	35	(1.8) %

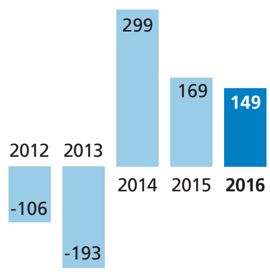
1. Includes (loss) gain on sale of capital assets and assets held for sale.
2. Number for 2016 is an estimate. Actuarial valuations for the Plan will be filed by June 30, 2017. For more details, refer to Section 6.5 of the Management's Discussion and Analysis on page 55.

Canada Post Group of Companies

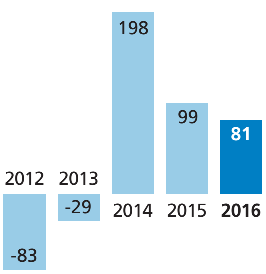
Revenue from operations
(in billions of dollars)



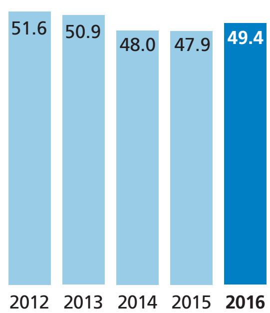
Profit (loss) from operations*
(in millions of dollars)



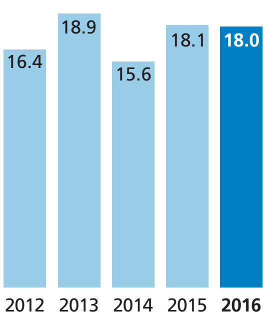
Net profit (loss)*
(in millions of dollars)



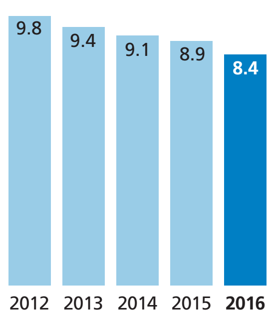
Labour costs
(percentage of revenue from operations)



Employee benefit costs*
(percentage of revenue from operations)



Volume
(in billions of pieces)



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

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

Digital technology has disrupted many industries – but we have reinvented our company to play a new role in the lives of Canadians.

HOW DID WE DO IT?

We **pivoted our operations** to meet Canadians' changing needs.

We gained competitive advantage through **innovation**.

We **partnered with Canadian retail** from the beginning.

We focused on **customer experience**.

President's message

Long before Canadians embraced online shopping, Canada Post was busy building the essential foundation necessary for Canadian retailers to reinvent their businesses and embrace a digital future. A journey that we began at the start of the decade ushered in a new era of convenience for Canadian shoppers.

By meeting the needs of some of the most innovative retailers on the planet, we have emerged as Canada's No. 1 parcel company. This is a tribute to our employees, who are enabling the digital economy for retailers and shoppers alike.

There is a quiet revolution taking place at Canada Post. The daily ritual of our letter carriers walking a neighbourhood is now performed in a compact delivery truck. These trucks carry fewer letters, about 1.8 billion fewer than they did in 2006, but a lot more of your online purchases (clothes, shoes, Christmas gifts, back-to-school shopping, tools, gadgets and more) as well as seasonal catalogues and offers.

Transforming a company from a decades-old letter-centric business to a revolutionary customer-driven e-commerce powerhouse has been both challenging and rewarding. It is a remarkable tribute to our employees that they have carried out this revolution so seamlessly that Canadians (91 per cent) and businesses (83 per cent) are highly satisfied with Canada Post's services.

Few companies faced with digital disruption have reinvented themselves – but Canada Post has, in just a few years.

In a world where you are either disrupting or being disrupted, there is no room to sit still. Few companies faced with digital disruption have reinvented themselves – but Canada Post has, in just a few years. We have grown annual Parcels revenue by over half a billion dollars since 2011. This success was neither certain nor easy. Every aspect of our business needed to be rewired: from operational processes to full integration of shipping rates and tracking data with customers' check-out processes; from working with innovative start-ups to helping mega brands introduce online stores; from launching drive-thru parcel pickups to introducing flexible delivery solutions for Canadians who are not home during the day to receive their packages.

At the heart of this transformation are our employees who not only embraced

It is this conviction about reinventing our role in the digital economy that has earned us success when few believed we could succeed.

this change but also became passionate advocates of our new brand promise, Delivering the Online World™.

Despite constant pressure to find efficiencies in our operations due to the unrelenting decline in Lettermail volumes, we have stayed true to our mission of serving each and every Canadian. Residents of the far north and isolated rural areas remain as critical for us as any downtown Vancouver or Toronto address. We have re-emerged as the vital bridge between Canada's remote, often cut-off communities and the rest of the world. They now have access to products from around the world, including dry groceries and medical supplies, which we proudly deliver to them coast to coast to coast.

We have worked hard to stick to our core competencies, avoiding the perils of diversifying into areas we know little about. It is this conviction about reinventing our role in the digital economy that has earned us success when few believed we could succeed.

Much work still lies ahead. Our challenges are serious but not insurmountable. We have developed new skills, new leadership talents, new energy and new ways to overcome adversity.

While much has changed over the past 150 years, the sight of a Canada Post letter carrier in uniform has been and still is a constant reminder to Canadians that we connect them with the world. As we celebrate Canada's 150th birthday, we walk into the future with a new sense of purpose, which is to continue to reinvent our business to serve the ever-changing needs of Canadians – one address at a time.

Deepak Chopra
President and Chief Executive Officer

2016 was a year like no other for Canada Post. We solidified our position as Canada's No. 1 parcel company. We shattered every parcel delivery record over the peak holiday season, when millions of Canadians – and the retail industry – were counting on us to deliver Christmas. We innovated to offer more convenience to busy Canadians – and to integrate closely and partner with retailers.

Our growth strategy is all about helping Canadian businesses grow through e-commerce. It's working out for them – and for us.

A GAME-CHANGING YEAR

2
IN 2012

34
IN 2016

On December 13, 2012, we delivered one million parcels on a single day for the first time in our history. We did it twice that year. In 2016, we did it 34 times.

During our peak holiday season, we delivered one million parcels on an unprecedented 20 consecutive business days – from Cyber Monday to the day before Christmas Eve.

On December 5, 2016, we hit an all-time record for parcel deliveries in a day. That's the equivalent of delivering about 3,620 parcels per minute.

9%

Our Domestic Parcels volume grew by 9 per cent and our total Parcels volume grew by 7.7 per cent compared to 2015. This strong growth reflects our success as an e-commerce leader.

2 OUT OF 3

Eight out of 10 Canadians shop online and they're buying more items more often each year. Canada Post delivers nearly two of every three parcels they order.

FOR CANADA POST

16000000

Canada Post is the only company that delivers to every Canadian address – and these addresses also grow in number every year. In 2016, the number of addresses surpassed the 16 million mark.

NEARLY 1M

Reality: More Canadians live in a multi-unit building every year. Response: we're innovating. We now deliver parcels to nearly 1 million Canadians via a secure Canada Post parcel locker in the lobby of their apartment or condominium building.

5,500

We've partnered with 5,500 retailers to integrate our Web Services software in their online stores. Right at the checkout, shoppers see the information they want about estimated delivery times and more.

We **pivoted our operations** to meet Canadians' changing needs

After identifying e-commerce as our major growth opportunity, we went to work, pivoting our operations to make them more parcel-centric and customer-focused.

With new technology, such as automated processing equipment and hand-held scanning devices, we can move far more parcels through our network, while providing better tracking to customers.

Working with customers and employees, we fine-tuned how, when and where their parcels enter our network. Our extended cut-off times and new network links better meet their needs.

Investments in automated equipment have increased capacity, improved productivity and reduced per-piece processing costs. Our employees can now process more parcels more quickly at a lower cost.

Our old cut-off times – the deadlines within our network – were built for letters. New, later cut-off times allow retailers to fulfill more orders placed that day – and for us to delight more customers with prompt delivery.

New hand-held computers upload scan information to **canadapost.ca** and our mobile app in real time, allowing senders and receivers to follow their parcels' journeys more closely than ever.

We gained competitive advantage through **innovation**

Canadians love how easy online shopping is. Creating innovations that maximize convenience for them is a priority for us. Our concept stores in Richmond Hill, Ont., Edmonton and Vancouver do just that.

Two have popular drive-thru service for parcel pickup – which was a first of its kind for a post office in North America. All three locations allow for self-serve shipping of parcels.

With their new features, and evening and weekend hours, the stores take convenience and the customer experience to a unique level in the marketplace – as does our same-day service, Delivered Tonight.

Parcel drive-thru

Customers in Richmond Hill and Edmonton can collect their parcels without leaving the car. At the welcome window, they scan their item's barcode from their smartphone or paper pickup notice, then drive to the pickup window.

24/7 self-serve features

New stores test consumer use of new technology. At this kiosk, customers can ship parcels by printing their own shipping labels, scanning the barcode and placing the parcel in the drop box. Stamps can also be printed on demand. Vending machines let customers buy supplies, such as prepaid envelopes, and collectibles.

Delivered Tonight

Customers can receive their online purchases the day they order them. This same-day delivery service is available through select retailers to shoppers in the Greater Toronto Area and Montréal.

We **partnered with Canadian retail** from the beginning

Early on, we realized that we could not reinvent Canada Post on our own. For us to succeed in a digital economy, we would need Canadian retailers to succeed. So we joined forces.

Today, we continue to work alongside e-commerce solutions providers, retailers and the country's leading entrepreneurs – the visionaries of innovation. Our efforts have enabled retailers of any size to provide their customers with a more convenient delivery, shipping and returns experience. We've strengthened their ability to compete – and ours.

Canada Post **E-commerce Innovation** Awards™

In 2012, we created the annual Canada Post E-commerce Innovation Awards™ to support the growth of the country's leading online retailers. We are proud to have recognized and rewarded the efforts of more than 30 businesses, from retail giants to start-ups.

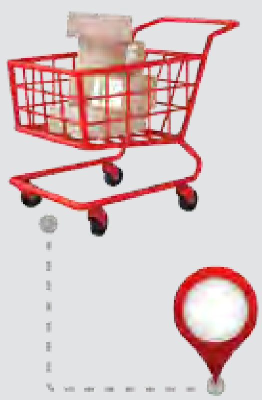
We focused on **customer experience**

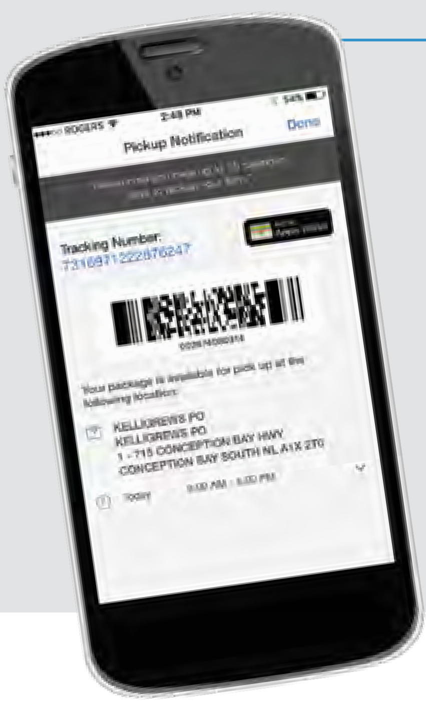
We have learned that successful e-commerce is all about the customer experience – and we know from our research that parcel delivery plays a key role. When it comes to the delivery of their online orders, Canadians have shown a clear preference for choice, convenience and control.

As a result, we have created a suite of customer-centric delivery services that enable any retailer to meet and exceed the expectations of their savviest shoppers, regardless of where they live in Canada.

FlexDelivery

Consumers who aren't home during the day, are travelling or want to keep gifts a secret can use FlexDelivery™ to have their online shopping orders delivered to a post office of their choice. This innovative service is free – and with more than 6,200 post offices in Canada, one is always nearby.





App enhancements

We've added some great customer-friendly features to our mobile app. Push notifications (for tracking packages) inform shoppers of their online order's delivery progress. The app also displays a delivery notice card, allowing them to pick up their parcel immediately from the post office.

Parcel lockers

We are installing more parcel lockers in condos and apartments so residents have a dedicated and secure place to receive their online orders. The result? Parcel volumes from online shopping are growing at a faster pace in the buildings with parcel lockers than in other Canadian households.

We still face **significant challenges**

Digital has disrupted countless industries

Newspapers, magazines and books. Music, movies and television. Retail, travel, banking, hotels and taxis. All these industries have been disrupted by digital technology to varying degrees. Some have adjusted their business models and proven resilient. Others are scrambling for answers.

Digital has disrupted Canada Post, too

Our traditional core product (paper letters, bills and statements) declines steadily every year as more transactions go digital.

1 Declining mail volumes

Delivering less mail to more addresses every year is no formula for success. Canadians mailed 1.8 billion fewer pieces of Domestic Lettermail in 2016 than they did in 2006. The ongoing decline is irreversible.

2 Pension solvency deficit

Our pension funding obligation puts substantial pressure on our finances. To be sustainable, our pension plan needs a solution beyond the relief from special payments to reduce the solvency deficit.

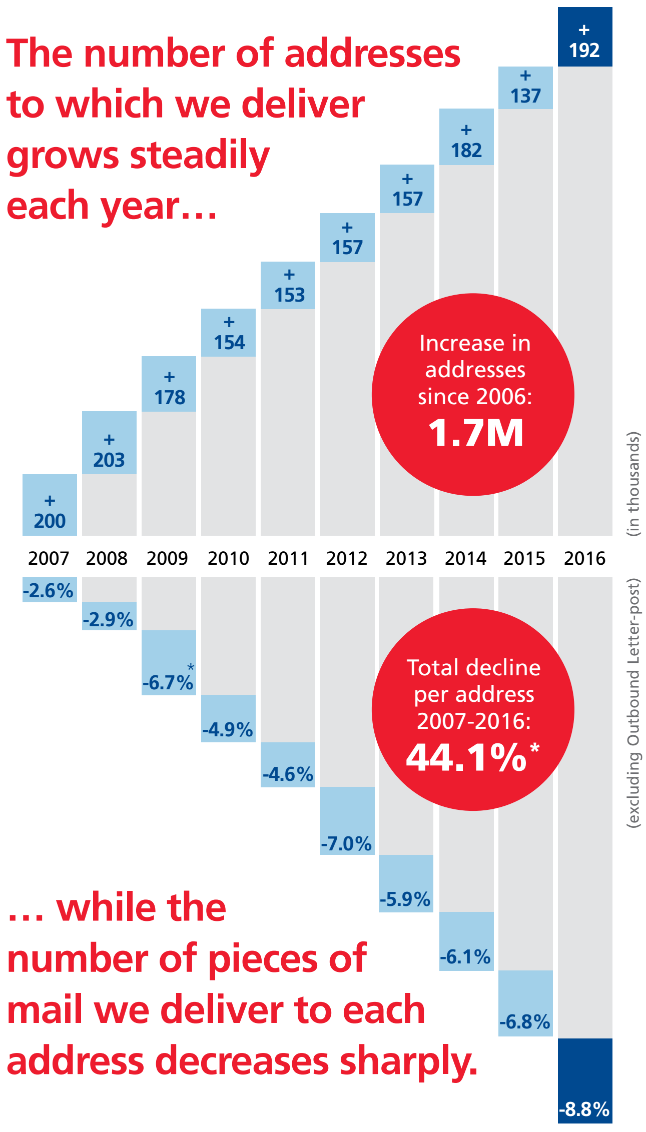
3 Labour costs

Labour represents about 70 per cent of our costs – a much higher ratio than our major competitors' in parcel delivery. We must continue to realign our labour costs to our changing business.

4 Network capacity

We've been driving efficiencies and reducing costs in our complex and integrated network for decades – and now, we must invest in network capacity to keep up with growing parcel volumes.

Transaction Mail decline per address



* Due to a methodology change implemented in 2010, volumes for 2009 were restated for comparability. Had 2008 volumes been restated, the decline per point of call for 2009 would have been 5.1% and the 10-year decline would have been 43.2%.

Serious challenges demand a serious response

We've taken bold steps in order to preserve the postal service for Canadians. Key examples include:

- Growing Parcels revenue by $521 million since 2011.
- Adopting strategic initiatives that have delivered savings worth hundreds of millions of dollars a year, such as increased efficiency in plants, delivery and retail, as well as tiered pricing.
- Addressing labour costs by negotiating competitive wages for new hires and changes to sick leave, health plans and weekend delivery with unions. We also changed pension, sick leave and health plans for management, and reduced their ranks over several years.

Our challenges are structural and significant – but they can be solved.

A new addition to our Smartmail Marketing line of products

In 2016, Canada Post successfully market-tested an innovative new Smartmail Marketing™ solution, called Postal Code Targeting. Launched early in 2017, it allows marketers to target prospects who most closely resemble their best customers – right at the postal code level.

By unlocking the power of the postal code, we're giving marketers the level of precision they have been asking for, helping them get the most out of their marketing as they drive customer acquisition.

This level of data-driven targeting empowers marketers to use their own data or select their mailing's postal codes by demographic criteria such as income, education, age, location, family composition, interests or lifestyle, or even online shopping behaviours.

Postal Code Targeting is one of three great choices, described below, that help marketers attract and retain customers.

CANADA POST NEIGHBOURHOOD MAIL™

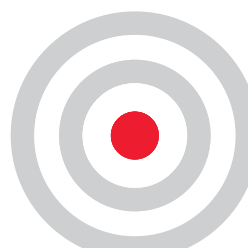
ONE TO MANY

Marketers with a broadly defined target can mail by neighbourhood, which consists of the routes that our delivery agents serve. Each route has an average of 500 addresses.

POSTAL CODE TARGETING

ONE TO FEW

Marketers already gather audience information by postal code. On average, a postal code has about 20 addresses. The wealth of information available allows for exact targeting and tailored messaging.



CANADA POST PERSONALIZED MAIL™

ONE TO ONE

Speaking to a single customer by name is an effective way to create greater loyalty and drive better engagement and results. It's perfect for existing relationships with customers or donors.

Using data smartly to drive results

Various kinds of businesses tested Postal Code Targeting with great success in 2016 – but they all used data strategically to drive results. Financial institutions, for example, achieved strong results for credit card offers by applying demographics similar to the profile of their current customers. Not-for-profit organizations benefited from targeting potential donors in areas where they have lower support. Retailers used insights about similar customers to focus their messaging and offers around life events, such as back-to-school shopping.

Our employees

Stepping up to the challenge

We could not have become Canada's No. 1 parcel company without the dedication, customer focus and hard work of thousands of employees.

Over the Christmas holiday period, their hard work helped us break every parcel delivery record. They worked evenings, on weekends and in brutal weather in much of the country to help merchants in their most critical season, and ensure gifts arrived in Canadians' homes on time. Even as parcel volumes increased, we maintained or improved parcel service performance.

Our employees are keenly aware that millions of Canadians count on them year-round. They know that the parcels and marketing mail they process and deliver help Canadian businesses, large and small, succeed. Every day, across Canada, our brand benefits from the pride that tens of thousands of employees display.

Vicki McHarg is proud to deliver to residents in East Saint John, N.B. The nine-year employee considers herself an ambassador helping people. "I see people every day," she says. "I love my job."

Service performance by the numbers

Canada Post continues to provide reliable, competitive service – thanks to employees throughout the network who are focused on the customer experience.

We set a new record for International Outbound Parcels on-time delivery performance.

We achieved our International Inbound Parcels on-time delivery performance, exceeding our target for 2016.

Parcel delivery scanning performance continued to be excellent, ensuring customers can track their package's delivery status.

We exceeded our combined target for on-time delivery performance of our Personalized Mail and Neighbourhood Mail services, setting a new record level of performance.

Lettermail service performance reached 94.3 per cent.

Safety first

We promote a culture of safety through leadership, prevention and training. Over the past three years, we've reduced lost-time injury frequency[1] by more than 14 per cent, continuing a decades-long positive trend. In 2016, lost-time injury frequency rose slightly for the first time in eight years although our total injury frequency[2] continued to improve. Slips, trips and falls – the leading cause of injuries – remain a major focus.

1. Lost-time injury frequency includes any injury that results in a full day's absence after the day of the injury.
2. Total injury frequency includes all injuries whether or not they led to an absence from work.

Postal clerk Izaaz Khan sorting at the Pacific Processing Centre.

Oh Canada!

Sharing Canada's stories

Our stamps celebrate and promote our heroes and heritage, and our traditions and achievements. They tell Canada's story.

In 2016, we honoured hockey heroes with our NHL® Great Canadian Forwards stamps. We celebrated actors whose roles on a cult-like television series made them personalities. We marked the Lunar New Year and we remembered the women who won the right to vote.

These were only a few of the stories we told. In a country as remarkable as ours, there are always more to tell.

Chairperson of the Board of Directors Siân Matthews and President and CEO Deepak Chopra join our hockey heroes at a September 23 stamp unveiling at the Hockey Hall of Fame in Toronto. From left: Phil Esposito, Darryl Sittler, Ms. Matthews, Steve Yzerman, Mark Messier, Guy Lafleur and Mr. Chopra. Sidney Crosby, the only active player in the stamp issue, could not attend.

Three of the five characters featured in our *Star Trek*™ 50th anniversary stamps were played by Canadian actors. William Shatner, James Doohan and John Colicos played Captain Kirk, "Scotty" and Klingon Commander Kor, respectively.

We celebrated the Year of the Monkey in the eighth stamp issue of our 12-year Lunar New Year series.

Enriching our communities

In 2016, the Canada Post Community Foundation for Children contributed almost $1.2 million in grant support to 125 different community organizations across the country. It also raised $1.1 million for grants in 2017.

The Foundation funds breakfast and early literacy programs, anti-bullying initiatives, crisis lines and more. In the last four years, it has granted approximately $5 million to more than 440 community projects.

Funds are raised through an in-store campaign, sales of a special fundraising stamp and employee support, including a-dime-a-day program.

Giving Santa a helping hand

Over three-and-a-half decades, the Canada Post Letter-writing Program has touched millions of children. We know this because the letters we receive speak to the letters we write.

Canadians have written in droves to laud the very special people who make the program possible. Each letter of thanks is a welcome gift of gratitude.

In 2016, about 6,500 of our employees and retirees volunteered about 270,000 hours to reply to a record 1.6 million letters. It's a labour of love – as the appreciative notes we get from parents attest.

"Please know that we appreciate that you volunteer your time to keep the magic alive!"

"You have no idea how much joy that brings each family."

"I am very grateful for all your time and words that inspire hope and faith and Christmas spirit in all of our children."

Chairperson's message

The Board of Directors ensures that Canada Post meets Canadians' needs for postal service while remaining financially self-sustaining. It acts in the best interest of the Corporation, its employees and Canadians.

In 2016, Canada Post's e-commerce strategy and its market leadership lifted its Parcels businesses to new heights. It was exciting to see the several delivery records that Canada Post and its employees achieved in 2016 – such as the 34 days on which they delivered one million or more parcels. Most importantly, growing volumes and revenue in Parcels helped to make our 2016 financial results positive. This outcome again confirms the wisdom of the senior management's choice to focus on growing through e-commerce.

It is quite remarkable for a company to grow revenue by more than half a billion dollars in five years, as Canada Post has done in Parcels. The Board is proud to have helped Canada Post to seize the growth opportunity in e-commerce with solid strategies and with determination.

For the past few years, the Board has helped senior leaders assess Canada Post's strategic options, then adopt and craft the appropriate strategies. Those strategies involved both the pursuit of growth and, of necessity, a clear focus on greater efficiency, productivity and cost-competitiveness. Given the relentless decline of mail volumes, Canada Post would not have posted a profit in 2016 or, for that matter, in 2015, if not for the ongoing, significant and positive impact of its transformational initiatives.

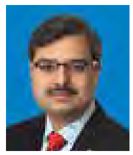
Given Canada Post's mandate to be financially self-sustaining, the Board continued to closely monitor the Corporation's efforts to grow in Parcels, to sustain the Direct Marketing business, and to manage the consequences of the inevitable decline in mail.

The Board and I are grateful for and proud of employees' hard work on behalf of all Canadians. As we look to the future, we are confident that Canada Post has the leadership and ability it needs to remain strong, address its challenges and provide Canadian consumers, businesses and other organizations with a superior customer experience.

Siân M. Matthews
Chairperson of the Board of Directors

Board of Directors

Siân M. Matthews ✲●▲★
Heritage Pointe, Alberta
Chairperson of the
Board of Directors
Canada Post Corporation

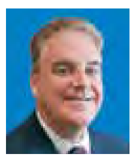


Deepak Chopra
Ottawa, Ontario
President and
Chief Executive Officer
Canada Post Corporation

Thomas Cryer ▲★
FCPA, FCA
Rosseau, Ontario

Michèle Desjardins ✿✲
Montréal, Quebec

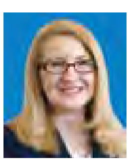
A. Michel Lavigne ◗▲
FCPA, FCA
Laval, Quebec



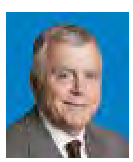
Andrew B. Paterson ▲●
Winnipeg, Manitoba

Alain Sans Cartier ◆★
L'Ancienne-Lorette, Quebec

William H. Sheffield ●★
Toronto, Ontario



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



Donald Woodley ✲●
Mono, Ontario

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

One seat on the Board of Directors is currently vacant.

As of March 23, 2017

Officers of the Corporation

Deepak Chopra
President and Chief Executive Officer

Senior vice-presidents

Wayne Cheeseman
Chief Financial Officer

Doug Ettinger
Chief Commercial Officer

Scott G. McDonald
Chief Human Resources Officer

Mary Traversy
Chief Operating Officer

André Turgeon
Chief Information Technology Officer

René Desmarais
Parcels

Leonard (Len) Diplock
Strategy and Corporate Marketing

John B. West
General Counsel and Corporate Secretary

Vice-presidents

Manon Fortin
Operations Integration

Douglas Greaves
Pension Fund and Chief Investment Officer

William (Bill) Gunton
Marketing and Commercial Products

Ann Therese MacEachern
Human Resources

Barbara MacKenzie
Finance and Comptroller

Susan Margles
Government Relations and Policy

Serge Pitre
Sales

Jo-Anne Polak
Communications and Public Affairs

Brian Wilson
Operations

Kaval Pannu Corporate Auditor
Steven Galezowski Corporate Treasurer

As of March 23, 2017

Corporate governance

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

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

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

The Board of Directors is composed of 11 members, including the President and Chief Executive Officer, all of whom are Governor-in-Council appointees. As of March 23, 2017, one seat is temporarily vacant. As overseer of an approximately $7.9 billion commercial enterprise, the Board brings strong business judgment and expertise to the stewardship of Canada Post.

To provide oversight for such a large and complex organization, directors normally devote 25 to 30 days a year to Board work. In 2016, the Board met nine times and its committees met a total of 18 times.

Gender diversity on the Board

Canada Post recognizes the relationship between gender diversity and corporate performance. Working with the shareholder, the Board ensures that highly qualified female candidates are identified for any vacant positions. It works closely with the office of the Minister of Public Services and Procurement to recommend potential candidates who will provide the skills needed by the Board and also address its commitment to diversity. The Board currently has a female membership of 30 per cent, including the Chairperson. It is focused on growing this number as it identifies new candidates in 2017.

Employee diversity is a business imperative in today's world. The Board has established an Equality in Employment policy for the Corporation and regularly reviews its performance in this area.

Independence of the Board

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

Committees of the Board

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

Board effectiveness

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

Subsidiaries

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

Governance in principle

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

More information can be found under Corporate Governance at **canadapost.ca**.

Ombudsman's report

The Office of the Ombudsman is independent of Canada Post staff and management, and reports directly to the Chairperson of the Board of Directors. It ensures Canadians have one more avenue if they feel Canada Post has not lived up to its service commitments. It helps to maintain customer trust by investigating customer complaints and recommending fair and equitable solutions. By identifying trends, focusing on prevention and recommending changes where warranted, it provides Canada Post with yet another perspective to improve service.

In 2016, the Office received 5,943 appeals, compared to 6,092 in 2015. Of the 2,550 cases we investigated, 53 per cent resulted in corrective action to resolve issues. In the remaining cases, our investigation supported Canada Post's actions. In comparison, corrective action was needed in 48 per cent of the 2,847 cases we investigated in 2015.

More than half the appeals did not result in an investigation because customers reached out to the Office before giving Canada Post time to complete its review.

The number of appeals related to the *Canadian Postal Service Charter* rose by 538. The increase reflects growth in the parcel business, and an issue in accessing Canada Post's service department during a transition in providers early in the year. It was soon rectified.

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

Canadian Postal Service Charter

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

Our compliance to the Charter for 2016 is presented in blue italics after each clause.

Preamble

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

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

Universal service

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

All 16 million Canadian residential and business addresses were served, and international inbound and outbound services were provided to 192 countries.

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

More than 7,500 rural and suburban delivery routes served approximately 4.7 million addresses. Of the approximately 6,200 postal outlets located across Canada, more than half are in rural areas.

Affordable rates

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

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

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

Canada Post's basic letter rate of $0.85 provides excellent value for a reasonable price to consumers and small business.

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

In light of the government review of Canada Post, there were no proposed changes to regulated postage rates in 2016.

Frequent and reliable delivery

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

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

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

Canada Post delivered to every address in Canada. A breakdown of delivery methods is in the chart on page 25.

8. Canada Post will deliver letter mail:

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

In 2016, the on-time service performance for Domestic Lettermail delivery was 94.3 per cent.

Convenient access to postal services

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

In addition to approximately 6,200 full service postal outlets and thousands of places to buy stamps, Canada Post offered 24/7 access to ***canadapost.ca*** *for online services, such as tracking a package, registering a change of address and purchasing postage.*

Canada Post also provided approximately 227,000 collection points where postal items could be deposited (and approximately 708,000 rural mailboxes, which are also collection points).

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

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

In 2016, 98.8 per cent of Canadians lived within 15 km of a postal outlet, 90.6 per cent within 5 km, and 79.3 per cent within 2.5 km.

Continued on page 24

Canadian Postal Service Charter

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

In 2016, personnel or infrastructure issues affected 100 post offices covered by the moratorium. In 27 cases, retail services to the community were maintained through staffing of vacancies and in seven cases retail services were provided in a neighbouring community. Remaining cases are undergoing staffing actions or being reviewed through further community consultation. In all cases, delivery services for the community were maintained without disruption.

Secure delivery

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

The Security and Investigation Services group conducts its operations in accordance with the Canada Post Corporation Act *and other regulatory and legislative authorities. Canada Post Corporation is subject to the* Privacy Act.

Community outreach and consultation

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

In all instances, Canada Post provided advance notice and extensive consultation with affected households before implementing any changes.

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

In 2016, three urban corporate post offices came under review. Affected customers and communities were notified and consulted at least one month in advance of any proposed change.

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

Canada Post held its 11th Annual Public Meeting August 19, 2016, in Ottawa at Canada Post Place.

Responding to complaints

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

In 2016, Customer Service received 3.7 million customer calls and over 738,000 electronic customer inquiries through email, fax and online service tickets. These interactions related to questions, requests, problems and complaints.

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

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

Delivery method	Number of addresses*	% of total addresses	Average annual cost per address
Door to door	4,203,080	26.3%	$298
Centralized point (e.g. apt. lobby lockbox)	4,189,149	26.2%	$122
Group mailbox, community mailbox, kiosk	5,165,402	32.3%	$126
Delivery facility (postal box, general delivery)	1,739,778	10.8%	$74
Rural mailbox	708,445	4.4%	$207
All methods	16,005,854	100%	$169

* As at December 31, 2016

Reporting on performance

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

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

See the table above.

Reviewing the Charter

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

Other public policy programs

Government mail and materials for the blind

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

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

Canada Post received a government appropriation of $22 million in 2016 to help offset the financial impact of these programs on the Corporation.

Library materials

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

Environment policy

Canada Post is committed to environmental protection in its operations. Canada Post has determined in accordance with sections 66 and 67 of the *Canadian Environmental Assessment Act, 2012* that, to the best of its knowledge, during 2016 its projects were not likely to cause significant adverse environmental effects.

Financial Performance

CONTENTS

Management's Discussion and Analysis

Supplementary Information

Consolidated Financial Statements

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the year ended December 31, 2016, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. This discussion should be read with the consolidated financial statements and accompanying notes for the year ended December 31, 2016, which were prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to March 23, 2017, unless otherwise noted.

Management is responsible for the information presented in the Annual Report. All references to "our" or "we" are references to management of Canada Post. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements.

Materiality

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of the financial information.

Forward-looking statements

This Annual Report, including this MD&A, contains forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends" and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management page 49 of this MD&A (risks).

To the extent the Group of Companies provides future-oriented financial information or a financial outlook, such as future growth and financial performance, the Group of Companies is providing this information for the purposes of describing its future expectations. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks.

Readers are urged to consider these factors carefully when evaluating these forward-looking statements. In light of these assumptions and risks, the events predicted in these forward-looking statements may not occur. The Group of Companies cannot assure that projected results or events will be achieved. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

The forward-looking statements included in this Annual Report are made only as of March 23, 2017, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

An overview of the Canada Post Group of Companies and a summary of 2016 financial results

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies is one of Canada's largest employers providing jobs to close to 64,000 people. During 2016, employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,200 retail post offices in the country. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement and has a single shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians. The Corporation provides quality postal services to all Canadians – rural and urban, individuals and businesses – in a secure and financially self-sustaining manner. Canada Post's universal service obligation (USO) is set out in the *Canadian Postal Service Charter*, established by the Government of Canada in 2009, which states the following:

- Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.
- The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.
- Canada Post has an obligation to charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.

In addition to its core postal services and USO, the Corporation also delivers certain public-policy programs on behalf of the Government of Canada. Pursuant to the *Canada Post Corporation Act*, members of Parliament and certain senior government officials are allowed to send mail free of charge. The Act also provides for free mailing of materials for people who are blind. Public and academic libraries can move books and other materials between libraries and library users at reduced postage rates.

Canada Post is part of the global postal industry comprising foreign postal administrations (posts). All posts have traditionally financed their USO through a legislated exclusive privilege, or monopoly over a portion of the postal market. However, the exclusive privilege does not hold much value in a digital world. With more people shifting to the internet and smart mobile devices to communicate and transact, posts continue to experience a structural decline in mail volumes as customers shift to digital alternatives.

Canada Post is also at a critical point in its history. As the trend toward online communication is increasing, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Transaction Mail, our largest line of business. In 2016, we delivered 3.2 billion pieces of Domestic Lettermail, 1.8 billion (or 37%) less than we did in the peak year of 2006. Transaction Mail is not expected to rebound.

Digital technology has disrupted many industries, including Canada Post's. However, Canada Post has reinvented itself to continue to play a key role in the lives of Canadians in the digital era and has become the country's no. 1 parcel delivery company. The segment has grown its annual Parcels revenue by $521 million since 2011, the year it chose to focus on growing its Parcel business. Canada Post has achieved its market-leading position in e-commerce by pivoting its operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience. Though parcels and direct marketing represent opportunities for Canada Post, their growth is not expected to entirely offset the financial impact of the decline in the core Lettermail business and fund pension obligations, or allow for investment in the network. Therefore, their growth alone will not be enough and Canada Post needs to move to a more competitive cost structure to ensure its long-term financial self-sustainability.

Our strategy in 2016 was to remain focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and ensuring we meet our service commitments to provide a superior customer experience.

Financial highlights

In 2016, for a third consecutive year, the Canada Post Group of Companies realized a profit before tax of $114 million, compared to a profit before tax of $136 million in 2015, a decrease of $22 million from the prior year.

Financial results for 2016 were affected by the following factors, in the Canada Post segment.

Parcels growth

Canada Post's strategy to be a leader in the business-to-consumer e-commerce delivery market, allowed it to achieve another year of growth in its Parcels line of business. Revenue and volumes respectively increased by $92 million or 5.6% and 14 million pieces or 7.7% compared to 2015. During our holiday peak season, we broke several parcel records as we delivered 54 million parcels. We delivered over one million packages a day on 26 days, and set the all-time, single day record by delivering 1.5 million parcels on December 5, 2016.

Transformational initiatives

The Canada Post segment's 2016 results include approximately $440 million of accumulated earning improvements from the major initiatives the Corporation undertook in recent years in response to Canadian's changing use of our services. The initiatives include a strategic price increase, improved productivity and more efficient delivery.

Ongoing decline in Transaction Mail volumes

Total 2016 Transaction Mail revenue decreased by $153 million or 4.8% compared to 2015 and volumes declined by 286 million pieces or 7.8% compared to 2015, as consumers and mailers continued to migrate to digital alternatives. Canadian points of delivery have also increased over the last 10 years (by an average of 171,000 per year), contributing to higher costs due to the obligation to provide delivery service to more addresses. In 2016, the mail volume decline per address was 8.8%, 2% higher than 2015.

Lower employee benefit expenses

Employee benefit expenses decreased by $37 million or 2.9% in 2016 compared to 2015, in the Canada Post segment. The prior year's discount rates, other actuarial assumptions and asset balances of the Corporation's employee benefit plan are used to calculate the current year's employee benefit expenses. The decreases were mainly due to strong pension asset returns in 2015, plan amendments as a result of union negotiations, which included a $44-million non-cash one-time gain generated by the new collective agreement with the Canadian Postmasters and Assistants Association, and changes in the discount rates used to calculate benefit plan costs in 2016.

Labour negotiations

The prolonged negotiations with the Canadian Union of Postal Workers (CUPW) had a significant impact on Canada Post segment revenue. In the third quarter, revenue for all product lines were negatively affected, but these reductions were somewhat offset by lower labour and transportation costs. Although the parties reached tentative agreements in August, volumes fell as customers had already made alternative arrangements to secure their mail and parcel deliveries. Overall, it is estimated that the extended labour negotiations reduced the profit before tax by approximately $110 million in 2016.

Size and volatility of pension and other post-employment benefits

The solvency deficit to be funded for the Canada Post Corporation Registered Pension Plan (RPP) was estimated at $6.7 billion (using the three-year average solvency ratio basis) as at December 31, 2016. Significant obligations of the RPP and other post-employment benefits continued to be a concern for the Corporation. The large size and volatility of these obligations compared to our cash position and profit put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one quarter to the next is caused by fluctuations in discount rates, investment returns and other actuarial assumptions, resulting in sizeable financial and long-term liquidity risks to the Corporation. At the end of 2016, this volatility led to remeasurement gains of $745 million, net of tax, on the Group of Companies' defined benefit plans. These gains were recorded in other comprehensive income and improved the Group of Companies' equity balance to negative $304 million as at December 31, 2016. The gains were mostly the result of positive investments returns and a decrease in the inflation assumption, offset by a decrease in discount rates and updated demographic assumptions.

We continue to benefit from the relief provided by the Government of Canada since February 2014, which excludes us from making special payments to the RPP from 2014 to 2017. In 2016, the Government of Canada undertook a review of Canada Post, which includes an examination of the sustainability of the RPP. Pending the outcome of the review, Canada Post expects to resume making special payments in 2018, at the end of the temporary relief period.

Government review of Canada Post

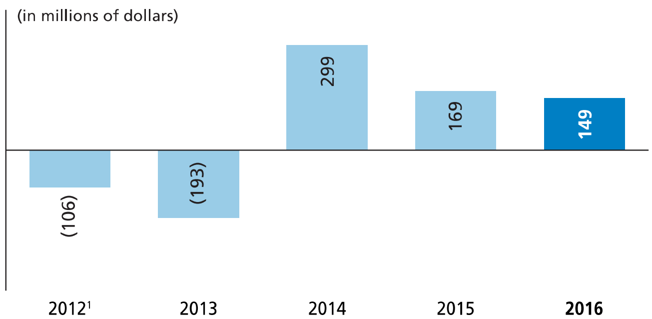
In 2016, the Government of Canada began a three-phased review of Canada Post to ensure Canadians receive quality postal services at a reasonable price.

In the first phase, an independent four-person task force collected information and conducted analysis with the help of external experts. The task force's comprehensive discussion paper, issued in September, reaffirmed the challenges facing the postal system and the path the Corporation was taking to secure its future. In the second phase, a parliamentary committee held public consultations with Canadians about the options proposed by the task force. The committee submitted its recommendations to the government in December. In the third phase, the government is weighing all the work that has been done. Canada Post remains engaged with officials as the government does the important work of making decisions about the future of postal services. The government is expected to announce its recommendations in the spring of 2017. Canada Post will review them and work with all stakeholders to determine the best path forward.

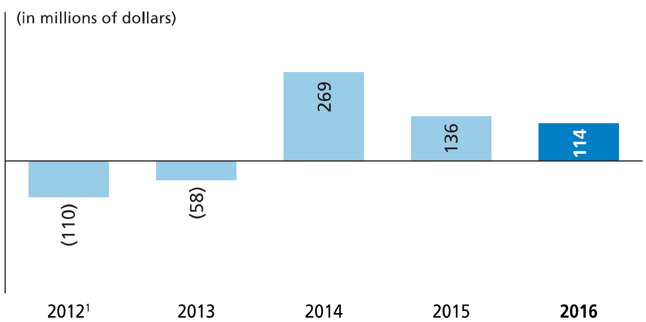
The Canada Post Group of Companies – 2016

The 2016 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

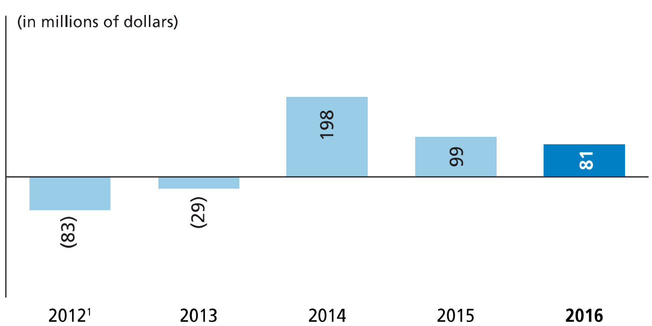
Consolidated profit (loss) from operations



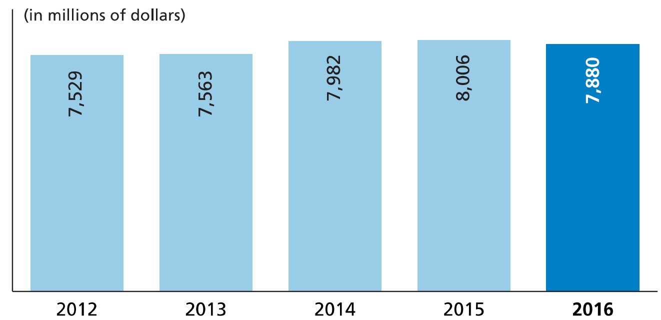
Consolidated profit (loss) before tax



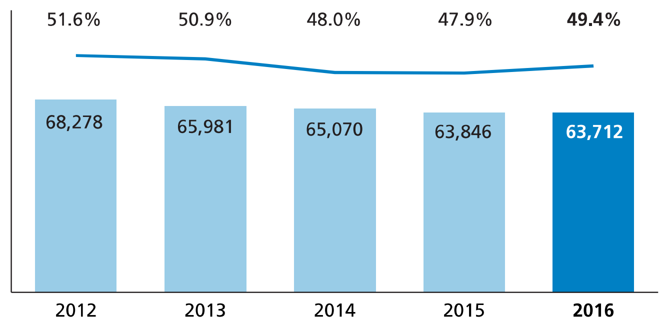
Consolidated net profit (loss)



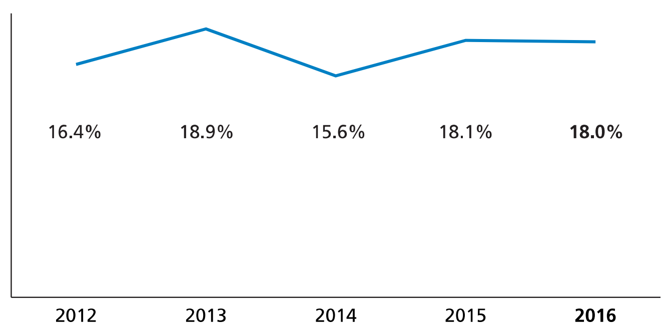
Consolidated revenue from operations



Labour as a percentage of revenue from operations combined with number of employees[2]



Employee benefits as a percentage of revenue from operations



1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees. Labour as a percentage of revenue from operations excludes employee benefits.

The following table presents the Corporation's consolidated performance for the 2016 fiscal year compared to 2015.

(in millions of dollars)

Year ended December 31	2016	2015	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 62.
Revenue from operations	7,880	8,006	(126)	(1.6)	Decrease mainly in the Canada Post segment due to the negative impact on all product lines from prolonged labour negotiations with CUPW, and ongoing Transaction Mail volume erosion. This was partially offset by growth in Parcels revenue driven by the thriving business-to-consumer e-commerce market.
Cost of operations	7,731	7,837	(106)	(1.4)	Decrease mainly in the Canada Post segment due to lower program expenses as a result of the suspension of transformational initiatives and lower employee benefit costs from negotiated plan amendments and changes in the discount rates.
Profit from operations	149	169	(20)	(12.0)	Decrease mainly due to lower revenue as a result of prolonged CUPW negotiations, offset by lower program costs and decreased employee benefit costs in the Canada Post segment.
Profit before tax	114	136	(22)	(16.3)	
Tax expense	33	37	(4)	(11.4)	
Net profit	81	99	(18)	(18.1)	
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 54.
Cash and cash equivalents	849	775	74	9.5	Increase mainly due to cash provided by operating activities, partially offset by cash used in investing and financing activities during the year.
Cash provided by operating activities	597	595	2	0.2	No material change.
Cash used in investing activities	(443)	(479)	36	7.4	Decrease mainly due to lower acquisitions and proceeds from sales of capital assets, partially offset by higher net acquisitions of investments in the Canada Post segment.
Cash used in financing activities	(80)	(22)	(58)	(263.2)	Increase mainly due to repayment of non-redeemable bonds that matured in March 2016.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

2.1 Our business

The Canada Post Group of Companies is a leader in providing innovative e-commerce, marketing and logistics solutions. Its unrivalled networks and capabilities enable remote communications and commerce across Canada and between Canada and the world. Proud to serve individual Canadians and every address, it also works with Canadian businesses, large and small, to help them compete and succeed. Its activities strengthen Canadian enterprises, local communities and the economy.

The Canada Post Group of Companies provides a full range of delivery, logistics and fulfillment services to customers and, combined, has annual revenue of $7.9 billion. The Group of Companies has the largest retail network in Canada with 7,000 retail locations, operates a fleet of over 17,000 vehicles and employs close to 64,000 people.

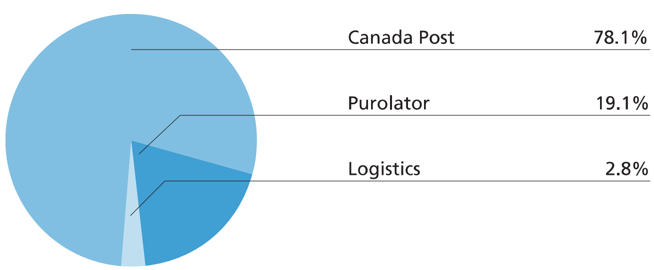
In 2016, our employees delivered almost 8.4 billion pieces of mail, parcels and messages to 16 million addresses in urban, rural and remote locations across Canada.

Canada Post is the largest segment of the Group of Companies with revenue of $6.2 billion in 2016. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, direct marketing products and periodicals.

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider whose revenue reached $1.5 billion in 2016.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2016 revenue was $259 million.

Revenue by segment – 2016



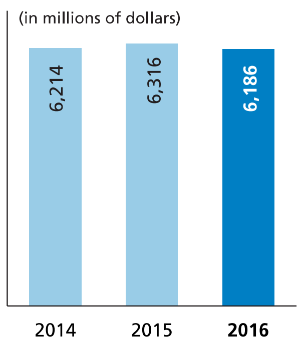
Revenue by segment	2014	2015	2016
Canada Post	77.5%	78.5%	78.1%
Purolator	20.1%	18.9%	19.1%
Logistics	2.4%	2.6%	2.8%

Canada Post segment

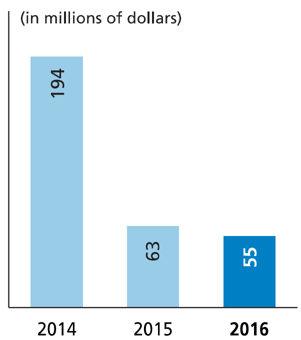
Canada Post operates Canada's largest retail network with over 6,200 retail post offices and a fleet of almost 13,000 vehicles that delivered almost 8.3 billion pieces of mail and parcels in 2016. With over 50,000 employees, Canada Post provides service to 16 million addresses.

The Canada Post segment generated revenue of $6.2 billion and, after excluding intersegment revenue, represented 78.1% of the Group of Companies' 2016 consolidated revenue of $7.9 billion.

Revenue

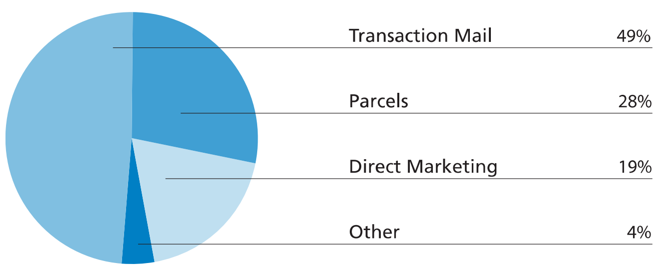


Profit before tax



The following chart illustrates the distribution of Canada Post's revenue by line of business, as percentages of the segment's total.

Revenue by line of business – 2016



Revenue by line of business	2014	2015	2016
Transaction Mail	52%	50%	49%
Parcels	24%	26%	28%
Direct Marketing	19%	19%	19%
Other	5%	5%	4%

Transaction Mail

Transaction Mail is our portfolio of services for the delivery and response to letters, bills, statements, invoices and other forms of communications. It is our line of business that generates the most revenue and includes three product categories, Domestic Lettermail, Outbound Letter-post and Inbound Letter-post.

Transaction Mail accounts for $3 billion or 49% of Canada Post's 2016 operating revenue of $6.2 billion. Most of the Transaction Mail revenue is derived from traditional physical mail delivery services, with Domestic Lettermail accounting for 91%. However, Domestic Lettermail volumes are declining rapidly (7.6% in 2016) as Canadians are adopting digital alternatives. This decline is creating a profound effect on a business model founded on paper-based communications.

Customers include private consumers, but most are businesses in the financial, telecommunications, government and utilities sectors.

Parcels

The Parcels line of business offers Canadians a wide range of delivery services to every domestic address in Canada and international destinations through other posts and collaborative efforts with global integrators. Services are differentiated by the delivery destination and speed, ranging from urgent-next-day to non-urgent delivery, where transit time is determined by the transportation mode of ground, air or both.

Parcels accounted for $1.7 billion or 28% of Canada Post's 2016 operating revenue of $6.2 billion. This line of business has grown by $521 million since 2011, an indicator of its successful strategy to win a leadership position in e-commerce. Leveraging its core strength in delivering to every Canadian address, as well as its processing, delivery and retail network, Canada Post has become no. 1 in Canada in the competitive e-commerce delivery market (by revenue), by partnering with retailers and innovating to create greater convenience for online shoppers.

Customers include private consumers, businesses, retailers, governments, posts and other delivery companies.

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary services. The Canada Post Personalized Mail™ service allows customers to personalize mailings and tailor promotional messages to specific consumers or prospects. With the Canada Post Neighbourhood Mail™ service, customers can reach specific neighbourhoods or regions across Canada. The Publications Mail™ service includes the distribution of periodicals, such as newspapers, magazines and newsletters.

Direct Marketing accounted for $1.1 billion or 19% of Canada Post's 2016 operating revenue of $6.2 billion. Canada Post has experienced challenges in trying to achieve growth in this competitive segment, which was further affected by the risk of labour disruption. There has been a lot of experimentation in the marketing industry as businesses have allocated more of their marketing spending to less costly digital alternatives in order to maximize returns of their advertising campaigns.

Customers include businesses of all sizes and governments. Canada Post also works with marketers, influencers and partners to provide Direct Marketing products and services.

Other

The Other line of business consists of a broad array of products and services, including mail redirection, data products, commemorative stamps, gifts and coins, and the epost™ service that allows users to receive, pay and manage bills in one place online.

The Other category accounted for $271 million or 4% of Canada Post's 2016 operating revenue of $6.2 billion.

Customers include businesses, governments and private consumers.

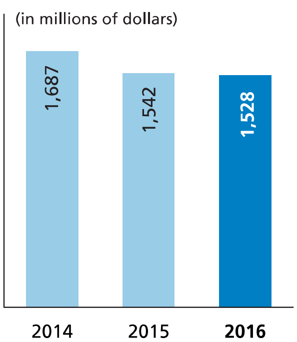
Purolator segment

Purolator Inc. is a leading Canadian shipping solutions provider, celebrating over 50 years of delivering its customers' promises. Benefiting from its industry-leading service and reliability, Purolator is able to focus on satisfying the needs of the growing e-commerce market space, specifically the business-to-business segment of the market, through a broad array of services within, to and from Canada. This complements the Canada Post Group of Companies' service offerings and contributes to synergies within the Group of Companies.

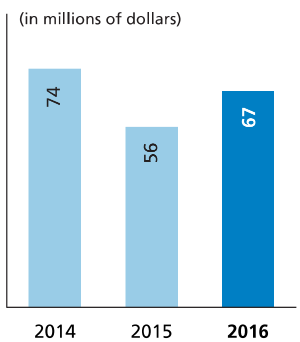
Purolator continues to expand its reach and renowned service levels and reliability to more people, more businesses and more places across Canada and around the world. Operating in the highly competitive and rapidly changing Canadian transportation landscape, Purolator brings supply chain know-how, premium service capabilities and business-to-business expertise to the Group of Companies. Purolator's presence in the U.S. market also provides inbound transportation and logistics capabilities. Purolator has an extensive service network in Canada that includes its own ground fleet of more than 3,500 vehicles, 170 operations facilities, more than 100 shipping centres, approximately 900 authorized shipping agents as well as customer contact centres.

In 2016, Purolator generated revenue of $1.5 billion, which after excluding intersegment revenue, represented 19.1% of the 2016 Group of Companies' consolidated revenue of $7.9 billion.

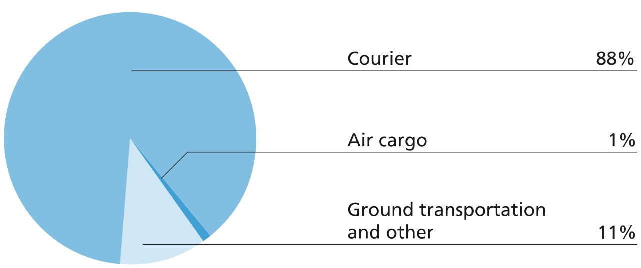
Revenue



Profit before tax



Revenue by market – 2016



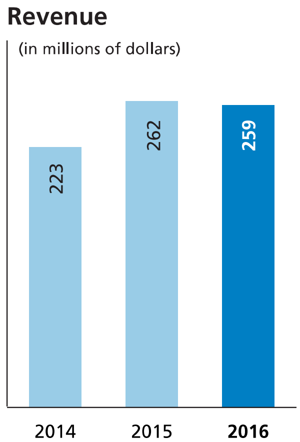
Revenue by market	2014	2015	2016
Courier	86%	86%	88%
Air cargo	5%	2%	1%
Ground transportation and other	9%	12%	11%

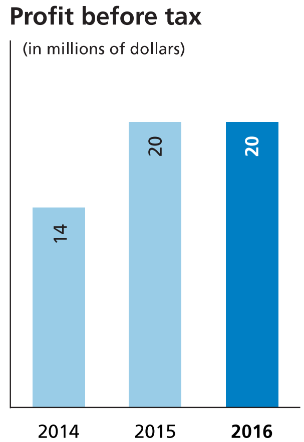
Logistics segment – SCI Group

Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI-White Glove Services), SCI Group helps companies reduce costs and improve services with the design, implementation and operation of efficient supply chain solutions, and allows the Group of Companies to offer end-to-end supply chain services to Canadian businesses.

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

SCI Group generated revenue of $259 million, which, after excluding intersegment revenue, represented 2.8% of the 2016 Group of Companies' consolidated revenue of $7.9 billion.





2.2 Our business environment

Global trends

Global economic growth remained slow in 2016. Major factors included a weaker than expected U.S. economic recovery, a continued Chinese slowdown and uncertainty surrounding the United Kingdom's vote to exit the European Union (EU). Some recovery is expected in 2017; however, a high level of uncertainty remains regarding economic policies of the new U.S. administration, the impacts of the United Kingdom's break with the EU and expected interest rate increases in some major economies. The most immediate impact of rising interest rates, particularly in the U.S., would be a downward pressure on the relative value of the Canadian dollar, which is already expected to remain well below 80 cents U.S. for the next few years. While this could likely have a negative impact on domestic consumer spending, it could also boost export-dependent businesses and could encourage renewed foreign investment in Canada. Canadian economic growth will likely be driven by non-resource sectors as low-cost competition discourages investment in Canadian oil production.

The strong link between mail volumes and economic performance began to diminish in the late 1990s. Increasing internet penetration and the emergence of the smartphone have encouraged governments and businesses to push more and more services to simpler, more convenient online platforms. This trend has grown increasingly acute with the advent of more accessible and mobile digital communications platforms that facilitate everything from bill paying to communications to ride hailing. The move to digital communications has had a significant impact on traditional postal business; the International Post Corporation (IPC) reports a decline of more than 25% in aggregate mail volumes among reporting members since 2005. The decline has affected all mail segments. As delivery networks continue to expand in an environment of decreasing volumes, posts have been obliged to pursue creative solutions to manage costs, while attempting to slow the decline by increasing the value of mail.

The parcels business is an important driver of future growth for the postal industry. E-commerce has experienced double-digit growth, globally and in Canada, for several years and is expected to continue to grow rapidly in the future. While posts are well-suited to servicing this market, competition is evolving. Traditional global integrators such as UPS are competing for residential deliveries in urban areas. Major e-retailers like Amazon and Alibaba are beginning to experiment with bringing final mile delivery in-house to improve and control the delivery experience, while managing costs. As online shoppers demand more control over the delivery experience, technology companies such as Uber are developing fast, flexible on-demand delivery models for local deliveries. To maintain and increase their share in this growing segment, posts are introducing consumer-focused delivery solutions such as real-time visibility, evening, weekend and same-day deliveries, and 24-hour pickup at secure centralized parcel lockers.

At the same time, posts are developing innovative strategies that include technological diversification, partnerships and acquisitions to ensure relevance and viability in the long term:

- Swiss Post has begun exploring development of an Internet of Things infrastructure that would connect a variety of items such as vehicles, delivery receptacles and packages to the internet through a network run by Swiss Post. Postal applications could include automatic restocking for logistics customers, alerts of unauthorized access to a parcel or letter box and automatic notifications generated by a delivery receptacle when a parcel is delivered.
- In August 2016, Singapore Post and Post Luxembourg signed a partnership agreement to develop end-to-end e-commerce logistics between Asia and Europe. Each will act as a gateway to their respective markets, navigating customs requirements and providing end-to-end tracking and faster delivery times.
- Posts continue to consider expansion outside their national boundaries as a means of ensuring viability. In September, Deutsche Post DHL agreed to acquire private mail and parcel service provider UK Mail. In December bpost (Belgium's postal operator) made a third offer to acquire PostNL (Netherlands postal operator).

Canada

After closely analyzing the macro trends in retail and consumers' shopping behaviours in Canada, the U.S. and the U.K., Canada Post chose in 2011 to focus on growing the Parcels business through e-commerce. That strategic choice has been successful. Despite growing the Parcels business, Canada Post's leadership in e-commerce delivery faces increased competition from traditional competitors as well as emerging low-cost innovative delivery solutions. The Corporation also faces significant challenges of a more structural nature that threaten its sustainability, such as the pension obligation that has been driven by such factors as the low interest rate environment and longer life expectancies. As well, declining mail volumes have resulted, since 2008, in a reduction of close to 40% in the annual number of pieces of mail delivered per address**.** It is impossible to predict when the steady rate of decline in mail volumes might suddenly accelerate, which has occurred when other communication technologies or mediums have been disrupted. In addition, the Corporation's inflexible and high cost structure threatens long-term profitability in a growing e-commerce market, while the valuation of the defined benefit pension solvency deficit continues to put pressure on liquidity. While these structural challenges can be solved, the Corporation cannot solve them unilaterally. We need to continue to work on solutions with key stakeholders, including bargaining agents.

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

1. In 2010, a methodology change was implemented and 2009 was restated for comparability. Had 2008 been restated, the 2009 delivered volume percentage would have been (3.9) % and the mail volume percentage decline per point of delivery would have been (5.1) %.

2.3 Our strategy and strategic priorities

Canada Post

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

Our strategy remains focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs, providing a superior customer experience and meeting our service commitments**.**

In 2016, our main strategic priorities consisted of

- transforming the network to deal with growing capacity pressures;
- being an e-commerce innovator by strengthening our relationships with consumers and commercial partners;
- developing winning marketing solutions through the direct mail business and an innovative Canada Post Smartmail Marketing™ strategy;
- creating a more engaged and commercially oriented workforce;
- enhancing the Canada Post brand, which remains one of the most valued and trusted names in the Canadian commercial landscape.

Transforming our network

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

Being an e-commerce enabler and innovator

Canada Post's focus on growing through e-commerce is reaping benefits for its finances, its brand and for the country's retail sector. While growth in Parcels alone does not make up for the erosion we are experiencing in Lettermail, it is key to our future. Our focus on innovation and convenience, such as the FlexDelivery™ service and same-day delivery; our unparalleled market coverage, with over 6,200 post offices across the country; and our focus on providing a superior customer experience have us in a strong position to continue to benefit from e-commerce growth. We intend to work hard to maintain our leadership position in this highly competitive business-to-consumer market. Concentrated efforts and investments in our scanning and tracking capabilities will also be a focus, as visibility of purchases throughout the shipping process is a key requirement for online shoppers. We aim to solidify our position as the preferred provider for business-to-consumer deliveries in Canada by improving relationships with e-commerce shippers and foreign postal administrations to enhance the delivery experience. We will continue to differentiate ourselves from the competition in residential delivery.

Developing winning marketing solutions

Canada Post's direct mail products represent a small percentage of the Canadian advertising market. While print advertising, including direct marketing, has experienced a loss of market share because of the rise of internet and mobile advertising, direct mail remains an important part of a multimedia mix for large and small businesses. In this digitally mature marketplace, marketers are finding that, while digital media is generating a lot of customer interaction, it is under-delivering on action. The physical nature of direct marketing products provides certain advantages that digital offerings cannot match. As well, they can be targeted, allowing marketers to use data to personalize their messages and reach consumers at home.

During 2015, Canada Post rebranded the direct mail business and products to better reflect how marketers actually use the products. The rebranding is part of a larger effort to reframe and grow our direct mail business by introducing Canada Post Smartmail Marketing, a more intelligent approach to direct mail. Neighbourhood Mail™ is the product marketers use to reach neighbourhoods with offers that are relevant to the people who live there. Similarly, Personalized Mail™ is mail that presents an offer to a person by name. In 2016, Canada Post successfully market-tested an innovative Smartmail Marketing solution, Postal Code Targeting. Launched in early 2017, it allows marketers to target prospects who most closely resemble their best customers. Canada Post's direct mail products are uniquely positioned to take the lead in the next generation of direct marketing as they are affordable and provide customers with an excellent return on their investment. Three powerful elements of direct marketing products – physical experience, data and connectivity – are proven to make their marketing mix more relevant and more engaging. These changes will help to better position our products in the eyes of our customers, and will allow us to compete more effectively with other advertising alternatives, including digital options.

Creating a more engaged workforce to address evolving customer needs

Engaged employees are a critical element of a successful Corporation. In today's highly competitive environment, customers have choices that employees can influence. While we continue to transform our business, we are still focusing our efforts on employee engagement and putting initiatives in place to create an environment where employees feel they can use their experience and judgment to create solutions, identify efficiencies and opportunities, and manage customer needs.

Enhancing the brand and promoting the role of trusted intermediary

Canada Post is one of the five most well-known companies in Canada. While the Canada Post brand is recognized for being trusted, providing quality service and value, it is in the midst of a significant and visible transformation. Our objective is to maintain our strength in attributes associated with serving the needs of Canadians and contributing positively to Canadian society. We also seek to develop our brand by expanding our e-commerce and digital offerings and moving the business forward to be known as a more innovative, customer-centric and agile company.

Canada Post is one of the few organizations that can call all Canadians customers. Canada Post will focus on growing customer loyalty by managing digital and physical life cycles and developing a data-based, customer-centric view with the help of online capabilities. We will also bring more and more services online to improve customer access to our products, better align our operations to meet customer needs and simplify our processes to make it easier for customers to do business with us.

As Canada Post continued implementing its growth strategy, the Government of Canada undertook in 2016 a three-phased review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. The first two phases are complete and the government is reviewing all reports and comments. It expects to announce a decision about the future of postal services in the spring of 2017. Canada Post will review its recommendations and work with all stakeholders to determine the best path forward.

Purolator

Purolator's strategic imperatives remain the same: seeking to stand out in the competitive landscape through service excellence and customer experience, while maintaining Purolator's cost competitiveness and service performance. Participation in the Canada Post Group of Companies enables Purolator to benefit from synergies in strategy and execution, which translate into broader market capabilities and operating efficiencies.

Purolator continues to make progress in implementing its long-term strategic plan. The core business continues to strengthen, and the focus on launching new services, technologies and processes that drive network efficiencies continues. Through these efforts, Purolator is reinforcing its position as one the leading providers of integrated business-to-business transportation and logistics solutions within, to and from Canada.

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

SCI Group

SCI is acting on its strategy to become Canada's leader of integrated forward and reverse supply chain solutions for high-value and high-growth segments in Canada. The key to SCI's strategy will be to expand on proven capabilities in focused areas, such as omni-channel fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. Benefiting from opportunities within the Canada Post Group of Companies to provide scale and reach will also enable SCI to increase overall market share within Canada. In 2017, SCI will continue to focus on profitable growth. This will come from targeted verticals such as retail, omni-channel retail, health care and technology, the growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives.

3 Key Performance Drivers

A discussion of our key achievements in 2016

As discussed in Section 2.3 – Our strategy and strategic priorities, our main strategic priorities in 2016 were focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and providing superior customer experience through greater levels of convenience, speed and network optimization.

The Canada Post segment uses performance scorecards to monitor progress against strategic priorities and provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management.

Here is a summary of our key achievements in 2016.

Achieving leadership in e-commerce through delivery excellence and innovation

- Parcels revenue increased to over $1.7 billion in 2016 (an increase of 6% over 2015), and Parcels revenue from our top 25 e-commerce customers grew by more than 17% over 2015. This was achieved by attracting new business and increasing revenue and volumes from our existing customers.
- Working with Purolator, we implemented new technology for a global trade platform that facilitates the movement of inbound and outbound goods to grow the lucrative international market for parcels by integrating parcel content information flow between customers, suppliers and regulatory agencies.
- We won the Delivery on Demand award at the World Post and Parcel Awards 2016, for the FlexDelivery™ service, which allows customers to direct items they order online to any post office they choose. Canada Post demonstrated "the most consumer-centric approach" in creating a delivery service that offers choice, flexibility and control over where, when and how consumers can pick up their parcels. In 2016, registrations in FlexDelivery increased by approximately 100,000 and shipments increased by over 300,000 from 2015.
- Our Delivered Tonight service is an example of a close partnership with selected merchants so that customers can have their purchases delivered within hours of placing an online order. It is now available to six million consumers in Toronto and Montréal.
- On September 22, 2016, we hosted the fifth annual Canada Post E-commerce Innovation Awards™ at a sold-out event in Toronto to celebrate the country's leading and emerging online retailers. Nine retailers were named the best in Canada in their categories at one of the industry's most prestigious events.
- Our Ship From Store service is used by 22 merchants at over 1,000 pickup locations, with volumes of over 11 million pieces (up over 31% from 2015). The service allows business customers to ship their products to their online customers from the nearest available retail location.
- We installed over 900 additional parcel lockers in apartment buildings and condominiums across Canada, bringing the total installed base to more than 3,300, serving almost one million Canadians. They allow parcels and packages to be delivered safely and securely, even when residents are not home to receive them.
- Two additional retail concept stores were opened, in Edmonton and in Vancouver, as testing grounds for new customer conveniences. Our innovative retail concept stores were recognized internationally when we were given the Ebeltoft Retail Innovations Award for 2016, the first time a Canadian company has received this honour.

Developing winning marketing solutions

- In 2016, to improve the customer experience, we redesigned the Canada Post Smartmail Marketing™ solution for commercial customers by offering dedicated, personalized service to more customers and by improving the on-boarding process. We were very active on social media with our advocates program, which included The Sessions – a series of online videos of advertising experts sharing their Smartmail Marketing experiences.
- The Canada Post Solutions for Small Business™ include Snap Admail™, our turnkey online tool to help small businesses create and deliver effective direct mail campaigns on any budget.
- We contributed significant efforts to various thought leadership platforms and events for Smartmail Marketing and the Parcels line of business. For example, we authored the neuromarketing phase 2 white paper "Connecting for Action," explaining how direct mail can have a positive impact on consumer decision-making. We released three other white papers (*Growing E-commerce in Canada, Is the price right? Designing an effective shipping pricing strategy* and *Growing e-commerce in Canada: Unlocking the online shopper opportunity)* that position Canada Post as an expert in direct mail, direct marketing and in e-commerce. Events included those in the series *Think Inside the Box,* designed to support commercial customers with their online and direct marketing efforts.

Delivering training and focusing on health and safety

- We reduced lost-time injury frequency by more than 14% over the past three years. We continue to focus on maintaining a healthy and safe workplace by raising safety awareness with our employees and introducing initiatives to identify and promptly address high-risk situations and activities.
- A total of 204,000 hours were delivered on the health and safety training front, with a focus on key programs such as Workplace Violence Prevention and Protection, Basic Driver Training and Safety on the Move.
- We delivered over 830,000 hours of training to employees. A total of 125,000 digital hours were delivered representing an increase of 20% from the previous year. The digital-to-classroom training hour ratio increased by 3% to 19% compared to 2015, indicating our investment in digital learning has enhanced our scalability and program effectiveness.
- Over 10,000 unique employees across 210 sites were trained on the next generation of the portable digital terminal (PDT). This new mobile device is critical for delivery agents and greatly enhances scanning capability for an improved customer experience.

Enhancing service performance and customer experience

- We exceeded our on-time service performance targets in 2016, for International Inbound and Outbound Parcels, Lettermail™, as well as Personalized Mail™.
- We continued to enhance the convenience of the online experience for shoppers and merchants with parcel Web Services, which enable the integration of Canada Post shipping information into a merchant's website. In 2016, we had over 6,000 customers integrated with Web Services, allowing merchants to increase their shipping transactions with Canada Post.
- Our digital assets remain a source of competitive advantage. The Canada Post app is a highly ranked business app in the Apple's App Store™ and Google Play™ store, with over 200,000 downloads in 2016. We launched new features in 2016 where customers can now store their pickup barcode in the Canada Post app for easy access at retail outlets and receive notifications of significant scans so customers can track parcels on their phones.

4 Capabilities

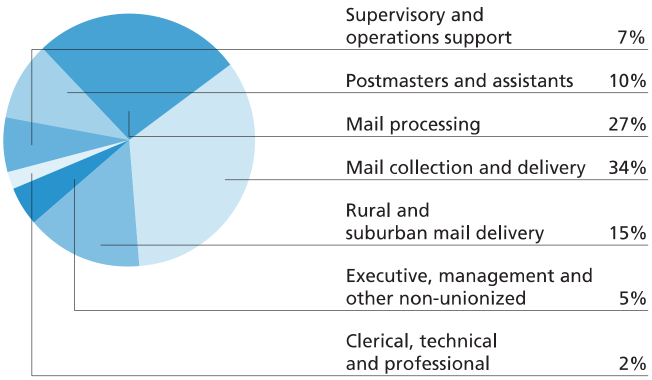
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with close to 64,000[1] people, including over 13,000 among subsidiaries, the majority of them employed by Canada Post Corporation. Employees play a vital role in the success of the Corporation and are key to delivering a positive, trusted and reliable customer experience.

Canada Post segment

Workforce by type of work – 2016



Talent management, learning, and development

Canada Post segment

Canada Post Corporation is committed to building a workforce that reflects the communities it serves. The Corporation's goal is to create an inclusive workplace that attracts and retains the best possible candidates. In 2016, recruiting efforts continued to encourage people who have historically been under-represented in Canadian workplaces to apply for jobs at Canada Post. Over the past year, the number of women and members of visible minorities employed by the Corporation continued to exceed Canadian Labour Market Availability.[2] Representation of Aboriginal peoples remained steady at Canada Post in 2016, while representation of persons with disabilities declined slightly. The Corporation will continue to direct outreach efforts to these groups in 2017.

In the area of leadership, learning and culture, we maintained our focus on leadership development, piloted a new performance management model, and delivered over 700,000 hours of formal training.

2016 represented year five of LEAD 3.0, a significant leadership development program targeted to Canada Post directors and general managers. Three cohorts of leaders addressed strategic business and cultural issues by collaboratively working on CEO assigned action learning projects. The company benefited from the team's research, analysis and recommendations on contemporary issues such as the Ship From Store service, Transforming the Customer Service Experience, and Third-party Parcel Lockers. The Corporation plans to continue developing leadership and will launch a program targeted for managers in 2017.

As part of its ongoing effort to evolve and align the Canada Post culture to the changing business environment, the Corporation is testing a new performance management model. The model features more dynamic objective setting, increased employee coaching and feedback, and improved team leader accountability for performance and compensation decisions. It is designed to be more forward-looking and commercially oriented. Empirical and anecdotal feedback from the 2016 pilot has been positive and the Corporation plans to extend this new system in the coming year to the management group.

Learning and Development delivered over 830,000 hours of training in 2016. A total of 125,000 digital hours were delivered, representing an increase of 20% from the previous year. Our digital-to-classroom training hour ratio was 19% compared to 16% in 2015, and provides further validation that our investment in digital learning has enhanced our scalability and program effectiveness.

1. Employment figures include full-time and part-time paid employees, and excludes temporary, casual and term employees.

2. Canadian Labour Market Availability is derived from Census Canada data and is unique to each employer based on worker skills required and employment location.

Learning and Development focused on two key initiatives in 2016: delivery of health and safety training and roll-out of next-generation mobile computers (NGMC). A total of 204,000 hours were delivered on the health and safety training, with a focus on key programs such as Workplace Violence Prevention and Protection, Basic Driver Training and Safety on the Move. During the NGMC project, Learning and Development trained over 10,000 unique employees across 210 sites on the next generation of the portable digital terminal (PDT). This new mobile device is critical for delivery agents and greatly enhances scanning capability for an improved customer experience. These programs received positive reviews from our employees with satisfaction rates exceeding 90%.

As a testament to the quality of our training services, we received two awards in 2016. We were awarded the SAP HR Excellence Award in the category of Better Business Results for our implementation of the Learning Management System (LMS). This global award demonstrated Canada Post's ability to effectively collaborate as an integrated project team to improve our employee experience and return on investment. We also won a silver award from Brandon Hall Group's HCM Excellence Awards Program in the category of Best Learning Program Supporting a Change Transformation Business Strategy for the Route Measurement Officer Learning Program.

Purolator

In 2015, a three-year human resources (HR) strategic plan was developed in alignment with the overall organizational strategy. The strategic plan identifies key initiatives that are intended to motivate, engage, retain and recognize employees in a diverse, ever-changing environment. The plan will be revisited in 2017 to ensure alignment with the changing priorities of the business.

Through our annual MyVoice employee engagement survey, it was once again confirmed that our employees are highly engaged and continue to take pride in the organization. The survey indicated an improved overall engagement index with four key strengths: trust in leadership, ability to adapt to change, effective top-down communication and continued organizational pride. Follow-up plans have been created and are being monitored. The next survey will take place in 2017.

In 2016, to reduce costs and drive process improvements, Finance and Human Resources worked closely with all departments on an initiative that included full organizational structure and talent assessments in combination with a zero-based budgeting process to drive continuous improvement and year-over-year reductions in selling, general and administrative costs.

Health and safety

Canada Post segment

Canada Post remains committed to a safe and healthy workplace by identifying, preventing and controlling hazards, recognizing and rewarding safety leadership and making continuous improvements. This strategy helped to decrease the number of injuries, reducing the lost-time injury frequency (LTIF) by more than 14% over the past three years, continuing a decades-long positive trend. In 2016, the LTIF rose slightly for the first time in eight years, although our total injury frequency (TIF) continued to improve. The LTIF includes any injury that results in a full day's absence after the day of the injury. The TIF includes all injuries, regardless of whether an absence from work occurred or not.

Slips, trips and falls continue to be our number one source of injury, followed by manual material handling injuries. These two injury types account for 79% of all injuries. We continue to raise awareness of these risks in the workplace through annual slip, trip and fall campaigns and musculoskeletal injury prevention programs. Coaching on safe practices to avoid these injuries is a fundamental element of our ongoing plans and work habits.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
CUPW-UPO[2]	33,273	January 31, 2018
CUPW-RSMC[3]	7,594	December 31, 2017
CPAA[4]	5,291	December 31, 2018
APOC[5]	3,539	March 31, 2018
PSAC/UPCE[6]	1,257	August 31, 2016
Total	**50,954**	

1. All full-time and part-time employees including those on unpaid leave, as at December 31, 2016; excludes temporary, casual and term employees.
2. CUPW-UPO: Canadian Union of Postal Workers – Urban Postal Operations, which represents plant and retail employees as well as letter carriers and mail service couriers.
3. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.
4. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.
5. APOC: Association of Postal Officials of Canada, which represents supervisors as well as supervisory support groups, such as trainers, route measurement officers and sales employees.
6. PSAC/UPCE: Public Service Alliance of Canada / Union of Postal Communications Employees, which represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting, as well as technical employees in areas such as finance and engineering.

Pay equity update

Since 2013, Canada Post has been making pay equity payments to eligible employees following the November 2011 Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC). In 2016, Canada Post continued to work with the Canada Revenue Agency and other groups to reach remaining eligible individuals whom the Corporation has been unable to contact. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement as per the memorandum of agreement signed by the parties. The five-year time frame started July 28, 2016.

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

The collective agreements for the Urban Postal Operations (CUPW-UPO) and the Rural and Suburban Mail Carriers (CUPW-RSMC) expired January 31, 2016, and December 31, 2015, respectively, and negotiations for both groups began in January 2016.

Prolonged negotiations came to a conclusion, when after intense discussions, the parties reached tentative agreements August 30, 2016. Both collective agreements were ratified by December 3, 2016 and on December 9, 2016 the parties signed two-short term agreements. The agreements are for a two-year period, instead of the typical four years, and expire January 31, 2018, for CUPW-UPO, and December 31, 2017, for CUPW-RSMC. The agreements maintain the defined benefit pension plan for existing and new CUPW members and provide modest pay increases. Although a work disruption was averted, the main constraints faced by the Corporation, namely the need to mitigate growing pension obligations and gain further operational flexibilities have still not been addressed. Future negotiations will play an important role in our ability to achieve financial self-sustainability in the medium and long term.

On September 1, 2016, the parties signed a memorandum of understanding in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for the Rural and Suburban Mail Carriers' female predominant occupational group or groups. The study is being coordinated by a committee made up of representatives from both Canada Post and CUPW and their respective pay equity consultants. If there is a wage gap, the two parties will endeavour to negotiate a resolution. If the parties are unable to reach a mutually agreeable solution, the matter will be referred to binding arbitration. The Minister of Labour appointed an arbitrator February 2, 2017. Any wage gap adjustment would be retroactive to January 1, 2016.

Canadian Postmasters and Assistants Association (CPAA)

The CPAA represents rural post office postmasters and assistants. The collective agreement between Canada Post and the CPAA expired December 31, 2014, and negotiations continued into 2015. On March 16, 2016, Canada Post referred all outstanding matters to an arbitrator for final offer selection. Under this dispute resolution method, each party presents final proposals and the relevant supporting evidence. The arbitrator then chooses one proposal in its entirety and has no latitude to blend elements from both proposals. On August 15, 2016, the arbitrator accepted Canada Post's final offer, which included modest wage increases, a lump sum non-pensionable payment, changes to post-retirement contributions and changes for new employees including a defined contribution pension plan, starting rates of pay and vacation leave entitlements. The new four-year collective agreement expires December 31, 2018.

Association of Postal Officials of Canada (APOC)

Canada Post and APOC are in the third year of a four-year collective agreement, which expires March 31, 2018. The Association represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees. Notice to bargain can be given in December 2017.

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

The collective agreement between Canada Post and PSAC/UPCE expired August 31, 2016. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering. This agreement provides for strike or lockout. A notice to bargain was filed by PSAC/UPCE August 10, 2016, and the parties met in October 2016 to exchange opening statements, which included a summary of each party's proposals for this round of negotiations. Negotiation meetings occurred early in 2017. In the meantime, the terms of the current collective agreement continue to apply under the *Canada Labour Code*.

Purolator

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Teamsters[2]	7,372	December 31, 2016
Teamsters[3]	513	December 31, 2017
Other[4]	354	December 31, 2017
Total	**8,239**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2016; excludes temporary, casual and term employees.
2. Teamsters represent employees in operations.
3. Teamsters represent clerical and administrative employees.
4. Other represents clerical and administrative employees.

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remained in force until December 31, 2016. Bargaining for a new agreement began in the third quarter of 2016. A final offer was tabled February 3, 2017, and a ratification vote will conclude March 26, 2017.

All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have renewed collective agreements, which expire December 31, 2017.

Logistics – SCI Group

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Unifor – Toronto	271	December 31, 2019
Unifor – Laval	29	November 30, 2021
Total	**300**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2016; excludes temporary, casual and term employees.

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

4.2 Our network and infrastructure

The Canada Post segment delivers to 16 million addresses and its vast operating network requires significant investment and coordination between collection activities, mail processing plants, transportation links and delivery agents. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. In 2016, almost 8.3 billion pieces of mail and parcels were processed in our plants, which represents on average 33 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network includes the following:

- 21 mail processing plants
- 6,217 post offices, corporately owned or managed by authorized dealers
- 485 letter carrier depots
- 12,824 letter carrier routes
- 1,058 mail service carrier routes
- 22,519 street letter boxes
- 198,124 community mailbox sites
- 1.7 million post office boxes (including general delivery)
- 7,564 rural and suburban mail carrier routes

Our business requires continuous changes to our plants, depots and equipment to ensure our business continuity and prepare us for the future. In past years, we have made significant investments to modernize and automate our parcel sorting and container handling infrastructure, which has significantly improved parcel tracking and the customer experience. Our delivery model, focused on automated mail sequencing for letter carriers, motorization and consolidation of delivery operations, has also improved efficiencies. This has allowed delivery employees to focus more on the delivery of mail, parcels, packets and other products. Also, in 2016, to meet the ongoing challenge of the growing number of delivery points and to increase productivity, we continued to make improvements to our delivery operations by restructuring a number of delivery routes.

Canada Post is the top parcel company in Canada, delivering nearly two out of every three parcels Canadians order online. As Canadians increase their online shopping, Canada Post is investing to adapt and increase its capacity to meet consumer demands, with an emphasis on creating an end-to-end positive customer experience. We have realigned portions of our network to relieve volume growth, adding capacity where it is most needed, and added operating equipment to more effectively prepare for peak periods.

Weekend delivery of parcels during the peak period is becoming part of the capacity strategy. In efforts to make this important part of our operations more efficient and to deliver a better customer experience, we piloted in 2016 some new route planning and optimization software in Montréal. In 2017, we will continue the development and integration of this technology into our weekend and evening delivery operations. We will also explore the inclusion of weekend pickups using this technology.

In 2015, given the transformation of our business model from mail to parcels, we began studying the requirements for our logistics network. This included assessing market trends and their implications on product mix and volumes, as well as investigating potential structural changes to the network operating model. In response to our findings, we began developing a transformation plan in 2016 with a focus on major urban centres such as the Greater Toronto Area. The plan will continue to evolve in 2017, as we start developing and implementing initiatives that will prepare us for the increase in parcel delivery. The initiatives will not only enable growth but also protect revenue, save costs and direct capital resources to where they are needed most.

As parcel delivery is a highly competitive market, ongoing investment in technology is a priority. In 2016, we began deploying the next generation of the portable data terminals (PDT) with a new technology platform to align with the parcel strategy. With these reliable and improved tools, our employees can provide better customer service and an improved customer experience. By the end of 2016, just over 7,000 PDTs were deployed across Canada.

In 2016, we installed over 900 additional parcel lockers in apartment buildings and condominiums across Canada to bring the total installed base to more than 3,300, serving almost one million Canadians. They provide a key advantage to tenants who previously had to pick up parcels from their nearest post office when not home to receive them, offering the convenience that busy online shoppers require.

Capital investments

Capital asset expenditures in the Canada Post segment reached $215 million in 2016 and focused on supporting business improvement initiatives and critical components of the existing infrastructure, and enhancing the customer experience. The year-over-year decrease of $95 million was driven by a reduction in investment due to the suspension of the Five-point Action Plan.

In 2017, we anticipate that we will make additional investments to support initiatives to resolve infrastructure capacity challenges due to Parcels growth, as well as making similar investments in replenishing assets and facility upgrades. We will also continue to invest in initiatives focused on enhancing the customer experience in key strategic areas (e-commerce, Direct Marketing), hardware and software upgrades and efficiencies, and improvements to operational service, quality and processes. We will continue to closely monitor our financial position and change the pace of capital spending to mitigate the impact of any financial pressures.

Purolator

In 2016, Purolator reorganized its operations plan to enhance focus and execution. A full review of the strategic initiatives is under way, specifically segmenting the solutions for further development and alignment to the evolving market needs. Priorities include route optimization, transportation management and mobility. Part of this assessment is understanding the end-of-life cycle of existing legacy systems and the competitive advantage of the proposed future technologies.

In parallel, Purolator has kicked off a three-year full network redesign and optimization focusing on three main areas:

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

While these initiatives are part of the 2017 priorities, Purolator also remains focused on improving operations efficiencies through continuous improvement initiatives.

4.3 Sales channels

Retail network

Canadian consumers and businesses count on Canada Post's extensive retail network of over 6,200 post offices, owned by the Corporation and others operated by private dealers, in addition to thousands of private establishments known as stamp shops. The network of post offices operated by dealers continues to be highly successful as Canadians change the way they use the post office – offering convenient access, parking and longer hours of operation at a location where customers shop.

To serve our rural clients, the retail network includes just over 3,400 locations in diverse and remote areas across Canada. When an unforeseen event affects the operation of a post office in a community, Canada Post ensures that local mail delivery is maintained by using a community outreach process. This process includes open communication and consultation with the public, the municipality, elected officials and other relevant stakeholders. Decisions are made on a case-by-case basis as we seek practical and sustainable solutions that satisfy the needs of the affected community.

The retail business is evolving its focus, from generating revenue in the age of Lettermail™ to extending market reach that complements our increased focus on parcel delivery. Dealer outlets offer a cost-effective way to reach and serve Canadians and are critical for our e-commerce strategy. They also provide a convenient parcel pickup solution with evening and weekend hours.

In the past few years, we have focused on operational excellence, particularly maximizing savings within the post office network, by matching post office hours to customer traffic. We also continued to invest in our systems and tools. Since 2014, customers have been invited to complete an online survey where they can offer feedback on a recent post office experience. In addition, using the point-of-sale system, we simplified screens and processes for clerks, developed on-screen dashboards, complementary selling offers/prompts, direct shipment, real-time performance reporting and a sales focus program that promotes the right products at the right time. Training videos and Web training modules continue to be used to support clerk knowledge and to ultimately better serve customers. These enhancements promote greater value from each customer visit and drive overall performance from every store with a focus on developing a consistent positive customer experience and supporting e-commerce. As well, the retail channel was critical to the success of delivering key new initiatives for the Corporation: FlexDelivery™, Deliver to Post Office and Delivered Tonight, providing customers with greater flexibility for their online purchases.

We have also explored initiatives to enhance the retail business and customer experience. Handheld devices, which speed up post office parcel handling time (getting parcels ready for customers faster), were tested in 2015 at a small number of sites. The number of post office sites with these devices were further expanded prior to the holiday season in 2016, and plans to further expand for 2017 are under way.

In 2015, we opened a concept store in Richmond Hill, Ontario, which focuses on customer convenience with self-serve technology, a 24/7 area, a drive-thru for picking up parcels and a fitting room to try online purchases. The new store was a testing ground for new interior design concepts, technology and customer service. Two additional concept stores were opened in 2016, in Edmonton and Vancouver. New elements added in 2016 were printing stamps on demand, processing the shipment of parcels to U.S. and international destinations through the kiosk, and offering a smaller vending machine. In addition, toward the end of 2016, we launched three different sizes of flat rate (prepaid) shipping boxes with the opening of the Vancouver concept store. They are now available in 50 locations where they have surpassed sales expectations, as customers enjoy the convenience of buying the boxes and taking them home for future use.

High-speed internet and e-commerce have changed the role of the post office. As a result, we are committed to enhancing the customer experience by providing busy Canadians with the cost-effective and convenient services they demand.

In early 2017, our retail concept store won the Ebeltoft Retail Innovation Award for 2016. Ebeltoft is an international consortium of retail consultants that work with many of the top retailers worldwide on new and innovative concepts and designs. Each year, members are asked to nominate and choose a company with the best innovations in retailing today. Canada Post is the first Canadian company to be honoured with this award.

Online network

Customers should be able to reach Canada Post through their channel of choice, be it in person, by telephone, on paper or online. Customers can choose to use the online channel, through the corporate website, and order-entry systems (Electronic Shipping Tools [EST and EST 2.0]), to conduct business transactions, find information, manage orders and interact with the Corporation. We aim to improve the online channel performance and heighten the customer experience across digital touch points by improving and simplifying the user experience of online channels, increasing commercialization of the Web, using online channels to support the physical network, and offering more products and services through our mobile app and the epost™ platform.

Commercial network

Our commercial customers are served by our highly skilled sales force, which is structured to maximize opportunities around Web retailing, mail and our new and evolving digital suite of products. By selling our combined capabilities and business solutions – including direct marketing, courier and logistics, transportation management, fulfillment and inventory management – we are able to increase value to customers.

4.4 Internal controls and procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Corporation's President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure.

The President and CEO and the CFO have evaluated the effectiveness of the Group of Companies' disclosure controls and procedures related to the preparation of the Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2016.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS).

The President and CEO and the CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2016, in accordance with the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the President and CEO and the CFO have determined that the Group of Companies' internal control over financial reporting is effective as at December 31, 2016. This process follows the best-practices requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA). As a Crown corporation, Canada Post voluntarily complies with certain rules and regulations of the CSA.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5 Risks and Risk Management

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

Canada Post has a well-established and rigorous enterprise risk management (ERM) framework that considers risks and opportunities at all levels of decision making. The ERM framework helps Canada Post understand and manage the most significant risks to the business and to the brand as domestic and global postal industries continue to experience fundamental structural changes. An extensive enterprise risk and control assessment is conducted each year and is reported to senior management, the Audit Committee of the Board of Directors and the Board of Directors on a semi-annual basis. Significant changes to risks are also highlighted in the quarterly financial reports.

5.1 Definition of risk

Canada Post defines risk as any event or condition that could have an unplanned effect (positive or negative) on the Corporation's ability to achieve its key strategic, financial and operational goals. The following is a summary of the principal sources of strategic and operational risk and uncertainty facing the Corporation, along with associated mitigation strategies.

5.2 Strategic risks

Financial sustainability

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

The Corporation's integrated transformation plan, announced in late 2013, represents major progress toward the Corporation becoming financially self-sustainable. As intended, it helped the Corporation counter the financial impact of declining mail volumes and achieve profitable years. However, the multi-year transformation plan was put on hold in 2015, pending the government review, before the expected savings could be fully realized. As well, the responsibility to fund any pension shortfall remains a significant challenge.

Canada Post's structural challenges can be resolved if the Government of Canada makes timely decisions that are equal to the challenges they are meant to address.

Risk mitigation

Canada Post is continuing to grow its Parcels business, strengthen its Direct Marketing business, and pursue improved efficiency, productivity and cost-competitiveness in its operations. Although these improvements are sizeable, alone they will not allow the Corporation to achieve financial sustainability. The Government of Canada review of the postal service should provide the Corporation with the operational flexibility that will allow it to return to financial sustainability.

Significant core volume declines

Canada Post is experiencing significant pressures on volumes across its mail lines of business. From its peak in 2006, mail volume has been declining steadily – an experience shared by postal administrators around the world. The availability of electronic delivery alternatives, combined with a greater level of comfort and reliability with digital, mean that mail volume erosion is happening globally at an accelerated rate.

Marketing mail (Canada Post Smartmail Marketing™) volumes continue to be pressured by low-cost digital advertising, which are becoming even more prevalent in Canada. This business is also pressured by direct competitors in the print flyer distribution industry (such as newspaper and polybag advertising suppliers) and a diminishing direct marketing knowledge base within the advertising industry. Further acceleration in the rate of decline would have a substantial impact on the Corporation's cash flow and capacity to maintain financial sustainability.

Risk mitigation

Canada Post is responding to the accelerated rate of volume decline through a combination of cost management, pricing changes, product profile changes and diversification measures, as well as service enhancements and revenue growth initiatives. For marketing mail, changes to pricing and product specifications have simplified our offering. Changes to the Neighbourhood Mail™ product specifications, which were negotiated during the 2016 CUPW negotiations, will enable us to better meet market needs and thereby compete for additional unaddressed print advertising volumes. We are also repositioning marketing mail as Smartmail Marketing items with support from three groundbreaking studies in neuromarketing and ethnography. The research findings reaffirm the role of physical mail within the marketing mix and its impact on customer motivation and loyalty. Diversification and revenue growth efforts are pursued by focusing on parcels and the rapidly growing e-commerce opportunity.

Pension deficits

The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer sponsored pension plans in Canada with assets of $23 billion in market value at December 31, 2016. The scale of the RPP – given its size relative to the Corporation's revenue and earnings, and its funding volatility – pose an ongoing risk to the Corporation. The RPP has two primary risk factors:

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

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

As of December 31, 2016, the going-concern surplus is estimated at $1.8 billion, and the solvency deficit to be funded is estimated at $6.7 billion. The final actuarial valuations for the RPP will be filed by the end of June 2017, and results may differ significantly. Canada Post, as the RPP sponsor, is responsible for funding shortfalls in the RPP. Further information is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan page 55.

Risk mitigation

The Corporation continues to evaluate the pension solvency position and has implemented a pension risk management framework to identify and quantify risks. In addition, all investment decisions are made in accordance with the Canada Post Registered Pension Plan Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed annually by the Pension Committee of the Board of Directors. As a result of an asset-liability study, a new investment strategy is in place to lower investment volatility.

In February 2014, the Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments to the RPP for four years (from 2014 to 2017). This measure addresses the immediate need for additional liquidity. The government is examining the sustainability of the RPP as part of the review it is conducting on Canada Post. Pending the outcome of the review, planned for the spring of 2017, Canada Post expects to resume special payments in 2018.

Revenue growth and diversification strategy

To offset declining volumes in the core Lettermail business, Canada Post is focused on growing the e-commerce market. This sector presents challenges. Traditional global competitors, that offer seamless cross-border capabilities and benefit from much lower labour costs, are intensifying the deployment in Canada of new cost-effective residential delivery models and further integration along the entire logistics supply chain. New parcel and courier market entrants can deploy asset-free delivery platforms for rapid delivery and do not have to contend with legacy networks, pension obligations, or significant capital investments. Retailers are increasingly focusing on fulfillment strategies that use existing assets to minimize delivery costs. For instance, stores are now being used as pickup centres for click-and-collect services. Margin and revenue compression may also become a factor as a greater proportion of shipments are made locally, as retailers look to reduce shipping time and improve customer experience by forward locating inventory. Other risks include increasing online fraud associated with e-commerce transactions and excess volumes during peak season stressing operations. Internally, the historical design of Canada Post's operational network has been focused on Lettermail items rather than parcels. This places our operations at a disadvantage to parcel-centric competitors.

Risk mitigation

Canada Post continues to strengthen its value proposition for the e-commerce segment through initiatives such as the FlexDelivery™ service, apartment parcel lockers, Sunday delivery in the weeks before Christmas, the Delivered Tonight service in Montréal and Toronto, and other efforts to provide industry leading responsiveness and convenience for online shoppers. To support parcel volume growth, Canada Post is shifting its network design strategy to become more parcel-centric and increasing parcel capacity in physical delivery. Canada Post has also strengthened its pickup offering to better serve small and medium-sized businesses, invested in a robust performance reporting tool with larger commercial customers, and is continuing to invest in consumer delivery preferences to maintain Canada Post's best-in-class delivery experience. Canada Post is also improving and expanding its inbound service offering to attract e-commerce growth from postal and commercial networks and customers outside of Canada.

Labour agreements

Roughly 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex and rigid collective agreements remain a constraint on Canada Post's ability to compete in the marketplace and implement changes to its business model, including employee benefit plans. With collective agreements expiring almost every year, Canada Post finds itself continuously in negotiations with one or more of its unions.

Following prolonged negotiations, the Canadian Union of Postal Workers (CUPW-UPO and CUPW-RSMC) ratified two separate collective agreements in December 2016. These agreements are for a period of two years, rather than the typical four-year contracts negotiated in the past. The issues facing the Corporation, with declining mail volumes and a growing pension obligation, are complex. This approach provides more time for thoughtful discussion and analysis on how to best address these issues without the ongoing threat of a work disruption.

As part of the resolution of the RSMC round of collective bargaining between Canada Post and the Canadian Union of Postal Workers, the parties agreed to conduct a joint pay equity study for the purpose of determining whether a wage gap exists between this bargaining unit and a suitable comparator group and, if so, to resolve any compensation adjustments either through agreement or arbitration. The parties' pay equity consultants must present their report to a joint Canada Post-CUPW pay equity committee no later than 12 months from October 1, 2016.

Risk mitigation

Canada Post's objective during collective bargaining is to protect its financial viability and sustainability, while limiting, as much as possible, the impact to current employees. The Corporation's approach for all its bargaining agents is to consistently work with them and ensure a shared understanding of the structural challenges facing the Corporation and reach settlements that balance employee expectations and cost containment. Two of our collective agreements (CPAA and APOC) have binding arbitration in the form of a final offer selection process instead of a strike or lockout. This process has helped to mitigate our risk.

Information systems and information technology

Canada Post's information systems and information technology (IS/IT) are facing some emerging internal and external challenges. As Canada becomes more digitally connected, Canada Post requires even greater agility and responsiveness to remain competitive. Technology is a strong enabler of operations and a key success factor of service quality. Performance of critical web applications such as shipping systems and tracking has an impact on customer service and reputation. Externally, the growing threat of cyber-attacks and increasing occurrences of personal data breaches due to malevolent acts being reported worldwide are taken very seriously by the Corporation.

Risk mitigation

The corporate governance structure helps align the IS/IT objectives with existing and future requirements of the Group of Companies. Canada Post is also investing in critical systems supporting parcels to ensure high availability, data capacity and system responsiveness. As well, business continuity and disaster recovery plans are in place in the event of a critical systems failure. Investments in the next generation of mobile computing devices are expected to provide updated scan events in near-real time. Prevention and mitigation measures are implemented as part of the information security framework to reduce the threat of cyberattacks and maintain business continuity. Canada Post continues to work closely with the Government of Canada to address these risks.

Procurement risks related to major suppliers' transition

Failure to effectively execute the procurement process and successfully make the transition when a new provider is selected could have significant impacts on Canada Post's finances, reputation and operations. A supplier's ability to fulfil its contractual obligations will also have a significant impact on Canada Post's ability to serve its customers.

Risk mitigation

The Corporation is addressing this risk through robust procurement processes including guidance from a fairness commissioner, the hiring of third-party and industry experts and extended windows for transition periods, when appropriate. Special attention is paid to where a supplier's execution or failure of contractual obligations presents a material impact to the corporation's ability to serve its customers on a national level. As well, supplier contracts, which are approved by the Board of Directors, have a contract management strategy and risks requirement as part of the approval process to ensure active oversight for the duration of the contract.

Brand

Maintaining strong brand equity is essential to ensure business viability and successfully grow the business. Key to supporting this goal is maintaining a strong and trusted brand that reflects the strengths of the business, innovates to adapt to changing customer needs and is agile to compete in a fast evolving marketplace. This will ensure that Canada Post remains the most trusted, relevant and reliable intermediary enabling critical communication and commerce for all Canadians. Brand equity could be negatively affected by a service disruption, a poor customer experience and failure to evolve product and service offerings to meet the needs of the growing e-commerce market.

Risk mitigation

Canada Post is constantly innovating to adapt its business operations to market changes and launching new products and services that provide better experiences, beyond its traditional Transaction Mail line of business. These actions will ensure the Corporation maintains its role as facilitator of connections in Canada. It is leading the way in redefining the postal and delivery industry to better serve customers.

5.3 Operational risks

Attrition

Canada Post continues to face a high rate of employee departures, with around 15,000 employees expected to retire or leave the Corporation over the next five years. There are two major risks associated with attrition and overall talent management:

- a failure to attract, engage, train and retain top talent;
- ineffective management of key and vulnerable roles that could have an impact on business continuity.

Risk mitigation

The Corporation is managing attrition risks and opportunities. Canada Post is recruiting, developing and retaining the leadership talent needed to meet long-term objectives; developing training programs and knowledge-management tools to reduce risks associated with the outflow of knowledge, skill and experience; linking key and vulnerable positions to ongoing succession planning; and closely monitoring short and long-term operational requirements to ensure ongoing alignment with resource planning. Specific initiatives include an executive leadership development program to prepare and develop those with potential to assume senior executive responsibilities, a middle-management development program, periodic meetings with new employees to identify issues, and a workforce planning framework to manage and monitor risk. Canada Post will continue to seek opportunities to streamline and improve the efficiency of its operations to take advantage of voluntary attrition.

Security and privacy

Canada Post is responsible for ensuring the security of Canadians' physical and digital mail. It is also responsible for protecting the privacy of customer and employee data in its custody. Data breaches could result in negative impacts to customers and employees and cause serious damage to the Corporation's financial position and brand. Fraudulent use of the Corporation's products and services could cause financial harm to Canadians.

Risk mitigation

Canada Post has invested heavily in physical and electronic security, the protection of employee and customer data and the avoidance of fraudulent use of its products and services. In addition to established security policies and guidelines, security clearance is required for all new employees and contractors. The Corporation regularly conducts threat risk assessments to ensure that the security and privacy interests of the Corporation, its customers and its employees are protected. Privacy impact assessments are conducted to ensure that new technologies, information systems and initiatives adequately protect privacy. Physical and electronic security measures, including high-security locks, cameras and electronic access controls, are in place to protect electronic and physical mail, postal facilities and information.

Business continuity

Canada Post and its customers rely on physical and electronic delivery networks that are vulnerable to disruptions of natural or human origin. The Corporation's extensive physical network is also increasingly dependent on key operating systems, equipment, transportation network and IT infrastructure.

Risk mitigation

The Corporation has a business continuity management program in place to ensure the delivery of its critical physical and digital services. Business continuity plans are regularly tested and updated, taking into account changes to the business environment. Canada Post is strengthening its business continuity and disaster recovery linkages with Innovapost. The Corporation and its partners continuously monitor threats to the business environment. For instance, a comprehensive planning and exercising program was conducted during 2016.

Health and safety

Canada Post is committed to creating and maintaining a healthy and safe environment for all employees, visitors and contractors. Canada Post is committed to the highest safety standards and believes that all occupational injuries, illnesses and incidents are preventable. As the Corporation evolves its operations to address the changing nature of the business, there is a risk that recent safety performance improvement will not be sustained as attention is focused on other initiatives.

Risk mitigation

In 2016, new injury reporting metrics were introduced and measured, and emergency management procedures have been updated. Maintenance safety rules were established in the western provinces, with central and eastern provinces to be reviewed in 2017. On-site occupational health and safety officers continue to focus on the coaching of safe practices for employees and supervisors; leadership safety action plans are established to improve attention and focus throughout operations. For further information, see Health and safety in Section 4.1 page 43.

Service quality

As the Corporation shifts focus toward the more competitive parcel market, and increasing international trade volumes depend more on non-domestic partners to deliver products, maintaining a high level of service quality remains a priority to ensure customer satisfaction and retention.

Risk mitigation

The implementation of a quality service management system has enhanced operations' ability to identify issues and root causes, and to resolve service problems. Continuous improvement in our exchange offices will facilitate inbound postal channel product flow.

Where existing outbound networks do not provide a competitive offering and where there's a need to grow inbound commercial market share, the Corporation is securing access to inbound and outbound alternative international networks.

Environmental sustainability

The possibility that customers and consumers could perceive Canada Post as not environmentally responsible could have negative consequences on its brand reputation and customer loyalty. This could accelerate erosion of mail volumes as customers migrate to electronic or other competing formats viewed as more environmentally sustainable.

Risk mitigation

Canada Post continues to proactively and transparently disclose its environmental performance through the Annual Report on Social Responsibility. Canada Post is committed to the sustainable, energy efficient design of new buildings. To date, 27 new major building projects have achieved LEED™ (Leadership in Energy and Environmental Design) certification; including three depot projects in 2016 (in North Vancouver, downtown Vancouver and Milton, Ontario). Canada Post continues to explore ways to improve the operating efficiency of its buildings and has pursued investments in more energy efficient lighting and mechanical systems in existing buildings. In 2016, we continued replacing existing delivery vehicles with more fuel-efficient ones, which account for more than 50% of our fleet. We are committed to continuously improving the way we conduct our business by following leading environmental and ethical business practices. As well, we have contracted our main air network to a new supplier with more fuel-efficient aircraft and transferred some shipments to less intensive ground networks. This has helped significantly reduce carbon emissions attributed to domestic air delivery.

Legal risk

Where appropriate, Canada Post has recorded provisions for some of the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

Air transportation procurement – Canadian North

On December 18, 2007, Canadian North filed a statement of claim alleging that Canada Post conducted an unfair procurement of air transportation services to remote northern communities for the Food Mail Program of the Government of Canada. The airline sought $75 million in damages and $1 million in punitive damages. On August 2, 2016, the parties arrived at an out-of-court settlement for an amount significantly less than originally claimed. On September 15, 2016, the Superior Court of Justice (Ontario) gave its order dismissing the action on consent.

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed a complaint with the Canadian Human Rights Commission (CHRC) in 1982, alleging discrimination by the Corporation concerning work of equal value. That complaint was settled in 1985, after which a second identical complaint was filed by the CPAA in 1992. The 1992 complaint was settled by the parties in 1997. Nonetheless, in 2012, the CPAA requested its reactivation. In 2014, the Commission investigator concluded that, while agreements between the parties resolved pay equity issues for the period subsequent to 1997, the prior period (1992-97) remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal) without further investigation. In early 2015, the Commission rendered a decision, agreeing with the investigator, that the matter should proceed to the Tribunal on its merits. Canada Post's application for judicial review of that decision was dismissed by the Federal Court in July 2016. In August 2015, Canada Post also brought forward a motion to the Tribunal to dismiss the complaint. In a decision released September 1, 2016, the Tribunal ruled that Canada Post's motion for dismissal was premature and directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by year's end, in order that the matter could proceed to its merits. Statements of particulars have subsequently been exchanged.

City of Hamilton by-law in respect of CMB installation

The City of Hamilton enacted a municipal by-law that would force Canada Post to seek permits before it can install community mailboxes (CMBs). On June 11, 2015, the Ontario Superior Court declared the City of Hamilton municipal by-law to be inoperative and of no effect. On July 6, 2015, the City of Hamilton filed an appeal of the Ontario Superior Court's decision. The Federation of Canadian Municipalities (FCM) was granted intervenor status in the appeal. The appeal was heard February 2, 2016, and judgment was reserved. On October 19, 2016, the Ontario Court of Appeal released its decision. The appeal was dismissed and the by-law was confirmed inoperable against Canada Post. Leave to appeal has not been sought and the matter is closed.

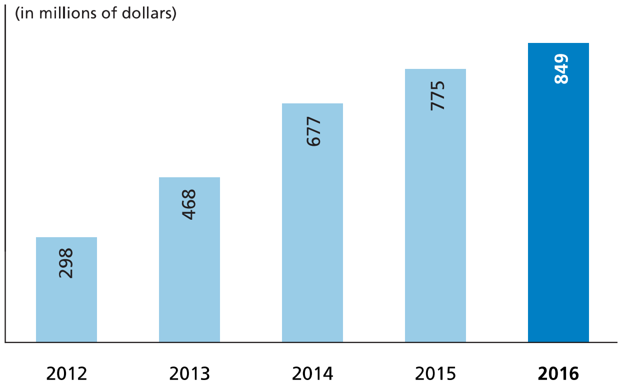
Federal Court review of Canada Post's decision to convert door-to-door delivery to CMB delivery

An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community mailbox delivery was filed by CUPW and others in November 2014. By motion to the Federal Court, a number of Montréal urban communities were granted intervenor status in September 2015. A hearing on the application has not yet been scheduled. The parties have agreed and the Court has sanctioned that the matter be put in abeyance to allow the government to complete the current review of Canada Post. The program to convert existing customers with door-to-door delivery to community mailbox delivery was stopped in October 2015.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents



The Group of Companies held cash and cash equivalents of $849 million as at December 31, 2016 – an increase of $74 million compared to December 31, 2015. The increase was mainly due to cash provided by operating activities in 2016, partially offset by cash used in investing and financing activities during the year. It was also supported by the temporary relief from making special payments to the Canada Post Corporation Registered Pension Plan (RPP) obtained from the Government of Canada in February 2014.

6.2 Operating activities

(in millions of dollars)	2016	2015	Change
Cash provided by operating activities	597	595	2

Cash generated from operating activities was $597 million in 2016. There were no significant changes in operating activities in 2016, when compared to 2015.

6.3 Investing activities

(in millions of dollars)	2016	2015	Change
Cash used in investing activities	(443)	(479)	36

Cash used in investing activities was $443 million in 2016 – a decrease of $36 million when compared to 2015, primarily due to lower acquisitions and sale of capital assets, partially offset by higher net acquisitions of investments.

Capital expenditures

(in millions of dollars)	2016	2015	Change
Canada Post	215	309	(94)
Purolator	39	40	(1)
Logistics	7	8	(1)
Innovapost and intersegment	(8)	(5)	(3)
Canada Post Group of Companies	**253**	**352**	**(99)**

Capital expenditures for the Group of Companies decreased by $99 million in 2016, when compared to 2015. The decrease was mainly due to decreased spending on the Five-point Action Plan in the Canada Post segment.

6.4 Financing activities

(in millions of dollars)	2016	2015	Change
Cash used in financing activities	(80)	(22)	(58)

Cash used in financing activities was $80 million in 2016, an increase of $58 million over 2015 mainly due to the repayment of non-redeemable bonds that matured in March 2016.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $23 billion as at December 31, 2016, making it one of the largest single-employer sponsored pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) to establish its funded status on a going-concern basis and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act*, *1985* (Act) requires Canada Post, as plan sponsor, to make special payments to the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, the Act requires Canada Post to make special payments to the RPP to eliminate this shortfall over five years. Significant going-concern or solvency deficits requiring special payments could pose a risk to the Corporation's cash flow.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations* under which the Corporation is exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. This temporary measure recognizes the Corporation's serious operational challenges and the risks to the sustainability of the RPP. In 2018, the Corporation expects that it will revert back to the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, the aggregate amount of relief is limited to 15% of the fair value of plan assets, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis and over 15 years on a going-concern basis.

The actuarial valuation for the RPP as at December 31, 2015, filed in June 2016, disclosed a going-concern surplus of $1.2 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.3 billion[1] (using the three-year average solvency ratio basis).

The current estimate of the financial position of the RPP as at December 31, 2016, is a going-concern surplus of approximately $1.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.7 billion[2] (using the three-year average solvency ratio basis). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2016, will be filed by the end of June 2017 and results may differ significantly from these estimates.

The going-concern funded status improved during the year, mainly due to recognizing investment gains from previous years in the smoothed value of assets, the return on investments of 7.9% (gross of administrative and management fees), and a decrease in the inflation assumption, which were offset by a decrease in the discount rate and the impact of updated demographic assumptions from an experience study conducted in 2016. Both the solvency deficit (using the market value of plan assets) and the solvency deficit (using the three-year average solvency ratio basis) deteriorated during the year, mainly due to a decrease in the discount rate and updated demographic assumptions, offset by positive investment returns.

On October 19, 2016, Office of the Superintendent of Financial Institutions (OSFI) published a revised Instruction Guide for Preparation of Actuarial Reports for Defined Benefit Pension Plans, which provides details on OSFI's expectations for valuation reports filed after October 31, 2016. The most significant change relates to clarifications for requirements of high quality fixed-income investments. These OSFI changes have been reflected in our pension valuation.

In 2016, the employer's current service contributions to the defined benefit pension plan amounted to $241 million, compared to $243 million in 2015. The employer's current service contributions for 2017 are estimated at $271 million.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2016, remeasurement gains, net of tax, for the RPP amounted to $692 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

1. The solvency deficit when using market value of plan assets, as at December 31, 2015, was $6.1 billion.

2. The solvency deficit when using market value of plan assets, as at December 31, 2016, was estimated at $6.5 billion.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which it defines as loans and borrowings, other liabilities (non-current) and equity of Canada. This view of capital is used by management and may not be comparable to definitions used by other postal organizations or public companies. The Corporation's objectives in managing capital include maintaining sufficient liquidity to support financial obligations as well as operating and strategic plans, and maintaining financial capacity and access to credit facilities to support future development of the business.

The *Canada Post Corporation Act* and the *Financial Administration Act* (Acts) and directives issued pursuant to the Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, as it maintains basic postal service and carries out objectives, the Corporation must have regard for the need to conduct operations on a self-sustaining financial basis, while providing a standard of service that meets the needs of the people of Canada.

Liquidity

As at December 31, 2016, and during 2016, the liquidity required by the Canada Post Group of Companies to support financial obligations, fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,696 million of unrestricted liquid investments on hand as at December 31, 2016, and $100 million in lines of credit established under a short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. The Corporation plans to resume special payments in 2018, at the end of the temporary relief period; however, this is dependent on the outcome of the government review, expected in the spring of 2017. Based on the temporary relief provided by current legislation, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $191 million of unrestricted cash on hand and undrawn credit facilities of $113 million as at December 31, 2016, ensuring sufficient liquidity to support operations for at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4, 2009-10*, which received royal assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Any additional borrowings must be within the limits of the approved borrowing plan, and their terms and conditions require approval from the Minister of Finance. The Corporation believes that these arrangements provide it with sufficient and timely access to capital markets.

With $997 million of borrowings as at December 31, 2016, the Canada Post segment had $1,503 million of its $2.5 billion external borrowing limit that had not been used. The borrowings of the Corporation's subsidiaries as at December 31, 2016, amounted to $62 million, resulting in consolidated borrowings of $1,059 million as at December 31, 2016. This represents a decrease of $76 million over the 2015 year-end level of $1,135 million. The Corporation funded itself primarily through the use of cash-on-hand, funds generated from operations during 2016 and the pension plan funding relief permitted by legislation.

Dividend

The declaration, amount and payment of a dividend to the Government of Canada are subject to the *Canada Post Corporation Act* and the *Financial Administration Act*. The dividend is reviewed annually as the Corporation is required to submit a dividend proposal each year as part of its Corporate Plan. The Corporation indicated in the 2015-19 Corporate Plan its intention not to pay a dividend in 2016. No dividend has been paid to the shareholder from 2009 to 2016.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out the activities of the business, as summarized in the following table.

(in millions of dollars)

As at December 31	2016				
	Measured at fair value		Measured at amortized cost[1]		
	Available for sale	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
Financial assets					
Cash and cash equivalents	–	849	–	–	849
Marketable securities	–	1,038	–	–	1,038
Trade and other receivables	–	–	829	–	829
Segregated securities	523				523
Total financial assets	**523**	**1,887**	**829**	–	**3,239**
Financial liabilities					
Non-interest bearing[2]	–	–	–	720	720
Bonds	–	–	–	997	997
Other loans and borrowings	–	–	–	62	62
Total financial liabilities	**–**	**–**	**–**	**1,779**	**1,779**

1. The effective interest method is used to determine the amortized cost of these financial assets and liabilities.
2. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Financial assets are held for liquidity purposes or for longer terms in accordance with the investment policies of the Group of Companies. Financial liabilities consist mostly of trade payables (non-interest bearing) and bonds issued in 2010 to support Postal Transformation.

Market risk

Interest rate risk

The Group of Companies' investments consist of cash and cash equivalents, marketable securities and segregated securities, and are designated as fair value through profit or loss or available for sale.

Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment obligations to which they are externally restricted. The average duration of the segregated security portfolio was 13 years as at December 31, 2016, (2015 – 13 years).

Based on a sensitivity analysis of interest rate risk, it is expected that an increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities by $68 million (2015 – $70 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2016, and on other comprehensive income or loss.

Loans and borrowings of $1,059 million (2015 – $1,135 million) include fixed-rate debt with prepayment options and finance lease obligations.

Foreign currency risk

Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro, British pound, Japanese yen and Chinese renminbi, whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the five currencies that underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures where cash flows are highly probable. These forward contracts are not designated as hedges for accounting purposes. The total foreign exchange and foreign exchange derivative gains/losses included in revenue from operations amounted to $9 million in net gains in 2016 (2015 – $5 million). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2016, all other variables held constant, would have been an increase or decrease in net profit for the year by $11 million (2015 – $9 million).

Commodity risk

The Group of Companies is inherently exposed to fuel-price increases but does not currently hold any financial instruments that change in value due to the prices of commodities. Using an industry-accepted practice, it partially mitigates this risk through the use of a fuel-price surcharge on some of its products.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe that it is subject to any significant concentration of credit risk.

There was no impairment loss on investments recognized during the year (2015 – nil), and impairment losses on trade and other receivables were $5 million (2015 – $5 million).

Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors. Liquidity is discussed further in Section 6.6 – Liquidity and capital resources page 56.

For further details on risk associated with financial instruments, see Note 19 to the consolidated financial statements page 117 and Section 6.6 Liquidity and capital resources page 56.

6.8 Contractual obligations and commitments

A summary of the Group of Companies' total contractual obligations and commitments to make future payments, excluding non-interest-bearing current liabilities, is presented below. For further details, see notes 19 (c) and 20 to the consolidated financial statements pages 120 and 122, respectively.

(in millions of dollars)	Total	Less than 1 year	1-5 years	More than 5 years
Bonds[1]	1,000	–	–	1,000
Interest on bonds	707	42	169	496
Finance lease obligations	66	24	40	2
Operating leases[2]	879	138	400	341
Total	**2,652**	**204**	**609**	**1,839**

1. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada. Bonds include two series issued in July 2010, with a nominal value of $500 million each maturing in July 2040 and July 2025, respectively. Interest is paid semi-annually with a coupon rate ranging from 4.08% to 4.36%.
2. Operating leases include the future minimum payment obligations associated with facilities, transportation equipment and other operating leases.

In addition, the Group of Companies has contractual arrangements with third-party suppliers approximating $701 million. These contractual arrangements extend to 2022 and allow for termination with penalties.

The Canada Post Corporation Registered Pension Plan special going-concern and solvency contributions are discussed in Section 6.5 – Canada Post Corporation Registered Pension Plan page 55.

6.9 Related party transactions

Government of Canada

The Corporation has a variety of transactions with related parties in the normal course of business and in support of the Government of Canada's public policies. Revenue earned from related parties for the year was $300 million (2015 – $300 million), the majority of which was from commercial contracts relating to postal services provided to the Government of Canada. Included in this amount was compensation from the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage, which amounted to $22 million (2015 – $22 million).

Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expenses for key management personnel were $10 million for the years ended December 31, 2016, and 2015, which included compensation related to short-term benefits and post-employment benefits. See Note 24 (b) to the consolidated financial statements page 124 for additional details.

6.10 Contingent liabilities

In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees. These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities. Refer to Note 16 to the consolidated financial statements page 115 for additional details on other contingent liabilities.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between December 31, 2016, and December 31, 2015

(in millions of dollars)

ASSETS	2016	2015	Change	%	Explanation of change
Cash and cash equivalents	849	775	74	9.5	Refer to Section 6 – Liquidity and Capital Resources page 54.
Marketable securities	1,038	837	201	24.0	Mainly due to the investment of cash in short-term investments to achieve higher returns.
Trade and other receivables	829	790	39	5.0	Mainly due to increased trade and other receivables in the Canada Post segment and higher receivables in the Purolator segment due to elevated revenues in the fourth quarter of 2016.
Other assets	110	103	7	6.8	Mainly due to excess income tax payments made in the Canada Post segment in 2016.
Total current assets	**2,826**	**2,505**	**321**	**12.8**	
Property, plant and equipment	2,672	2,738	(66)	(2.4)	Mainly due to depreciation exceeding acquisitions in the Canada Post segment.
Intangible assets	117	107	10	9.3	Mainly due to acquisitions exceeding amortization of software assets.
Segregated securities	523	539	(16)	(3.0)	No material change.
Pension benefit assets	135	157	(22)	(14.0)	Mainly in the Canada Post segment and mostly attributable to a decrease in discount rates and updated demographic assumptions, partially offset by positive investment returns and a decrease in the inflation assumption.
Deferred tax assets	1,384	1,540	(156)	(10.2)	Mainly due to the decrease of temporary differences from remeasurement gains recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	–	–	No change.
Other assets	5	4	1	38.4	No material change.
Total non-current assets	**4,966**	**5,215**	**(249)**	**(4.8)**	
Total assets	**7,792**	**7,720**	**72**	**0.9**	

(in millions of dollars)

LIABILITIES	2016	2015	Change	%	Explanation of change
Trade and other payables	548	530	18	3.3	Mainly due to higher trade and sales tax payables, partially offset by a decrease in international settlements and a reduction in accrued liabilities in the Canada Post segment in addition to increased sales tax payable accruals in the Purolator segment.
Salaries and benefits payable and related provisions	487	434	53	12.2	Primarily due to increased statutory deductions payable due to timing in the Canada Post segment.
Provisions	70	65	5	7.2	Mainly attributable to an increase in grievance provisions in the Canada Post segment.
Income tax payable	3	65	(62)	(96.0)	Primarily due to the payment of a tax liability for the Canada Post segment.
Deferred revenue	115	124	(9)	(6.9)	Mainly due to a reduction in meter deferrals and customer credit balances in the Canada Post segment.
Loans and borrowings	22	76	(54)	(71.7)	Mainly due to the repayment of non-redeemable bonds that matured in March 2016.
Other long-term benefit liabilities	62	62	–	0.7	No material change.
Total current liabilities	**1,307**	**1,356**	**(49)**	**(3.6)**	
Loans and borrowings	1,037	1,059	(22)	(2.1)	Mainly due to the repayment of finance lease obligations in the Purolator segment.
Pension, other post-employment and other long-term benefit liabilities	5,726	6,398	(672)	(10.5)	Mainly due to actuarial gains in the Canada Post segment mostly attributable to positive investment returns and a decrease in the inflation assumption, offset by a decrease in discount rates and updated demographic assumptions.
Other liabilities	26	31	(5)	(12.6)	No material change.
Total non-current liabilities	**6,789**	**7,488**	**(699)**	**(9.3)**	
Total liabilities	**8,096**	**8,844**	**(748)**	**(8.5)**	

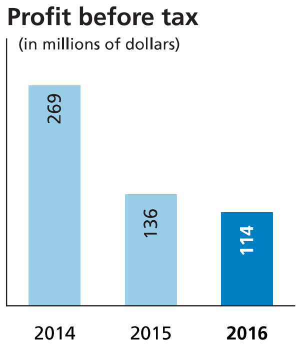
(in millions of dollars)

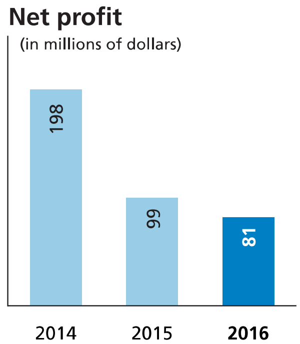
EQUITY	2016	2015	Change	%	Explanation of change
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	44	48	(4)	(8.5)	No material change.
Accumulated deficit	(1,530)	(2,354)	824	35.0	Mainly due to net actuarial gains from post-employment plans remeasurement.
Equity of Canada	**(331)**	**(1,151)**	**820**	**71.3**	
Non-controlling interests	27	27	–	1.6	
Total equity	**(304)**	**(1,124)**	**820**	**73.0**	
Total liabilities and equity	**7,792**	**7,720**	**72**	**0.9**	

8 Discussion of Operations

A detailed discussion of our financial performance in 2016

8.1 Consolidated trends





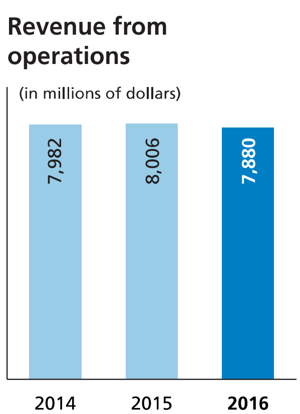
8.2 Consolidated results from operations

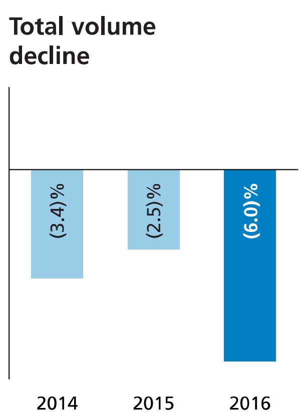
Consolidated results

(in millions of dollars)	2016	2015	Change	%
Revenue from operations	7,880	8,006	(126)	(1.6)
Cost of operations	7,731	7,837	(106)	(1.4)
Profit from operations	**149**	**169**	**(20)**	**(12.0)**
Investing and financing income (expense), net	(35)	(33)	(2)	(5.8)
Profit before tax	**114**	**136**	**(22)**	**(16.3)**
Tax expense	33	37	(4)	(11.4)
Net profit	**81**	**99**	**(18)**	**(18.1)**
Other comprehensive income	741	788	(47)	(6.0)
Comprehensive income	**822**	**887**	**(65)**	**(7.4)**

The Canada Post Group of Companies had a profit before tax of $114 million in 2016, a decline of $22 million when compared to 2015. The drop in profit before tax in 2016 compared to 2015 was primarily due to lower revenue resulting from the labour uncertainty from prolonged negotiations with the Canadian Union of Postal Workers (CUPW) in 2016, and continuing Transaction Mail volume erosion, partially offset by growth in Parcels revenue, lower program costs and lower employee benefit costs in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.6.

Consolidated revenue from operations





Revenue from operations totalled $7,880 million in 2016 and decreased year-over-year by $126 million or 1.6% compared to 2015. The decrease was mainly in the Canada Post segment, caused by the risk of labour disruption that had an impact on all lines of business, mainly in the third quarter. Revenues were also lower in the Purolator segment.

Consolidated cost of operations

Cost of operations decreased by $106 million or 1.4% in 2016 compared to 2015, primarily from a reduction in program expenses related to the suspension of the Five-point Action Plan and reduced employee benefit costs in the Canada Post segment.

Consolidated investing and financing income (expense), net

Net investing and financing expenses were $35 million in 2016, compared to $33 million in 2015. The change was primarily due to losses on the retirement of property, plant and equipment partially offset by lower interest expense on bonds in the Canada Post segment.

Consolidated tax expense

The consolidated tax expense for 2016 decreased by $4 million compared to 2015, primarily driven by lower profits in the Canada Post segment, partially offset by increased profits in the Purolator segment.

Consolidated other comprehensive income

The consolidated other comprehensive income amounted to $741 million in 2016, mainly due to remeasurement gains on pension and other post-employment plans, primarily due to positive investments returns and a decrease in the inflation assumption, offset by a decrease in discount rates and updated demographic assumptions. Volatility, caused by fluctuations in the various factors and assumptions used to remeasure these plans, had a significant impact on the Group of Companies' other comprehensive income throughout 2016.

8.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	2012[1]	2013	2014	2015	2016
Canada Post	(157)	(269)	204	92	63
Purolator	39	65	80	57	69
Logistics	7	10	14	20	20
Other	5	1	1	–	(3)
Canada Post Group of Companies	**(106)**	**(193)**	**299**	**169**	**149**

1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

Segmented results – Profit (loss) before tax

(in millions of dollars)	2012[1]	2013	2014	2015	2016
Canada Post	(136)	(125)	194	63	55
Purolator	36	66	74	56	67
Logistics	7	12	14	20	20
Other	(17)	(11)	(13)	(3)	(28)
Canada Post Group of Companies	**(110)**	**(58)**	**269**	**136**	**114**

1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

8.4 Canada Post segment

The Canada Post segment remained profitable in 2016, recording a profit before tax of $55 million, but compared to 2015, profit declined by $8 million.

Canada Post summary

(in millions of dollars)	2016	2015	Change	%
Revenue from operations	6,186	6,316	(130)	(2.1)
Cost of operations	6,123	6,224	(101)	(1.6)
Profit from operations	**63**	**92**	**(29)**	**(32.2)**
Investing and financing income (expense), net	(8)	(29)	21	73.1
Profit before tax	**55**	**63**	**(8)**	**(13.4)**

Revenue from operations

Canada Post generated revenue from operations of $6,186 million in 2016, a decrease of $130 million or 2.1% when compared to 2015. Revenues were affected by the labour uncertainty, mainly in the third quarter, from the prolonged negotiations with CUPW, as many customers transferred shipments to other carriers due to the risk of a labour disruption. The decrease in revenue year over year was also due to ongoing volume erosion in Transaction Mail (from electronic substitution), and declines in Direct Marketing. The decrease was partially offset by Parcels revenue year over year, driven by the thriving business-to-consumer e-commerce market, although growth was lower than expected due to the impact of the labour uncertainty.

Revenue and volumes by line of business

	Revenue (in millions of dollars / trading day adjusted percentage)				Volume (in millions of pieces / trading day adjusted percentage)			
	2016	**2015**	**Change**	**%**	**2016**	**2015**	**Change**	**%**
Transaction Mail								
Domestic Lettermail	2,754	2,905	(151)	(5.2)	3,169	3,430	(261)	(7.6)
Outbound Letter-post	119	132	(13)	(9.5)	61	69	(8)	(11.5)
Inbound Letter-post	164	153	11	7.7	175	192	(17)	(9.1)
Total Transaction Mail	**3,037**	**3,190**	**(153)**	**(4.8)**	**3,405**	**3,691**	**(286)**	**(7.8)**
Parcels								
Domestic Parcels	1,255	1,167	88	7.6	144	133	11	9.0
Outbound Parcels	223	229	(6)	(2.5)	11	11	–	(8.7)
Inbound Parcels	241	234	7	3.0	40	37	3	8.4
Other	19	16	3	17.3	–	–	–	–
Total Parcels	**1,738**	**1,646**	**92**	**5.6**	**195**	**181**	**14**	**7.7**
Direct Marketing								
Personalized Mail™	534	565	(31)	(5.5)	994	1,070	(76)	(7.1)
Neighbourhood Mail™	390	407	(17)	(4.2)	3,362	3,514	(152)	(4.3)
Publications Mail™	180	197	(17)	(8.6)	281	311	(30)	(9.6)
Business Reply Mail™ and Other Mail	22	24	(2)	(6.1)	19	22	(3)	(11.5)
Other	14	14	–	(1.9)	–	–	–	–
Total Direct Marketing	**1,140**	**1,207**	**(67)**	**(5.6)**	**4,656**	**4,917**	**(261)**	**(5.3)**
Other Revenue	271	273	(2)	(0.8)	–	–	–	–
Total	**6,186**	**6,316**	**(130)**	**(2.1)**	**8,256**	**8,789**	**(533)**	**(6.1)**

Transaction Mail

Total Transaction Mail revenue amounted to $3,037 million in 2016 and was made up of the following three product categories: Domestic Lettermail ($2,754 million), Outbound Letter-post ($119 million) and Inbound Letter-post ($164 million).

Total 2016 Transaction Mail revenue decreased by $153 million or 4.8% compared to 2015 and volumes declined by 286 million pieces or 7.8% compared to 2015, primarily due to ongoing volume erosion. Year-over-year changes by product category are as follows:

- Domestic Lettermail revenue decreased by $151 million or 5.2%, while volumes declined by 261 million pieces or 7.6% compared to 2015. Demand for Lettermail continues to steadily drop given the continued increase in the use of digital alternatives by households and businesses and the implementation of pay-for-paper initiatives by some of our largest customers, and bill consolidation.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) decreased by $13 million or 9.5%, while volumes decreased by 8 million pieces or 11.5% compared to the previous year. Declines were due to a drop in demand in commercial and retail channels.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) increased by $11 million or 7.7% compared to 2015 due to rate action, while volumes dropped by 17 million pieces or 9.1% as volumes from the United States were down significantly.

Parcels

Total Parcels revenue was $1,738 million in 2016 and was made up of the following four product categories: Domestic Parcels ($1,255 million), Outbound Parcels ($223 million), Inbound Parcels ($241 million), and Other ($19 million).

Total 2016 Parcels revenue increased by $92 million or 5.6% and volumes increased by 14 million pieces or 7.7% compared to 2015, but growth was lower than expected due to the impact, mainly in the third quarter, of the risk of labour disruption from prolonged negotiations with CUPW. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue, the largest product category, increased by $88 million or 7.6%, and volumes increased by 11 million pieces or 9.0% over 2015. This growth was due to the performance of major commercial customers who continue to grow their online businesses, coupled with Canada Post's solid delivery performance. To remain competitive, Canada Post continues to strengthen its leadership position in e-commerce by investing in technology and working with commercial customers to offer innovative services.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) decreased by $6 million or 2.5% compared to 2015, while volumes declined 8.7% mainly due to a change in product and customer mix.
- Inbound Parcels revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering their parcels in Canada) increased by $7 million or 3.0%, while volumes increased by 3 million or 8.4% compared to 2015. The increase in revenue was propelled by continued strong growth from the rest of world, particularly from Asia-Pacific countries, and exchange rate gains.
- Other Parcels revenue increased by $3 million or 17.3% in 2016 compared to 2015.

Direct Marketing

Total Direct Marketing revenue amounted to $1,140 million in 2016. Direct Marketing revenue was made up of the following four product categories: Personalized Mail ($534 million), Neighbourhood Mail ($390 million), Publications Mail ($180 million), and Business Reply Mail and Other Mail, and Other ($36 million).

Total 2016 Direct Marketing revenue decreased by $67 million or 5.6%, while volumes decreased by 261 million pieces or 5.3% compared to 2015. Year-over-year changes by product category are summarized as follows:

- Personalized Mail revenue declined by $31 million or 5.5% and volumes decreased by 76 million pieces or 7.1% compared to 2015. The declines were the result of the third-quarter risk of labour disruption as well as erosion caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels.
- Neighbourhood Mail revenue decreased by $17 million or 4.2% compared to the previous year, while volumes decreased by 152 million pieces or 4.3%. Decreases were due to the one-time impact of the federal election in 2015 and to labour uncertainty from prolonged negotiations with CUPW.
- Publications Mail revenue declined by $17 million or 8.6% and volumes declined by 30 million pieces or 9.6% compared to 2015. The revenue decline was caused by volume erosion due to a decline in mail publication subscriptions.
- Business Reply Mail and Other Mail and Other experienced declines in revenue of 4.5%. Volumes also dropped by 11.5% compared to 2015.

Other Revenue

Other Revenue totalled $271 million in 2016 – a decrease of $2 million or 0.8% when compared to 2015. The revenue decrease was mainly due to a drop in multi-channel services.

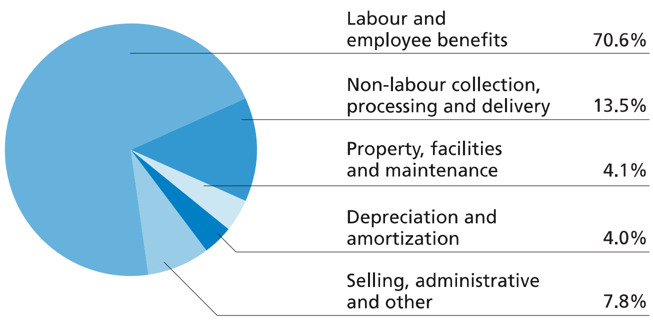
Cost of operations

In 2016, the Canada Post segment's cost of operations was $6,123 million – a decrease of $101 million or 1.6% when compared to 2015.

					Cost as % of Revenue from operations	
(in millions of dollars)	2016	2015	Change	%	2016	2015
Labour	3,093	3,073	20	0.6	50.0	48.7
Employee benefits	1,228	1,265	(37)	(2.9)	19.9	20.0
Total labour and employee benefits	**4,321**	**4,338**	**(17)**	**(0.4)**	**69.9**	**68.7**
Non-labour collection, processing and delivery	827	826	1	0.1	13.4	13.1
Property, facilities and maintenance	250	249	1	0.4	4.0	3.9
Selling, administrative and other	476	552	(76)	(13.6)	7.7	8.7
Total other operating costs	**1,553**	**1,627**	**(74)**	**(4.5)**	**25.1**	**25.7**
Depreciation and amortization	249	259	(10)	(4.0)	4.0	4.1
Total	**6,123**	**6,224**	**(101)**	**(1.6)**	**99.0**	**98.5**

The chart and table below show the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 70.6% of the total cost of operations in 2016, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2016



Cost of operations	2014	2015	2016
Labour and employee benefits	68.9%	69.7%	70.6%
Non-labour collection, processing and delivery	13.5%	13.3%	13.5%
Property, facilities and maintenance	4.2%	4.0%	4.1%
Depreciation and amortization	4.5%	4.1%	4.0%
Selling, administrative and other	8.9%	8.9%	7.8%

Labour

Labour costs increased marginally by $20 million or 0.6% when compared to 2015. The increase was primarily due to wage increases and growth in parcel volume, partially offset by reduced volumes in the third quarter due to the risk of a work disruption and productivity gains achieved from transformational initiatives, including the Five-point Action Plan.

Employee benefits

(in millions of dollars)	2016	2015	Change	%
Pension expense	560	612	(52)	(8.5)
Post-employment health benefits	118	149	(31)	(20.4)
Other post-employment and other long-term benefits	119	79	40	47.2
Interest on segregated assets	(20)	(29)	9	(32.3)
Total post-employment and other long-term benefits	**777**	**811**	**(34)**	**(4.3)**
Active employee benefits	445	454	(9)	(1.9)
Other	6	–	6	–
Employee benefits	**1,228**	**1,265**	**(37)**	**(2.9)**

Employee benefits decreased by $37 million or 2.9% when compared to 2015, as detailed below:

- The non-cash pension expense decreased by $52 million or 8.5% in 2016 mainly due to strong returns on plan assets experienced in 2015.
- The non-cash post-employment health benefits expense decreased by $31 million or 20.4%, mainly due to plan amendments as a result of union negotiations.
- Other post-employment and other long-term benefit expenses increased by $40 million or 47.2%, mainly due to changes in actuarial assumptions including discount rate changes and updates to other demographic assumptions.
- The benefits expense for active employees and other decreased by $3 million or 0.5% in 2016, when compared to 2015, primarily due to the decrease in the vision care coverage. This impact was anticipated as 2016 represents the second year of the four year vision care coverage cycle for all management employees as well as employees of the Canadian Union of Postal Workers and the Canadian Postmasters and Assistants Association.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs remained stable when compared to 2015, with a small increase of $1 million or 0.1% in 2016.

Property, facilities and maintenance

The cost of facilities remained relatively unchanged for 2016 when compared to 2015.

Selling, administrative and other

Selling, administrative and other expenses decreased by $76 million or 13.6% for 2016 when compared to 2015, mainly due to lower program expenses as a result of the suspension of the Five-point Action Plan.

Depreciation and amortization

The depreciation and amortization expense decreased by $10 million to $249 million, or by 4.0% compared to 2015. This decrease was primarily the result of fully depreciated short-lived technology assets.

8.5 Purolator segment

The Purolator segment contributed $67 million to the 2016 consolidated profit before tax, an increase of $11 million when compared to 2015.

Purolator summary

(in millions of dollars)	2016	2015	Change	%
Revenue from operations	1,528	1,542	(14)	(1.0)
Cost of operations	1,459	1,485	(26)	(1.8)
Profit from operations	**69**	**57**	**12**	**20.5**
Investing and financing income (expense), net	(2)	(1)	(1)	(81.3)
Profit before tax	**67**	**56**	**11**	**19.3**

Revenue from operations

Revenue from operations decreased by $14 million or 1.0% in 2016 compared to 2015, primarily driven by reduced fuel surcharge revenue, offset by increased courier and freight volumes.

Cost of operations

Total labour costs

Labour costs were $759 million in 2016, an increase of $24 million or 3.3% than 2015, mainly due to wage increases and increased volumes offset by productivity improvements.

Total non-labour costs

Non-labour costs were $700 million in 2016, a decrease of $50 million or 6.8% when compared to 2015, mostly due to lower costs for air transportation and information technology, as well as lower selling and administrative expenses.

8.6 Logistics segment – SCI Group

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

Logistics summary

(in millions of dollars)	2016	2015	Change	%
Revenue from operations	259	262	(3)	(1.1)
Cost of operations	239	242	(3)	(1.1)
Profit from operations	**20**	**20**	–	(1.7)
Investing and financing income (expense), net	–	–	–	–
Profit before tax	**20**	**20**	**–**	**(1.1)**

SCI Group

SCI's financial performance remained stable in 2016 when compared to 2015, with profit before tax of $20 million.

Revenue from operations

Revenue from operations decreased by $3 million or 1.1% compared to 2015. The revenue decrease was driven mainly by lower volumes from certain clients.

Cost of operations

Total labour costs

Labour costs were $124 million in 2016, $4 million or 3.5% higher than 2015, mainly due to change in business mix.

Total non-labour costs

Non-labour cost were $115 million, a decrease of $7 million or 5.6% in 2016 when compared to 2015. This decrease was primarily due to lower volumes from certain clients.

8.7 Consolidated results to plan

While an interim 2017-2021 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the Government's review of Canada Post currently under way.

9 Critical Accounting Estimates, Adoption of New Accounting Standards and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2016 and future years

9.1 Critical accounting estimates

Our significant accounting policies are described in Note 3 to the consolidated financial statements page 92. The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from the estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Refer to notes 3 and 4 to the consolidated financial statements pages 92 and 98, respectively, for additional detail on significant accounting policies and critical accounting estimates and judgments.

Capital assets

Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets, and are provided in Note 3 to the consolidated financial statements page 92. The useful lives of capital assets are assessed annually for continued appropriateness. Due to the long lives of many of the assets, changes to the estimates of useful lives could result in a material impact to the consolidated financial statements.

At the end of each reporting period, capital assets with finite useful lives are assessed for any indication of impairment. If an indication of impairment exists, the Group of Companies determines the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Intangible assets included in capital assets, which are not yet available for use, are tested annually for impairment, even if no indication of impairment exists.

When necessary, determining the asset's fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. If future conditions were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Group of Companies could potentially experience future material impairment charges in respect of capital assets.

Goodwill

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events and circumstances indicate that there may be an impairment. Goodwill is tested by comparing the carrying value of a cash-generating unit to its estimated recoverable amount. The Purolator segment represents a significant portion of the goodwill balance in the consolidated statement of financial position. The estimated recoverable amount of this segment is based on its value in use, which is derived using a discounted cash flow analysis and requires making assumptions and estimates relating to future cash flows and discount rates.

The future cash flows of the Purolator segment are estimated using its approved plans. These plans reflect management's best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be able to control. Growth and profitability levels are compared to other competitors in the industry and general economic conditions prevailing at the valuation date. The discount rate applied to the future cash flows of the Purolator segment is based on its estimated weighted average cost of capital at the valuation date. A change in future cash flows or discount rates could have a significant impact on the outcome of the goodwill impairment test. For assumptions related to goodwill impairment testing, refer to Note 12 to the consolidated financial statements page 113.

Provisions and contingent liabilities

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

In determining whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability in the notes, management must exercise judgment and make various assumptions. Such judgments include whether or not the obligation is a present obligation or a possible obligation, whether it is probable that an outflow of resources will be required to settle the obligation and whether a reliable estimate of the obligation can be made. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood of outflows, the timing of outflows, and the discount rate to use. Should the actual amount or timing of the outflows deviate from the assumptions made by management, there could be a significant impact on the consolidated results of operation, financial position and liquidity. Further information on the Group of Companies' provisions and contingent liabilities are provided in notes 14, 15 and 16 to the consolidated financial statements pages 114 and 115.

Pension, other post-employment benefits and other long-term benefit plans

The Canada Post Group of Companies sponsors plans that provide pension, other post-employment and other long-term benefits for the majority of its employees. The Group of Companies believes the accounting estimates below, used to measure its employee defined benefits plans, are critical accounting estimates because the amounts are based on complex actuarial calculations using several assumptions and, given the magnitude of these estimates, differences in actual results or changes in assumptions could materially affect the consolidated financial statements.

Assumptions

Due to the long-term nature of these defined benefit plans, the calculation of defined benefit expenses and defined benefit obligations depends on various assumptions. These assumptions bear the risk of change as they require significant judgment and have inherent uncertainties that management may not be able to control. The assumptions are determined by management and are reviewed by the Canada Post Group of Companies' actuaries. Below are descriptions of the significant assumptions used:

- **Discount rates –** The Canada Post Group of Companies' discount rate assumptions, which are set annually at the measurement date, are used to determine the present value of the defined benefit obligations at the end of the year and the defined benefit expense for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality corporate debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for the defined benefit plans as they become due. The actuaries calculate the discount rates using a yield curve approach, which is based on pricing and yield information for a theoretic portfolio of corporate bonds with a cash flow pattern that resembles that of the plan being valued. The selected discount rate is the yield on that theoretical portfolio. The actuaries determine the future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.
- **Medical costs –** The medical costs assumptions are used in the measurement of certain non-pension defined benefit plans. The claims cost assumption used is derived from actual claims experience. Other assumptions such as health trend factors or provincial coverage are supported by third-party studies.
- **Mortality assumptions –** The mortality rates used to determine the majority of the defined benefit obligations are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners' Mortality (CPM) dated February 2014, more specifically the CPM 2014 Public Sector Mortality Table with the CPM improvement scale B. Mortality tables represent the probability of death within a year for plan members of various ages.
- **Consumer price index –** The consumer price index assumption is used in the measurement of the defined benefit obligations for pension benefit plans and some of the other non-pension benefit plans. This assumption is based on long-term expected rates of inflation derived from market yields on long-term nominal government bonds and real return bonds. The consumer price index also has an impact on the long-term rates of compensation increase.

As a result of applying these actuarial assumptions, remeasurement gains or losses on the defined benefit plans arise from the difference between actual and expected experience and changes in the actuarial assumptions. For pension and other post-employment benefit plans, remeasurement gains or losses are recognized in other comprehensive income or loss and are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. For the other long-term benefit plans, the actuarial gains or losses are recognized in net profit or loss.

Notes 10 (e) and (f) to the consolidated financial statements include the remeasurement and actuarial gains or losses components recognized in the statement of comprehensive income.

Sensitivity to assumptions – Canada Post segment

The defined benefit obligation and associated defined benefit expense are sensitive to actuarial assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status.

Sensitivity to changes in significant assumptions for the Corporation's principal pension plan follows:

(in millions of dollars)	Annual pension expense	Defined pension obligation
Discount rate sensitivity		
0.5% increase in discount rates	(147)	(1,924)
0.5% decrease in discount rates	143	2,093
Consumer price index sensitivity		
0.25% increase in consumer price index	64	869
0.25% decrease in consumer price index	(62)	(840)
Mortality tables sensitivity		
10% increase in mortality tables	(31)	(491)
10% decrease in mortality tables	31	501

The Corporation's principal health care plan is sensitive to the following assumptions:

(in millions of dollars)	Annual health care expense	Defined health care obligation
Discount rate sensitivity		
0.5% increase in discount rates	(2)	(183)
0.5% decrease in discount rates	2	208
Health care cost trend rates sensitivity		
1% increase in health care cost trend rates	32	464
1% decrease in health care cost trend rates	(24)	(359)
Mortality tables sensitivity		
10% increase in mortality tables	(4)	(74)
10% decrease in mortality tables	4	84

For complete details on the pension, other post-employment and other long-term benefit plans for the Group of Companies, see Note 10 to the consolidated financial statements beginning page 104.

Income taxes

The Group of Companies is subject to income tax in numerous jurisdictions and significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of the additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities are composed of temporary differences between the carrying values and the tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of the temporary differences may take many years, and the related deferred tax is calculated using the tax rate substantively enacted for the period of reversal that is applied to the temporary difference. The carrying values of these deferred tax balances are based on the amounts of assets and liabilities recorded in the consolidated financial statements and, therefore, are subject to accounting estimates that are inherent in those balances. The Group of Companies has significant deductible temporary differences and related deferred tax assets. See Note 11 to the consolidated financial statements page 112.

The tax bases of assets and liabilities as well as tax losses carried forward, if any, are computed based on the applicable income tax legislation, regulations and interpretations, all of which, in turn, are subject to interpretation. In computing deferred tax assets and deferred tax liabilities, assumptions are made about their respective timing of reversal and future results of operations. These assumptions also affect classification between current tax expense or current tax income and deferred tax expense or deferred tax income. It is reasonable to expect that the composition of deferred tax assets and deferred tax liabilities may change from period to period because of the significance of these uncertainties. If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred tax adjustments would neither result in an immediate cash outflow nor affect the Group of Companies' immediate liquidity.

9.2 Adoption of new accounting standards

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2016. The following amendments, were adopted by the Group of Companies January 1, 2016.

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The adoption of these amendments had no impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments were as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. The adoption of these annual improvements had no impact on the Corporation's consolidated financial statements.

Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • The IASB issued amendments to IAS 1 that provide guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The adoption of these amendments had a minimal impact on the Corporation's consolidated financial statements, such as the geography of certain financial statement notes.

9.3 Accounting policy developments

The following table presents the not-yet-effective standards and amendments issued by the IASB that have not been early adopted at the end of the reporting period and that have been assessed as having a possible effect on the consolidated financial statements of the Group of Companies in the future. The Group of Companies will continue to monitor any additional changes required or available (through early adoption where permitted) during 2017, as new or amended standards are issued by the IASB.

Standard or amendment	Effective for annual periods beginning on or after
Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows"	January 1, 2017
Annual Improvements to IFRS – 2014-2016 Cycle	January 1, 2017
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019

(a) **Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) •** The IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). IAS 7 is to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. Although there will be no change to the Consolidated Financial Statements, a reconciliation of liabilities arising from financing activities will be disclosed.

(b) Annual Improvements to IFRS – 2014-2016 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2014-2016 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" deletes short-term exemptions for first-time adopters; IFRS 12 "Disclosure of Interests in Other Entities" clarifies the scope of the standard by specifying that the disclosure requirements, except those in certain paragraphs, apply to an entity's interests that are classified as held for sale, held for distribution or discontinued operations; IAS 28 "Investments in Associates and Joint Ventures" clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or another qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments for IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendment to IFRS 12 is effective for annual periods beginning on or after January 1, 2017. The Group of Companies is not expecting any impact from adopting these amendments.

(c) IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized. IFRS 15 was amended by the IASB in the current year to provide for a one-year deferral in the effective date. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2018, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted. The Group of Companies will not be early adopting IFRS 15. The Group of Companies has started to review the impact of implementing IFRS 15, however, the extent of the impact has not yet been determined.

(d) IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Group of Companies will not be early adopting IFRS 9. The Group of Companies has started to review the impact of implementing IFRS 9, however, the extent of the impact has not yet been determined.

(e) IFRIC 22 "Foreign Currency Transactions and Advance Consideration" • This IFRIC clarifies the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. This interpretation is to be applied retrospectively or prospectively for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Group of Companies is not expecting any impact from adopting this interpretation.

(f) IFRS 16 "Leases" (IFRS 16) • the IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 "Leases" (IAS 17), and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Early application is permitted, but only if IFRS 15 has also been adopted. The Group of Companies will not be early adopting IFRS 16. The Group of Companies has started to review the impact of implementing IFRS 16, however it is not yet possible to make a reliable estimate of the impact of the new standard on the Consolidated Financial Statements. The Group of Companies is required to implement significant changes to systems and processes to collect data required to calculate balances for lease assets and liabilities. Given the numerous operating leases where the Group of Companies is the lessee, the impact on the statement of financial position is expected to be significant. We expect to report more detailed information, including estimated quantitative financial effects during 2018.

10 Outlook for 2017

Our prospects for 2017

10.1 Economic outlook

Global economic growth remained slow in 2016 due to several factors including a weaker than expected U.S. economy, a continued Chinese slowdown and the United Kingdom's surprising vote to exit the European Union (EU). Some recovery is expected in 2017, however, a high level of uncertainty remains regarding economic policies of the new U.S. administration, the impacts of the United Kingdom's move to break with the EU and expected interest rate increases in some major economies. While expected to strengthen in 2017, the World Bank now forecasts global economic growth to once again remain below 3%.

Canada's economic growth finished 2016 at 1.4%, well below 2% for the second year in a row after a slow start culminating in a contraction of 1.3% in the second quarter due largely to oil production shortages related to the Alberta wildfires. A dollar that is expected to remain near US$0.75 for at least the next two years and increased fiscal stimulus of both Canadian and U.S. economies will move growth closer to 2% in 2017 and 2018. Growth will likely be driven by non-resource sectors as low-cost competition restrains investment in Canadian oil production. There is considerable risk in this forecast. A significant rise in interest rates in the U.S. would exert further downward pressure on the Canadian dollar, which could dampen domestic spending and the growth of the e-commerce market that fuels our Parcels business growth. The uncertain pace of economic recovery will also continue to have an adverse impact on the rate of mail volume erosion.

After falling sharply in 2015, inflation, as measured by the consumer price index (CPI), rose slowly during 2016 and finished the year at 1.4%. Economists expect both core and total CPI to return to the target level of 2% by the end of 2017.

Long-term bond rates in the U.S. jumped significantly after the presidential election, and Canada's rates followed suit. This is expected to be a one-time adjustment; Canada's 30-year bond rate is not forecasted to return to 3% until after 2018. Continued low long-term rates will maintain pressure on Canada Post's pension liability past the end of the period of relief from solvency deficit payments.

Housing starts are expected to continue to add an average of almost 180,000 addresses to Canada Post's network per year, increasing the cost pressure on delivery operations and accentuating the need to control costs and remain competitive in a growing e-commerce parcels market.

	2016	**2017**	**2018**	**2019**	**2020**
Economic (% change)					
Real gross domestic product (GDP)	1.4	2.0	2.0	1.5	1.4
Inflation (consumer price index [CPI])	1.4	2.2	2.1	2.0	2.0
Demographic (% change)					
Total population growth	1.1	1.0	1.0	1.0	0.9
Household growth	1.2	1.1	1.1	1.0	1.1

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, the Canada Mortgage and Housing Corporation and the Bank of Canada. Population growth is from Statistics Canada projections.

10.2 Canada Post Group of Companies outlook

Canada Post segment

Our Parcels line of business is expected to continue to grow strongly in 2017, as we continue to benefit from our strategies and solidify our leadership in the e-commerce business-to-consumer delivery space. However, the parcel market is highly competitive. It will be crucial for us to remain focused on being customer-centric, cost-competitive, innovative and operationally flexible in order to keep achieving positive results. Continuing to succeed in the parcel business will be vital to the future of Canada Post.

As the Corporation continues to evolve from a mail-centric to a parcel-centric business, it must prepare for the increasing globalization of e-commerce. Canada Post will make investments to remain competitive by addressing the requirements of the logistics network as well as investing in operating tools, equipment, processes and infrastructure to improve capacity issues that will drive improvements in costs, service, and health and safety.

The Direct Marketing line of business, which generates about $1.1 billion or about 19% of Canada Post's revenue, continues to present a challenge, but there is an opportunity for growth. Direct mail holds the unique advantage over other advertising media of putting a company's message directly into the hands of prospective customers. As technology is changing how consumers interact with retailers, marketers and their clients are looking for new ways to stand out in the competitive digital marketing space. Canada Post sees growth potential in direct marketing as a smart complement to digital advertising and will continue to create new product offerings that are better targeted and more personalized.

Four of our collective agreements expire in the next two years and one has already expired. Accordingly, we will continue to work, in 2017 and beyond, with all bargaining agents to ensure a shared understanding of the Corporation's structural challenges. Our goal is to reach settlements that balance employee expectations and cost competitiveness. Negotiations are under way with the Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE). The collective agreements with both bargaining units of the Canadian Union of Postal Workers (CUPW-UPO and CUPW-RSMC) expire January 31, 2018, and December 31, 2017, respectively. The collective agreement with the Association of Postal Officials of Canada (APOC) expires March 31, 2018, and the agreement with the Canadian Postmasters and Assistants Association (CPAA) expires December 31, 2018. Although we ratified new agreements in 2016 with the CUPW bargaining units, the main constraints faced by the Corporation, namely the growing pension obligations and the need for operational flexibilities and cost competitiveness were not addressed. Future negotiations will play an important role in our ability to achieve financial self-sustainability in the medium and the long term.

Lettermail™ erosion is expected to continue in 2017, but the amount is difficult to predict and represents a significant risk to the Corporation. Past digital disruptions, such as moving from film to digital cameras or from compact discs to downloading and streaming music, have shown that volumes do not decline steadily and predictably. Rather, a point can be reached where they drop dramatically, often earlier than expected. We are working hard to address this challenge and ensure that we remain financially sustainable.

The Government of Canada began a review of Canada Post in May 2016 and is expected to announce its decision in the spring of 2017. The goal of the review is to make sure Canada Post provides the high-quality service that Canadians expect at a reasonable price. As part of the review, the government is expected to provide direction on the challenges presented by the Corporation's Registered Pension Plan (RPP). Pension obligations are substantial compared to the financial position and income of the Corporation, and fluctuations in investment returns, variations in discount rates and changes in other assumptions have caused considerable volatility. Deteriorations in RPP solvency could require payments that would easily exceed any increase in cash from corporate earnings or cost savings, and threaten the sustainability of the Corporation and the RPP. The Government of Canada introduced regulations in 2014 that provide relief to Canada Post from the need to make special payments to the RPP until 2018. Pending the outcome of the review, the Corporation is planning to resume special payments in 2018.

Purolator segment

In 2017, building upon its strong reputation and reliability, Purolator will continue to emphasize differentiation through customer experience, service quality and operational efficiency. Purolator will augment its efforts on profitable growth in high-value vertical segments and continually enhance service offerings adjacent to its core business, including cross-border and international trade. It will also focus on network, revenue management and technology initiatives that enhance overall efficiency, while continuing to strengthen and improve its business.

Logistics segment – SCI Group

In 2017, SCI will continue to focus on growing revenue and profit. This improvement will come from growth of contract logistics and transportation services within targeted verticals in Canada, and operational savings driven by continuous improvement initiatives. As well, SCI continues to work with Canada Post and Purolator on several initiatives that would capitalize on existing capabilities within the Group of Companies.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated)	**2016**	2015	2014	2013	2012[1]
OPERATIONS					
Revenue from operations	**7,880**	8,006	7,982	7,563	7,529
Cost of operations	**7,731**	7,837	7,683	7,756	7,635
Profit (loss) from operations	**149**	169	299	(193)	(106)
Percentage of revenue from operations	**1.9 %**	2.1 %	3.7 %	(2.6) %	(1.4) %
Investing and financing income (expense), net	**(35)**	(33)	(30)	135	(4)
Profit (loss) before tax	**114**	136	269	(58)	(110)
Tax expense (income)	**33**	37	71	(29)	(27)
Net profit (loss)	**81**	99	198	(29)	(83)
Other comprehensive income (loss)	**741**	788	(1,843)	2,279	(906)
Comprehensive income (loss)	**822**	887	(1,645)	2,250	(989)
Net profit (loss) attributable to					
Government of Canada	**78**	96	194	(32)	(85)
Non-controlling interests	**3**	3	4	3	2
	81	99	198	(29)	(83)
Comprehensive income (loss) attributable to					
Government of Canada	**820**	884	(1,644)	2,242	(985)
Non-controlling interests	**2**	3	(1)	8	(4)
	822	887	(1,645)	2,250	(989)
STATEMENT OF FINANCIAL POSITION					
Assets					
Current	**2,826**	2,505	2,260	1,915	1,704
Segregated securities	**523**	539	551	510	560
Capital assets	**2,789**	2,845	2,793	2,836	2,798
Pension benefit assets	**135**	157	141	177	83
Deferred tax assets	**1,384**	1,540	1,706	1,093	1,808
Other assets	**135**	134	133	136	141
Total assets	**7,792**	7,720	7,584	6,667	7,094
Liabilities and equity					
Current	**1,307**	1,356	1,413	1,521	1,554
Pension, other post-employment and other long-term benefit liabilities	**5,726**	6,398	7,037	4,382	7,007
Other liabilities	**1,063**	1,090	1,145	1,129	1,147
Non-controlling interests	**27**	27	24	26	19
Equity of Canada	**(331)**	(1,151)	(2,035)	(391)	(2,633)
Total liabilities and equity	**7,792**	7,720	7,584	6,667	7,094
ACQUISITION OF CAPITAL ASSETS					
Land and buildings	**40**	35	55	61	102
Other capital assets	**215**	339	238	312	510
	255	374	293	373	612

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

Historical Financial Information

	2016	**% Change**	2015	% Change	2014	% Change	2013	% Change	2012
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS[1] (unaudited, in millions of Canadian dollars unless otherwise indicated / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail	**2,754**	**(5.2) %**	2,905	0.1 %	2,902	7.9 %	2,688	(0.7) %	2,707
Outbound Letter-post (to other postal administrations)	**119**	**(9.5) %**	132	(9.5) %	145	(7.1) %	157	(12.4) %	179
Inbound Letter-post (from other postal administrations)	**164**	**7.7 %**	153	(2.2) %	156	30.1 %	120	(4.8) %	126
Canada Post segment	**3,037**	**(4.8) %**	3,190	(0.4) %	3,203	8.0 %	2,965	(1.6) %	3,012
Elimination of intersegment	**(3)**		(3)		(3)		(3)		(3)
Canada Post Group of Companies	**3,034**	**(4.8) %**	3,187	(0.4) %	3,200	8.0 %	2,962	(1.6) %	3,009
Parcels									
Domestic Parcels	**1,255**	**7.6 %**	1,167	10.7 %	1,054	8.7 %	969	7.6 %	901
Outbound Parcels (to other postal administrations)	**223**	**(2.5) %**	229	4.3 %	220	5.2 %	209	3.1 %	203
Inbound Parcels (from other postal administrations)	**241**	**3.0 %**	234	7.4 %	218	13.2 %	193	11.5 %	173
Total parcels	**1,719**	**5.5 %**	1,630	9.3 %	1,492	8.8 %	1,371	7.4 %	1,277
Other	**19**	**17.3 %**	16	(3.7) %	17	(6.0) %	18	(6.4) %	19
Canada Post segment	**1,738**	**5.6 %**	1,646	9.1 %	1,509	8.6 %	1,389	7.2 %	1,296
Purolator segment	**1,527**	**(0.7) %**	1,537	(8.7) %	1,683	3.7 %	1,623	(0.6) %	1,632
Logistics segment	**259**	**(1.1) %**	262	17.1 %	223	25.3 %	179	9.7 %	162
Elimination of intersegment	**(90)**		(110)		(138)		(117)		(127)
Canada Post Group of Companies	**3,434**	**3.0 %**	3,335	1.7 %	3,277	6.7 %	3,074	3.7 %	2,963
Direct Marketing									
Personalized Mail™	**534**	**(5.5) %**	565	(0.7) %	569	(2.8) %	586	(2.7) %	602
Neighbourhood Mail™	**390**	**(4.2) %**	407	2.7 %	397	(0.5) %	398	(1.7) %	405
Publications Mail™	**180**	**(8.6) %**	197	(7.3) %	212	(8.2) %	231	(4.1) %	241
Business Reply Mail™ and Other mail	**22**	**(6.1) %**	24	(4.0) %	25	(1.9) %	25	(8.2) %	28
Total mail	**1,126**	**(5.6) %**	1,193	(0.8) %	1,203	(3.0) %	1,240	(2.8) %	1,276
Other	**14**	**(1.9) %**	14	(8.4) %	16	32.8 %	12	(17.6) %	14
Canada Post segment / Group of Companies	**1,140**	**(5.6) %**	1,207	(0.9) %	1,219	(2.7) %	1,252	(2.9) %	1,290
Other revenue									
Canada Post segment	**271**	**(0.8) %**	273	(3.6) %	283	2.3 %	277	3.6 %	268
Purolator segment	**1**	**– %**	5	50.6 %	4	– %	0	– %	(0)
Innovapost and elimination of intercompany	**(0)**		(1)		(1)		(2)		(1)
Canada Post Group of Companies	**272**	**(2.0) %**	277	(2.8) %	286	3.6 %	275	3.7 %	267
Revenue from operations									
Canada Post segment	**6,186**	**(2.1) %**	6,316	1.7 %	6,214	5.6 %	5,883	0.3 %	5,866
Purolator segment	**1,528**	**(1.0) %**	1,542	(8.6) %	1,687	4.0 %	1,623	(0.5) %	1,632
Logistics segment	**259**	**(1.1) %**	262	17.1 %	223	25.3 %	179	9.7 %	162
Innovapost and elimination of intercompany	**(93)**		(114)		(142)		(122)		(131)
Canada Post Group of Companies	**7,880**	**(1.6) %**	8,006	0.3 %	7,982	5.5 %	7,563	0.4 %	7,529

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

Historical Financial Information

	2016	% Change	2015	% Change	2014	% Change	2013	% Change	2012
LINE OF BUSINESS DIMENSIONS									
VOLUME[1] (unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail	**3,169**	**(7.6) %**	3,430	(5.2) %	3,617	(5.4) %	3,824	(4.8) %	4,015
Outbound Letter-post (to other postal administrations)	**61**	**(11.5) %**	69	(11.9) %	79	(14.0) %	92	(18.1) %	112
Inbound Letter-post (from other postal administrations)	**175**	**(9.1) %**	192	(18.0) %	234	2.5 %	228	(7.5) %	247
Canada Post segment	**3,405**	**(7.8) %**	3,691	(6.1) %	3,930	(5.2) %	4,144	(5.3) %	4,374
Elimination of intersegment	**(3)**		(3)		(3)		(4)		(5)
Canada Post Group of Companies	**3,402**	**(7.8) %**	3,688	(6.0) %	3,927	(5.2) %	4,140	(5.2) %	4,369
Parcels									
Domestic Parcels	**144**	**9.0 %**	133	13.5 %	117	9.2 %	107	6.9 %	100
Outbound Parcels (to other postal administrations)	**11**	**(8.7) %**	11	2.8 %	11	2.0 %	11	(2.8) %	11
Inbound Parcels (from other postal administrations)	**40**	**8.4 %**	37	(0.4) %	37	(6.9) %	40	(5.6) %	42
Canada Post segment	**195**	**7.7 %**	181	9.7 %	165	4.6 %	158	2.8 %	153
Purolator segment	**122**	**1.0 %**	120	(9.1) %	133	(0.7) %	133	(3.6) %	139
Elimination of intersegment	**(4)**		(3)		(3)		(2)		(2)
Canada Post Group of Companies	**313**	**4.9 %**	298	1.2 %	295	1.9 %	289	(0.3) %	290
Direct Marketing									
Personalized Mail	**994**	**(7.1) %**	1,070	(3.1) %	1,105	(5.9) %	1,174	(6.3) %	1,252
Neighbourhood Mail	**3,362**	**(4.3) %**	3,514	2.3 %	3,434	(0.1) %	3,439	0.9 %	3,408
Publications Mail	**281**	**(9.6) %**	311	(10.1) %	346	(9.5) %	382	(6.3) %	409
Business Reply Mail and Other mail	**19**	**(11.5) %**	22	(3.8) %	22	(5.3) %	24	(11.6) %	27
Canada Post segment/ Group of Companies	**4,656**	**(5.3) %**	4,917	0.2 %	4,907	(2.2) %	5,019	(1.5) %	5,096
Total volume									
Canada Post segment	**8,256**	**(6.1) %**	8,789	(2.4) %	9,002	(3.4) %	9,321	(3.1) %	9,623
Purolator segment	**122**	**1.0 %**	120	(9.1) %	133	(0.7) %	133	(3.6) %	139
Elimination of intersegment	**(7)**		(6)		(6)		(6)		(7)
Canada Post Group of Companies	**8,371**	**(6.0) %**	8,903	(2.5) %	9,129	(3.4) %	9,448	(3.1) %	9,755
EMPLOYMENT[2]									
Canada Post segment	**50,711**	**0.7 %**	50,348	(2.0) %	51,365	(2.0) %	52,433	(4.1) %	54,668
Purolator segment	**10,304**	**(4.7) %**	10,814	(5.0) %	11,389	(2.1) %	11,633	(2.9) %	11,986
Logistics segment[3]	**1,800**	**1.2 %**	1,778	23.7 %	1,437	29.8 %	1,107	21.4 %	912
Innovapost business unit[4]	**897**	**(1.0) %**	906	3.1 %	879	8.8 %	808	13.5 %	712
Canada Post Group of Companies[3, 4]	**63,712**	**(0.2) %**	63,846	(1.9) %	65,070	(1.4) %	65,981	(3.4) %	68,278
MAIL NETWORK									
Post offices	**6,217**	**(0.6) %**	6,252	(0.7) %	6,296	(0.3) %	6,317	(1.0) %	6,380
Points of delivery (in thousands)	**16,006**	**1.2 %**	15,814	0.9 %	15,677	1.2 %	15,495	1.0 %	15,338
Pickup points (in thousands)[5]	**946**	**0.2 %**	944	2.0 %	925	(0.8) %	933	(1.3) %	946

1. Prior years' volumes may be restated due to realignments in the reporting structure.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.
3. In 2012, Logistics employee counts were restated to exclude casuals.
4. Innovapost employee count is included in the Canada Post Group of Companies, further to the acquisition of control over Innovapost in March 2012.
5. Includes rural mailboxes (RMBs), which are collection points for customers with this mode of delivery.

Additional Information

In 2009 the Government of Canada approved a five-year financial framework for the Corporation that sets out financial performance targets from 2010 to 2014. With the conversion to IFRS by all Canadian publicly accountable entities, a revised financial framework based on IFRS was approved as part of the Canada Post 2012-2016 Corporate Plan by the Governor in Council on March 12, 2012.

The following chart presents the financial ratios calculated in accordance with IFRS for five years from 2012 to 2016 under the revised financial framework:

Consolidated ratios (unaudited)		Financial framework	**2016**	2015	2014	2013	2012[*]
Profitability							
EBITDA margin[1]		5.0-7.5 %	**5.7 %**	6.1 %	7.9 %	3.8 %	3.2 %
Return on adjusted book equity[2]		0-5 %	**3.6 %**	4.7 %	10.3 %	(1.8) %	(4.6) %
Leverage							
Total debt to EBITDAR[3]		2.5-4.0 x	**3.4 x**	3.4 x	2.8 x	5.0 x	5.7 x
Total debt to adjusted book capital[4]		45-65 %	**47.6 %**	49.9 %	51.8 %	55.4 %	55.2 %
Liquidity							
(EBITDAR - capex) ÷ interest[5]		1.0-2.5 x	**3.7 x**	2.6 x	5.7 x	3.3 x	1.3 x
Dividend payout							
Dividend payout ratio[6]	2012	0-20 %					0.0 %
	2013-2016	15-20 %	**0.0 %**	0.0 %	0.0 %	0.0 %	

Based on IFRS

Ratio definitions

1. Earnings before interest, taxes, depreciation and amortization ÷ revenue
2. Net profit (loss) attributable to Government of Canada ÷ [(adjusted book equity[E] of Canada beginning of year + adjusted book equity[E] of Canada end of year) ÷ 2]
3. (Total debt + long-term financial obligations[A]) ÷ (earnings before interest, taxes, depreciation and amortization with adjustment for operating leases[B])
4. (Total debt + long-term financial obligations[A]) ÷ (total debt + long-term financial obligations[A] + adjusted book equity[E] of Canada)
5. (Earnings before interest, taxes, depreciation and amortization with adjustment for operating leases[B] - capex[C]) ÷ interest[D]
6. Dividend paid ÷ prior year net profit (loss)

Notes

A. Long-term financial obligations include decommissioning obligations, obligation to repurchase shares (Purolator) and capitalization of operating leases.
B. Operating leases are removed from earnings and capitalized using a factor of 7.0x.
C. Capex refers to estimated maintenance capital, which includes all capital purchases and finance leases, but excludes capital purchases for Postal Transformation.
D. Interest includes imputed interest on capitalized operating leases (calculated as 1/3 of lease expense).
E. Adjusted book equity is reported equity with the impact of other comprehensive income (loss) non-reclassifying items removed.

* The 2012 comparative figures were restated as a result of the adoption of new or revised IFRS in 2013, as issued by the IASB.

Auditor’s Report on Annual Cost Study Contribution Analysis

To the Board of Directors of Canada Post Corporation

We have audited the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information (together “the financial information”). We have also audited management’s assertion regarding whether the competitive grouping of services have been cross-subsidized using revenues from exclusive privilege services for the year ended December 31, 2016. The financial information has been prepared by management in accordance with the basis of preparation described in Note 1 to the financial information.

Management’s Responsibility for the Annual Cost Study Contribution Analysis

Management is responsible for the preparation of the financial information in accordance with the basis of preparation in Note 1 to the financial information and for the conclusion whether the competitive grouping of services has been cross-subsidized using revenues from exclusive privilege services. This includes determining that the basis of preparation is an acceptable basis for the preparation of the financial information in the circumstances. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion:

(a) the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2016 is prepared, in all material respects, in accordance with the basis of preparation described in Note 1 to the financial information; and

(b) Canada Post Corporation did not cross-subsidize its competitive services with revenues from exclusive privilege services, as defined in the Annual Cost Methodology described in Note 2, for the year ended December 31, 2016.

Basis of Accounting and Use

Without modifying our opinion, we draw attention to Note 1 to the financial information, which describes the basis of preparation for the financial information. The financial information is prepared to demonstrate, in accordance with the Annual Cost Methodology, that the competitive grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As a result, the financial information and management’s conclusion may not be suitable for another purpose.

Other Matters

We have not audited, reviewed or performed any procedures on the validity of the Annual Cost Methodology described in Note 2 to the financial information or on Canada Post Corporation’s operational systems and special studies that yield operational data used to allocate costs to products, and therefore, we do not provide any assurance on such matters.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 23, 2017
Ottawa, Canada

Annual Cost Study Contribution Analysis

Canada Post Corporation

The Annual Cost Study Contribution Analysis calculates the long-run incremental contribution from exclusive privilege services, competitive services, concessionary services and other services. The long-run incremental contribution is defined as the revenue from such services, less their long-run incremental cost.

Annual Cost Study Contribution Analysis

Year ended December 31, 2016
(in millions of Canadian dollars, unless otherwise indicated)

Long-run incremental contribution from exclusive privilege, competitive, concessionary and other services

The following analysis is based on the assignment of 62% of the total non-consolidated costs of Canada Post Corporation to individual services or groups of services.

	Exclusive privilege	Competitive	Concessionary	Other	**Total**
Revenue from operations	$ 3,278	$ 2,613	$ 24	$ 271	$ 6,186
Long-run incremental costs	(1,768)	(1,868)	(16)	(148)	(3,800)
Long-run incremental contribution	**$ 1,510**	**$ 745**	**$ 8**	**$ 123**	**$ 2,386**
Percentage of revenue	46 %	29 %	33 %	45 %	39 %
Unallocated fixed costs					$ (2,323)
Contribution before the undernoted items					**$ 63**
Investment and other income					36
Finance costs and other expense					(44)
Profit before tax — Canada Post segment					**$ 55**

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, 2016

1. Basis of Preparation

The Annual Cost Study Contribution Analysis provides costing data that serve as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services.

In conjunction with external experts, Canada Post Corporation maintains a costing methodology based on the principles of long-run incremental costs, which was designed to leverage the structure of an activity-based costing system. Canada Post Corporation applies this methodology each year in its Annual Cost Study Contribution Analysis for cost attribution purposes (Annual Cost Methodology).

The Annual Cost Methodology, which is summarized in Note 2, recognizes that some costs are caused by the provision of individual services or groups of services, while others are common costs of Canada Post Corporation's infrastructure.

Under the Annual Cost Methodology, a positive long-run incremental contribution from competitive services establishes that this grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As the Annual Cost Study Contribution Analysis indicates, the competitive grouping of services generated a positive long-run incremental contribution, and therefore, Canada Post Corporation did not cross-subsidize its competitive services using revenues protected by exclusive privilege for the year ended December 31, 2016.

2. Annual Cost Methodology

(a) **Long-run incremental cost** • The Annual Cost Methodology employed by Canada Post Corporation measures the long-run incremental cost of individual services and groups of services. Long-run incremental cost is the total annual cost caused by the provision of a service.

(b) **Activity-based** • Services provided by Canada Post Corporation are analyzed to determine the various activities involved in their fulfillment. Each activity is then analyzed to determine the causal relationship between the costs of the activity and the services that require the performance of that particular activity. Service volumes or other data are used to attribute those activity costs to services.

(c) **Attribution principles** • The relationship between the cost of resources and the activities performed, and the relationship between the activities performed and the services delivered are identified using the principles of causality and time horizon. Those activity costs, which are incurred because of the provision of a service, are attributed to that service. Activity costs that cannot be attributed to the provision of a service but are common to a specific group of services, are attributed at that higher level of aggregation. The remaining business-sustaining and common fixed costs are unallocated fixed costs.

(d) **Source data** • The source of the financial data used to produce the Annual Cost Study Contribution Analysis is the Canada Post Corporation general ledger revenues and costs. Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data are used to determine revenue by services. Where operational data are not available, an appropriate proxy is used to make the attribution.

(e) **Reconciliation with financial records** • Total revenues and costs considered in the Annual Cost Study Contribution Analysis are reconciled with the total revenues and expenses forming the Canada Post segment of the audited consolidated financial statements.

(f) **Cross-subsidization test** • Under the Annual Cost Methodology in the Annual Cost Study Contribution Analysis, a positive long-run incremental contribution (revenue exceeds long-run incremental cost) from a competitive grouping of services establishes that the grouping of services has not been cross-subsidized using revenues from other services or groups of services.

Management's Responsibility for Financial Reporting

Management is responsible for the consolidated financial statements and all other information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

In support of its responsibilities, management has established and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable financial information in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and regulations, by-laws of the Corporation, and Government of Canada directives. Internal audits examine and evaluate the application of the Corporation's policies and procedures and the adequacy of the system of internal controls.

The Board of Directors' Audit Committee acts on behalf of the Board in fulfilling its responsibilities, which are prescribed by Section 148 of the *Financial Administration Act*. The Audit Committee, consisting of five members who are independent in accordance with the Corporation's standards of independence, meets not less than four times a year, focusing on the areas of financial reporting, risk management and internal control. It is responsible for reviewing the consolidated financial statements and the Annual Report, and for meeting with management and internal and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues.

The Board of Directors, on the recommendation of the Audit Committee, approves the consolidated financial statements.

Canada Post Corporation is a Crown corporation included since 1989 in Part II of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and KPMG LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2016, in accordance with the *Financial Administration Act*. The Auditor General and KPMG LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as to the Minister of Public Services and Procurement.

President and Chief Executive Officer

Chief Financial Officer

March 23, 2017

Independent Auditors' Report

To the Minister of Public Services and Procurement

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Canada Post Corporation, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Post Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Post Corporation and its wholly-owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly-owned subsidiaries, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

Marise Bédard

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

March 23, 2017
Ottawa, Canada

KPMG LLP

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statement of Financial Position

As at December 31 (in millions of Canadian dollars)	Notes	2016	2015
Assets			
Current assets			
Cash and cash equivalents	6	$ 849	$ 775
Marketable securities	6	1,038	837
Trade and other receivables	19	829	790
Other assets	7	110	103
Total current assets		2,826	2,505
Non-current assets			
Property, plant and equipment	8	2,672	2,738
Intangible assets	8	117	107
Segregated securities	6	523	539
Pension benefit assets	10	135	157
Deferred tax assets	11	1,384	1,540
Goodwill	12	130	130
Other assets		5	4
Total non-current assets		4,966	5,215
Total assets		$ 7,792	$ 7,720
Liabilities and equity			
Current liabilities			
Trade and other payables	13	$ 548	$ 530
Salaries and benefits payable and related provisions	15	487	434
Provisions	14	70	65
Income tax payable		3	65
Deferred revenue		115	124
Loans and borrowings	17	22	76
Other long-term benefit liabilities	10	62	62
Total current liabilities		1,307	1,356
Non-current liabilities			
Loans and borrowings	17	1,037	1,059
Pension, other post-employment and other long-term benefit liabilities	10	5,726	6,398
Other liabilities		26	31
Total non-current liabilities		6,789	7,488
Total liabilities		8,096	8,844
Equity			
Contributed capital		1,155	1,155
Accumulated other comprehensive income		44	48
Accumulated deficit		(1,530)	(2,354)
Equity of Canada		(331)	(1,151)
Non-controlling interests		27	27
Total equity		(304)	(1,124)
Total liabilities and equity		$ 7,792	$ 7,720
Contingent liabilities	16		
Commitments	20		

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

Approved on behalf of the Board of Directors:

Chairperson of the Board of Directors

Chairperson of the Audit Committee

Consolidated Statement of Comprehensive Income

For the year ended December 31 (in millions of Canadian dollars)	**Notes**	**2016**	2015
Revenue from operations		**$ 7,880**	$ 8,006
Cost of operations			
Labour		**3,890**	3,838
Employee benefits	**9**	**1,414**	1,452
		5,304	5,290
Other operating costs	**21**	**2,120**	2,232
Depreciation and amortization	**8**	**307**	315
Total cost of operations		**7,731**	7,837
Profit from operations		**149**	169
Investing and financing income (expense)			
Investment and other income	**6, 22**	**11**	17
Finance costs and other expense	**17, 22**	**(46)**	(50)
Investing and financing expense, net		**(35)**	(33)
Profit before tax		**114**	136
Tax expense	**11**	**33**	37
Net profit		**$ 81**	$ 99
Other comprehensive income (loss)			
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of available-for-sale financial assets	**23**	**$ (4)**	$ (10)
Foreign currency translation adjustment	**23**	**–**	4
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans	**23**	**745**	794
Other comprehensive income		**741**	788
Comprehensive income		**$ 822**	$ 887
Net profit attributable to			
Government of Canada		**$ 78**	$ 96
Non-controlling interests		**3**	3
		$ 81	$ 99
Comprehensive income attributable to			
Government of Canada		**$ 820**	$ 884
Non-controlling interests		**2**	3
		$ 822	$ 887

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2016 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2015	**$ 1,155**	**$ 48**	**$ (2,354)**	**$ (1,151)**	**$ 27**	**$ (1,124)**
Net profit	**–**	**–**	**78**	**78**	**3**	**81**
Other comprehensive income (loss)	**–**	**(4)**	**746**	**742**	**(1)**	**741**
Comprehensive income (loss)	**–**	**(4)**	**824**	**820**	**2**	**822**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Balance at December 31, 2016	**$ 1,155**	**$ 44**	**$ (1,530)**	**$ (331)**	**$ 27**	**$ (304)**

For the year ended December 31, 2015 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2014	$ 1,155	$ 54	$ (3,244)	$ (2,035)	$ 24	$ (2,011)
Net profit	–	–	96	96	3	99
Other comprehensive income (loss)	–	(6)	794	788	–	788
Comprehensive income (loss)	–	(6)	890	884	3	887
Balance at December 31, 2015	$ 1,155	$ 48	$ (2,354)	$ (1,151)	$ 27	$ (1,124)

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

Consolidated Statement of Cash Flows

For the year ended December 31 (in millions of Canadian dollars)	**Notes**	**2016**	2015
Cash flows from operating activities			
Net profit		**$ 81**	$ 99
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**8**	**307**	315
Pension, other post-employment and other long-term benefit expense	**10**	**861**	905
Pension, other post-employment and other long-term benefit payments	**10**	**(518)**	(505)
Loss (gain) on sale of capital assets and assets held for sale	**22**	**4**	(3)
Tax expense	**11**	**33**	37
Net interest expense	**22**	**30**	36
Change in non-cash operating working capital:			
(Increase) decrease in trade and other receivables		**(37)**	7
Increase (decrease) in trade and other payables		**17**	(51)
Increase (decrease) in salaries and benefits payable and related provisions		**53**	(53)
Increase (decrease) in provisions		**5**	(6)
Net increase in other non-cash operating working capital		**(5)**	(15)
Other income not affecting cash, net		**(26)**	(34)
Cash provided by operations before interest and tax		**805**	732
Interest received		**35**	37
Interest paid		**(48)**	(51)
Tax paid		**(195)**	(123)
Cash provided by operating activities		**597**	595
Cash flows from investing activities			
Acquisition of securities		**(1,817)**	(1,548)
Proceeds from sale of securities		**1,626**	1,407
Acquisition of capital assets		**(253)**	(352)
Proceeds from sale of capital assets		**1**	14
Cash used in investing activities		**(443)**	(479)
Cash flows from financing activities			
Repayment of loans and borrowings		**(55)**	–
Payments on finance lease obligations		**(22)**	(22)
Dividend paid to non-controlling interests		**(2)**	–
Other financing activities, net		**(1)**	–
Cash used in financing activities		**(80)**	(22)
Net increase in cash and cash equivalents		**74**	94
Cash and cash equivalents, beginning of year		**775**	677
Effect of exchange rate changes on cash and cash equivalents		**–**	4
Cash and cash equivalents, end of year		**$ 849**	$ 775

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

Notes to Consolidated Financial Statements

December 31, 2016

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* in 1981, Canada Post Corporation (Corporation) is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty. The Corporation's head office is located at 2701 Riverside Drive, Ottawa, Ontario, Canada.

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the *Canada Post Corporation Act* requires the Corporation to carry out its statutory objects, with regard to the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.

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

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation September 1, 2005, while respecting all applicable laws. The Corporation's assessment of the safety risks related to rural roadside mailboxes was completed at the end of 2013, and applicable corrective measures were implemented over the course of the assessment, as required.

In December 2013, the Corporation was issued an order pursuant to section 89 of the *Financial Administration Act* to a) with respect to collective agreements that expire in 2014 or later, have its negotiating mandates approved by Treasury Board, and b) obtain Treasury Board approval before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council. On June 3, 2016, paragraph a) of this order was repealed such that Treasury Board approval of the Corporation's negotiating mandates is no longer required. Treasury Board approvals were obtained, where necessary.

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation is reviewing its travel, hospitality, conference and event expenditure policies, guidelines and practices to align them with those of the Treasury Board. The Corporation is also detailing business processes and system requirements for an overall solution that will optimize compliance with the travel directive, good governance and the efficiencies required to achieve the commercial and core mandate of the Corporation. Implementation of the directive is expected to be completed in 2017.

2. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates for Domestic Lettermail and U.S. and international Letter-post items as well as fees for certain services such as Domestic Registered Mail through regulations under the *Canada Post Corporation Act* (Act). These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray costs incurred by the Corporation in the conduct of its operations under the Act. The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to prepare a mailing in bulk or in a manner that facilitates its processing. Revenue from products and services charged to customers at regulated rates comprises 9% (2015 – 10%) of the Canada Post segment revenue (Note 25).

The Act requires that proposed changes to regulated rates be published in the *Canada Gazette* to provide interested persons with a reasonable opportunity to make representations to the Minister responsible for the Corporation. These representations are considered by the Corporation's Board of Directors when determining the final form of the proposed rate changes. Once approved by the Board of Directors, the regulations are submitted to the Minister responsible for Canada Post Corporation for approval by the Government of Canada, specifically the Governor in Council. Regulations are deemed approved 60 days after the Clerk of the Privy Council receives them for submission to the Governor in Council for consideration, unless the Governor in Council previously approved or refused to approve them.

In March 2014, the Government of Canada approved regulations that created a new rate structure under which stamps for letters weighing 0 to 30 grams that are sold in booklets, coils or panes are priced less than stamps sold individually. As well, increases to remaining regulated products for Domestic Lettermail products and U.S. and international Letter-post items were also approved and came into effect March 31, 2014. Since then, there has been no rate increases for Domestic Lettermail products and U.S. and international Letter-post items.

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for the mailing of materials for the blind. The Government of Canada provides compensation to the Corporation in respect of these services (Note 24 [a]).

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

3. Basis of Presentation and Significant Accounting Policies

Statement of compliance • The Corporation has prepared its consolidated financial statements in compliance with IFRS issued and effective as at the reporting date.

These consolidated financial statements were approved and authorized for issue by the Board of Directors March 23, 2017.

Basis of presentation • The consolidated financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes. Amounts are shown in millions, unless otherwise noted.

Functional and presentation currency • These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Corporation.

Significant accounting policies • A summary of the significant accounting policies used in these consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented, unless otherwise indicated.

(a) Basis of consolidation • These consolidated financial statements include the accounts of the Corporation and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Place of incorporation	Place of operation	Proportion of ownership interest held directly or indirectly	
				December 31, 2016	December 31, 2015
Purolator Holdings Ltd.	Transportation and courier services	Canada	Canada and United States	91 %	91 %
SCI Group Inc.	Logistics and transportation services	Canada	Canada	99 %	99 %
Innovapost Inc.	IS/IT services	Canada	Canada	98 %	98 %

(b) Financial instruments • Upon initial recognition, all financial assets are classified based on the nature and purpose of financial instruments, or designated by the Group of Companies as (i) financial assets at fair value through profit or loss, (ii) held to maturity investments, (iii) loans and receivables, or (iv) available-for-sale financial assets. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss, or (ii) other financial liabilities.

Financial instruments are initially recognized at fair value and subsequent measurement depends on the classification of the financial instrument. Financial assets are derecognized when rights to receive cash flows from assets have expired or have been transferred, and the Group of Companies has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Group of Companies' financial assets and financial liabilities are classified and subsequently measured as follows:

Financial instrument	Classification	Subsequent measurement
Cash and cash equivalents	Fair value through profit or loss	Fair value
Marketable securities	Fair value through profit or loss	Fair value
Segregated securities	Available for sale	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Risk management financial assets and liabilities	Fair value through profit or loss	Fair value
Trade and other payables	Other financial liabilities	Amortized cost
Salaries and benefits payable	Other financial liabilities	Amortized cost
Loans and borrowings	Other financial liabilities	Amortized cost

(b.1) Cash equivalents and marketable securities are managed on a fair value basis and their performance is actively monitored. Cash equivalents consist of investments with maturities of three months or less from the date of acquisition and are recognized at the settlement date. Marketable securities consist of investments with maturities of three to 12 months from the date of acquisition and are recognized at the settlement date. Changes in fair value are recognized as they occur. These investments are principally used to manage cash flow requirements, while maximizing return on investment.

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

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

(b.2) Segregated securities are intended to be held for an indefinite period of time and consist of investments that may be sold to fund specific restricted benefit plans (Note 6 [a]). These securities are recognized at the settlement date and changes in fair value are recognized as they occur. Interest income and realized gains and losses on sale of investments are included in employee benefit expense. Changes in fair value are included in other comprehensive income or loss until the investment is sold, impaired or otherwise derecognized.

The Corporation's investment policy restricts the type of investments to debt securities; therefore, impairment of segregated securities is recognized when there is a significant increase in counterparty credit risk. When segregated securities are impaired, the unrealized changes in fair value recorded in other comprehensive income or loss are reclassified to employee benefit expense recorded within net profit or loss. The cumulative loss that is removed from accumulated other comprehensive income or loss and recognized in employee benefit expense is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in employee benefit expense.

(b.3) Trade and other receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment. Where the time value of money is not significant due to short-term settlement, trade and other receivables are recorded at the original invoice amount, less allowances for doubtful accounts.

Trade and other receivables that are known to be uncollectible are written off when identified. An allowance for doubtful accounts is established when there is objective evidence that the Group of Companies will not be able to collect all amounts due according to the original terms of trade and other receivables. The amount of the allowance is the difference between the receivable's recorded amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.4) Risk management financial assets and liabilities are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will settle in future periods. These financial assets and liabilities are recognized at the trade date and are presented within either trade and other receivables or trade and other payables. Fair value adjustments are recognized as they occur in revenue from operations. These derivatives have not been designated as hedges for accounting purposes.

(b.5) Trade and other payables and salaries and benefits payable include financial liabilities as well as obligations created by statutory requirements imposed by governments, which are not financial liabilities. After initial recognition at fair value, other financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not significant due to short-term settlement, other financial liabilities are carried at payment or settlement amounts.

(b.6) Loans and borrowings are initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs and any discount or premium. Interest expense on loans and borrowings is recognized in finance costs and other expense.

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

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

Assets acquired under finance leases are initially recorded at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments, as determined at the inception of the lease.

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset.

When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

(c.2) Subsequent costs • The cost of replacing a part of a capital asset is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group of Companies and its cost can be measured reliably. The carrying amount of the replaced part is derecognized concurrent with the replacement. The costs of day-to-day servicing of capital assets are recognized in net profit or loss as incurred.

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

(c.3) Depreciation and amortization • Depreciation or amortization commences when assets are available for use and is calculated on the cost of an asset, less residual value. Depreciation and amortization are recognized over the estimated useful lives of capital assets, as described in the table below. When a capital asset includes major components, depreciation or amortization is recognized at this level; the depreciation or amortization periods noted below incorporate those applicable for major components, if any, contained within the overall asset.

Type of capital asset	Depreciation or amortization method	Depreciation or amortization period or rate
Buildings	Straight-line	10 to 65 years
Leasehold improvements	Straight-line	Shorter of lease term or the asset's economic useful life
Plant equipment	Straight-line	3 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 10 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

Capital assets held under finance leases are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group of Companies will obtain ownership by the end of the lease term.

The appropriateness of depreciation and amortization methods and estimates of useful lives and residual values is assessed on an annual basis and revised on a prospective basis, where appropriate.

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

(c.5) Impairment of capital assets • The Group of Companies assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of an asset or group of assets may be impaired. If such indication exists, or when annual impairment testing for an asset or group of assets is required, the Group of Companies makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets. When the carrying amount exceeds the recoverable amount, the asset or group of assets is considered impaired and is written down to its recoverable amount. For the purpose of assessing recoverability, capital assets are grouped at the cash-generating unit level, which is the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized as part of net profit or loss for the year. After the recognition of an impairment loss, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

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

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

(c.6) Capital assets to be disposed of by sale • When the Group of Companies intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in assets held for sale under current assets, provided that the asset is available for immediate sale in its present condition, subject only to customary terms and conditions. The asset to be sold is measured at the lower of its carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded once the held-for-sale classification is met. The impairment loss, if any, resulting from the remeasurement of an asset to fair value less costs to sell is recorded as a charge to net profit or loss. If subsequently the asset's fair value less costs to sell increases, the gain is recognized, however, only to the extent of cumulative impairment losses already recognized for that particular asset. The gain or loss on the sale of a capital asset held for sale is realized at the time the asset is disposed of by sale.

(d) Goodwill • Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually, as at the same date each year, or more frequently if events and circumstances indicate that there may be an impairment. Impairment losses recognized for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill arising on the acquisition of a business is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units to which it relates. An impairment loss is recognized when the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its estimated recoverable amount. The impairment loss is the excess of the carrying value over the estimated recoverable amount, and is recognized in net profit or loss in the period in which it is determined. The impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro-rata basis.

(e) Borrowing costs • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Any borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare for their intended use, are capitalized as part of the cost of those assets until such time as they are substantially ready for use. All other borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

(f) Provisions and contingent liabilities • A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation at the end of the reporting period. When there are a number of similar obligations, the likelihood that an outflow will be required in the settlement of obligations is determined by considering the class of obligations as a whole. Discounting, using a risk-free interest rate specific to the liability, is applied in the measurement of amounts to settle the obligation when the expected time to settlement extends over many years and, when coupled with the settlement amounts, would result in material differences if discounting was not considered. Provisions are remeasured at each reporting date using the current discount rate, as applicable. The accretion expense is presented in net profit or loss as part of finance costs and other expense.

A contingent liability is disclosed in the notes to the consolidated financial statements if there is a possible outflow of resources embodying economic benefits or if no reliable estimate can be made. No contingent liability is disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

(g) Revenue recognition • The Group of Companies' revenue is derived primarily from providing products and services represented by three distinct lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes physical delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Personalized Mail™, Neighbourhood Mail™ and Publications Mail™, such as newspapers and periodicals. Other revenue is derived from mail redirection, data products and services, philatelic products and other retail products and services such as money orders and postal box rentals.

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

Revenue is recognized when the service has been rendered, goods have been delivered or work has been completed. Revenue from meter customers for which services have not been rendered prior to year end is deferred based on a sampling methodology that closely reflects the meter-resetting practices of customers. Payments received in advance are deferred until services are rendered or products are delivered. Deferred revenue is also recorded when resellers are billed for postal product shipments prior to the Group of Companies' rendering of related services to customers.

The Group of Companies may enter into arrangements with subcontractors to provide services to customers. If the Group of Companies acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained, which is the amount billed to the customer less the amount paid to the subcontractor, is recognized as revenue.

Consideration given to a customer is recorded as a reduction of revenue, unless an identifiable and separable benefit is received by the Group of Companies, in which case the fair value of the benefit is recognized as an expense.

(h) Incentive and lease inducements • Lease inducements are deferred and are amortized on a straight-line basis over the initial fixed lease term. Amortization of incentives and lease inducements are presented as reductions of other operating costs. The current portion of any deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in non-current other liabilities.

(i) Pension, other post-employment and other long-term benefit plans

(i.1) Defined contribution pension plans • Employer contributions to the defined contribution pension plans are recognized as an expense when employees render the service entitling them to the contributions.

(i.2) Defined benefit pension and other post-employment plans • Obligations for providing defined benefit pension and other post-employment benefits are recognized over the period of employee service. Defined benefit obligations and related estimated costs are determined annually on an actuarial basis using the projected unit credit method. Actuarial calculations include actuarial assumptions about demographic and financial variables, such as the discount rates, inflation rate, rates of compensation increase, retirement age, growth rates of health care and dental costs, rates of employee disability and mortality tables.

Discount rates used to establish defined benefit obligations are determined by reference to market conditions at year-end using the yield curve approach, based on a theoretical portfolio of AA-rated corporate bonds with overall duration equal to the weighted-average duration of respective defined benefit obligations.

Components of defined benefit costs include service costs, net interest on the net defined benefit liability, and remeasurements of the net defined benefit liability.

The defined benefit expense is presented in employee benefits in net profit or loss on the consolidated statement of comprehensive income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on plan assets, interest on the effect of the asset ceiling, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. Current service cost, interest income on plan assets, interest cost and interest on the effect of the asset ceiling are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

Remeasurements of defined benefit plans are presented in other comprehensive income or loss on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return (net of costs of managing plan assets) and interest income on plan assets, and the change in the effect of the asset ceiling (net of interest), if applicable. Remeasurements are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. The plans' significant assumptions are assessed and revised, as appropriate.

When a funded plan gives rise to a pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the pension benefit asset and may create or increase a pension benefit liability. This assessment is made on a plan-by-plan basis.

The pension benefit assets and the pension and other post-employment benefit liabilities are presented as non-current items on the consolidated statement of financial position.

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

(i.3) Other long-term employee benefits • Other long-term employee benefits primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and the continuation of benefits for employees on long-term disability. The same methodology and assumptions as for post-employment benefit plans are applicable, except for the following:

- The obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs.
- Management's best estimate includes top-up credits utilization experience as well as the experience and assumptions for provincial workers' compensation boards.
- Any actuarial gains and losses on defined benefit obligations are recognized in net profit or loss in the period in which they arise.
- Other long-term benefit liabilities are segregated between current and non-current components on the consolidated statement of financial position.

(i.4) Termination benefits • Termination benefits result from a decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group of Companies recognizes termination benefits at the earliest of when it can no longer withdraw its termination offer or when restructuring costs are accrued if termination benefits are part of a restructuring plan.

(j) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between carrying values and tax bases of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Deferred tax assets and deferred tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each reporting period in the event of changes in income tax rates.

Scientific research and experimental development (SR&ED) tax credits are recorded as a reduction of the current cost of operations or property, plant and equipment, when there is reasonable assurance that the SR&ED tax credit will be realized.

(k) Foreign currency translation

(k.1) Subsidiaries • Items included in the consolidated financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operated (functional currency).

(k.2) Transactions and balances • Foreign currency transactions for each entity within the Canada Post Group of Companies are translated into Canadian dollars, the functional and presentation currency of the Corporation, using the exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at the period-end rate of exchange, of monetary assets and liabilities not denominated in the functional currency of the Corporation, are recognized in net profit or loss. Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period-end rates of exchange, and the results of their operations are translated at exchange rates on transaction dates. The resulting foreign currency translation adjustment is recognized in other comprehensive income or loss. Additionally, foreign exchange gains and losses related to intercompany loans that are permanent in nature are recognized in other comprehensive income or loss.

(l) Leases • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Group of Companies. A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the Group of Companies. All other leases are classified as operating leases.

Assets held under a finance lease are recognized as assets of the Group of Companies at their fair value at the inception of the lease or, if lower, at the present value of minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is recorded as a finance lease obligation included in loans and borrowings. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net profit or loss under finance costs and other expense.

Rent payable under operating leases is recognized in net profit or loss on a straight-line basis over the term of the respective lease.

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

(m) Segmented information

Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Other category includes the results of the support functions provided by the information technology business unit, Innovapost, under a shared services agreement between Canada Post, Purolator and Innovapost, as well as consolidation adjustments and intersegment balance eliminations.

The Canada Post segment provides transaction mail, parcel delivery services and direct marketing, as well as other products and services. The Purolator segment derives its revenues from specialized courier services. The Logistics segment, which is essentially composed of SCI, provides third-party logistics services in supply chain management and transportation services in the small to medium enterprise market.

4. Critical Accounting Estimates and Judgments

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis and further re-examined as at the reporting date. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period or in the period of revision and future periods if revisions affect both current and future periods.

(a) Critical judgments in applying accounting policies • The following are critical judgments, apart from those involving estimations (see [b] below), that management has made in the process of applying the Group of Companies' accounting policies and that have the most significant effects on amounts recognized in the consolidated financial statements.

(a.1) Capital assets • Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities • In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether the Group of Companies has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is remote.

(a.3) Leases – The Canada Post Group of Companies as lessee • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Group of Companies. Factors used by management in determining whether a lease is a finance or an operating lease include, but are not limited to, whether there is a transfer of ownership at the end of the lease term, whether the lease term is for the major part of the economic life of the leased asset and whether at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset.

(b) Key sources of estimation uncertainty • The following are key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next 12 months.

(b.1) Capital assets • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's best estimates of the periods of service provided by the assets, and are included in Note 3 (c.3). The appropriateness of useful lives of these assets is assessed annually. Changes to useful life estimates would affect future depreciation or amortization expenses and future carrying values of assets.

4. Critical Accounting Estimates and Judgments (continued)

Capital assets are tested for impairment as described in Note 3 (c.5). The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the consolidated financial statements, both in determining the existence of any impairment and in determining the amount of impairment.

(b.2) Goodwill • The Group of Companies tests annually, or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in Note 3 (d). Performing goodwill impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to Note 12.

(b.3) Deferred revenue • The Group of Companies estimates deferred revenue at the end of the reporting period relating to parcels deposited but not yet delivered, stamps distributed to dealers but not yet resold to customers, and meters filled but not yet used by customers. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by the Group of Companies. Estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively.

(b.4) Pension, other post-employment and other long-term benefit plans • Pension, other post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of the benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan, and the investment and funding decisions made. The significant actuarial assumptions used by the Group of Companies in measuring the benefit obligations and benefit costs are the discount rates, mortality tables, health care costs trend rates and inflation rate, which has an impact on the long-term rates of compensation increase. The Group of Companies consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For funded plans, assets are recognized only to the extent that the Group of Companies can realize future economic benefits from them. In establishing the economic benefit, the Group of Companies calculates gains resulting from a projected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In addition, to establish asset limit adjustments, it is assumed that a contribution holiday is taken whenever possible and that the Corporation intends to use additional relief in special contributions as permitted by legislation.

Funded plans for which the Canada Post Group of Companies has a unilateral right to the surplus are not subject to asset limit adjustment requirements.

For a description of the pension, other post-employment and other long-term benefit plans, and a sensitivity analysis of significant assumptions, see Note 10.

(b.5) Provisions • When it has been determined by management that the Group of Companies has a present legal or constructive obligation as a result of a past event, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Group of Companies intends to handle the obligation. The actual amount and timing of outflows may deviate from assumptions, and the difference might materially affect future consolidated financial statements, with a potentially adverse impact on the consolidated results of operations, financial position and liquidity.

4. Critical Accounting Estimates and Judgments (continued)

(b.6) Income taxes • The Group of Companies operates in many jurisdictions requiring calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amount that was initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such a determination is made.

Deferred tax assets and liabilities comprise temporary differences between carrying values and tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of temporary differences may take many years, and the related deferred tax is calculated using substantively enacted tax rates for the related period.

If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred income tax adjustments would not result in an immediate cash outflow, nor would they affect the Group of Companies' immediate liquidity.

5. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations adopted

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2016.

The following amendments, were adopted by the Group of Companies January 1, 2016.

Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. The adoption of these amendments had no impact on the Corporation's consolidated financial statements.

Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments were as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. The adoption of these annual improvements had no impact on the Corporation's consolidated financial statements.

Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • The IASB issued amendments to IAS 1 that provide guidance to help entities apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The adoption of these amendments had a minimal impact on the Corporation's consolidated financial statements, such as the geography of certain financial statements notes.

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

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

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

Disclosure Initiative – Amendments to IAS 7 "Statement of Cash Flows" (IAS 7) • The IASB issued amendments to IAS 7 requiring entities to provide disclosures about changes in their financing liabilities to assist readers in evaluating changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses). IAS 7 is to be applied prospectively for annual periods beginning on or after January 1, 2017. Early application is permitted. Although there will be no change to the Consolidated Financial Statements, a reconciliation of liabilities arising from financing activities will be disclosed.

Annual Improvements to IFRS – 2014-2016 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2014-2016 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" deletes short-term exemptions for first-time adopters; IFRS 12 "Disclosure of Interests in Other Entities" clarifies the scope of the standard by specifying that the disclosure requirements, except those in certain paragraphs, apply to an entity's interests that are classified as held for sale, held for distribution or discontinued operations; IAS 28 "Investments in Associates and Joint Ventures" clarifies that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or another qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition. The amendments for IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018. The amendment to IFRS 12 is effective for annual periods beginning on or after January 1, 2017. The Group of Companies is not expecting any impact from adopting these amendments.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2018, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted. The Group of Companies will not be early adopting IFRS 15. The Group of Companies has started to review the impact of implementing IFRS 15, however, the extent of the impact has not yet been determined.

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The Group of Companies will not be early adopting IFRS 9. The Group of Companies has started to review the impact of implementing IFRS 9, however, the extent of the impact has not yet been determined.

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" • This IFRIC clarifies the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. This interpretation is to be applied retrospectively or prospectively for annual periods beginning on or after January 1, 2018. Earlier application is permitted. The Group of Companies is not expecting any impact from adopting this interpretation.

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard will replace IAS 17 "Leases" (IAS 17), and it sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires recognition of assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the lease according to its classification. IFRS 16 is to be applied retrospectively, using either a full retrospective approach or a modified retrospective approach, for annual periods beginning on or after January 1, 2019. Early application is permitted, but only if IFRS 15 has also been adopted. The Group of Companies will not be early adopting IFRS 16. The Group of Companies has started to review the impact of implementing IFRS 16, however it is not yet possible to make a reliable estimate of the impact of the new standard on the Consolidated Financial Statements. The Group of Companies is required to implement significant changes to systems and processes to collect data required to calculate balances for lease assets and liabilities. Given the numerous operating leases where the Group of Companies is the lessee, the impact on the statement of financial position is expected to be significant. We expect to report more detailed information, including estimated quantitative financial effects during 2018.

(in millions of Canadian dollars, unless otherwise indicated)

6. Cash and Cash Equivalents, Marketable Securities and Segregated Securities

(a) Cash and cash equivalents, marketable securities and segregated securities consisted of the following:

As at December 31	2016		2015	
Cash and cash equivalents				
Cash	$ 713	84 %	$ 515	67 %
Money market instruments issued by				
Government of Canada	20	2 %	–	– %
Provincial governments	20	2 %	80	10 %
Financial institutions	58	7 %	10	1 %
Corporations	38	5 %	170	22 %
Total cash and cash equivalents	**$ 849**	**100 %**	$ 775	100 %
Marketable securities				
Money market instruments issued by				
Government of Canada	$ 161	15 %	$ 169	20 %
Provincial governments	350	34 %	308	37 %
Financial institutions	210	20 %	253	30 %
Corporations	317	31 %	107	13 %
Total marketable securities	**$ 1,038**	**100 %**	$ 837	100 %
Segregated securities				
Cash	$ 9	2 %	$ 7	1 %
Bonds issued by				
Government of Canada	111	21 %	116	22 %
Provincial governments	199	38 %	202	37 %
Corporations	204	39 %	214	40 %
Total segregated securities	**$ 523**	**100 %**	$ 539	100 %

The remaining term to maturity at December 31, 2016, is 12 months or less with the exception of segregated bond securities that, if held to maturity, have terms expiring over a 26-year period.

All money market instruments and bonds held as at December 31, 2016, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2016, was 0.8% for money market instruments (2015 – 0.8%) and 3.0% for bonds (2015 – 2.9%).

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

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $14 million (2015 – $13 million). Interest income and gains and losses on segregated securities amounted to $20 million (2015 – $29 million).

7. Other Current Assets

As at December 31	2016	2015
Income tax receivable	$ 18	$ 6
Prepaid expenses	90	94
Assets held for sale	2	3
Total other current assets	**$ 110**	$ 103

As at December 31, 2016, all of the properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

(in millions of Canadian dollars, unless otherwise indicated)

8. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2014	$ 313	$ 1,981	$ 263	$ 1,300	$ 480	$ 458	$ 879	$ 52	$ 5,726
Additions	2	33	12	30	48	16	116	82	339
Reclassified as held for sale	–	(3)	–	–	–	(9)	–	–	(12)
Retirements	–	(6)	(3)	(18)	(6)	(45)	(116)	–	(194)
Transfers	–	13	1	3	2	1	25	(45)	–
December 31, 2015	$ 315	$ 2,018	$ 273	$ 1,315	$ 524	$ 421	$ 904	$ 89	$ 5,859
Additions	–	40	13	30	30	23	9	60	205
Reclassified as held for sale	–	(4)	–	–	–	–	–	–	(4)
Retirements	–	(5)	(1)	(17)	(7)	(36)	(15)	–	(81)
Transfers	–	8	1	2	–	1	46	(58)	–
December 31, 2016	**$ 315**	**$ 2,057**	**$ 286**	**$ 1,330**	**$ 547**	**$ 409**	**$ 944**	**$ 91**	**$ 5,979**
Accumulated depreciation									
December 31, 2014	$ –	$ 960	$ 200	$ 699	$ 262	$ 374	$ 555	$ –	$ 3,050
Depreciation	–	60	13	79	49	30	39	–	270
Reclassified as held for sale	–	(2)	–	–	–	(8)	–	–	(10)
Retirements	–	(5)	(3)	(14)	(6)	(45)	(116)	–	(189)
December 31, 2015	$ –	$ 1,013	$ 210	$ 764	$ 305	$ 351	$ 478	$ –	$ 3,121
Depreciation	–	57	14	80	51	22	43	–	267
Reclassified as held for sale	–	(3)	–	–	–	–	–	–	(3)
Retirements	–	(4)	(1)	(17)	(7)	(35)	(14)	–	(78)
December 31, 2016	**$ –**	**$ 1,063**	**$ 223**	**$ 827**	**$ 349**	**$ 338**	**$ 507**	**$ –**	**$ 3,307**
Carrying amounts									
December 31, 2015	$ 315	$ 1,005	$ 63	$ 551	$ 219	$ 70	$ 426	$ 89	$ 2,738
December 31, 2016	**$ 315**	**$ 994**	**$ 63**	**$ 503**	**$ 198**	**$ 71**	**$ 437**	**$ 91**	**$ 2,672**

As at December 31, 2016, the Group of Companies held assets under finance leases in two asset classes: vehicles with net book value of $54 million (2015 – $75 million) and plant equipment with net book value of $4 million (2015 – $6 million).

(in millions of Canadian dollars, unless otherwise indicated)

8. Capital Assets (continued)

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2014	$ 657	$ 20	$ 30	$ 707
Additions	10	25	–	35
Retirements	(7)	–	–	(7)
Transfers	24	(24)	–	–
December 31, 2015	$ 684	$ 21	$ 30	$ 735
Additions	2	48	–	50
Retirements	–	–	(5)	(5)
Transfers	48	(48)	–	–
December 31, 2016	**$ 734**	**$ 21**	**$ 25**	**$ 780**
Accumulated amortization				
December 31, 2014	$ 563	$ 1	$ 26	$ 590
Amortization	44	–	1	45
Retirements	(6)	(1)	–	(7)
December 31, 2015	$ 601	$ –	$ 27	$ 628
Amortization	39	–	1	40
Retirements	–	–	(5)	(5)
December 31, 2016	**$ 640**	**$ –**	**$ 23**	**$ 663**
Carrying amounts				
December 31, 2015	$ 83	$ 21	$ 3	$ 107
December 31, 2016	**$ 94**	**$ 21**	**$ 2**	**$ 117**

9. Employee Benefits

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

For the year ended December 31	2016	2015
Active and other employee benefits	$ 573	$ 576
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	841	876
Employee benefits	**$ 1,414**	$ 1,452

10. Pension, Other Post-employment and Other Long-term Benefit Plans

(a) Characteristics of benefit plans

The Group of Companies has a number of funded and unfunded benefit plans that provide defined benefit pension plans, other post-employment and other long-term benefits for the majority of its employees, and also provides pension benefits to eligible employees through defined contribution plans. Certain new employees must join the defined contribution plans and are not eligible to join the defined benefit pension plans. The pension benefit plans are funded through contributions made to external trusts, and the other post-employment and other long-term benefit plans are unfunded. Unfunded plans are plans where benefits are paid directly by the employer. With funded plans, which are individually sponsored by each legal entity of the Group of Companies, funds are transferred to external trusts and the benefits are paid directly from these trusts.

Benefits provided under the most significant defined benefit pension plans are calculated based on length of pensionable service, pensionable salary and retirement age, or for certain employees, are based on negotiated benefit rates. These plans provide for a retirement pension, a survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plans and the retirement compensation arrangements, for benefits in excess of statutory limits as defined under the *Income Tax Act*. For the salaried plans, pension benefits in pay are indexed annually.

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

Both the employers' and, where applicable, the employees' contributions to the external trusts are made in accordance with the provisions of the plans. The contributions to the defined benefit plans are determined by actuarial valuations in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire. Each entity in the Group of Companies has a pension governance structure in place, which is overseen by the Board of Directors. The governance structure includes committees that provide expertise and support management in areas such as investments, administration and compensation. Committees are composed of elected, appointed and retired employees.

The most significant post-employment defined benefit plans, other than pension, include unfunded health care, as well as dental, life and death insurance plans. The benefit costs covered by the employer and the costs assumed by retirees, if any, are determined in accordance with the rules of each plan and the provisions of labour contracts.

Other long-term benefit plans primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and health, dental and life insurance coverage for employees receiving long-term disability benefits. Under short-term disability or injury-on-duty leave, eligible employees can use their unused balances from the former sick leave plan as top-up credits to supplement eligible employees' salary while on leave. The other long-term benefit costs covered by the employer and the costs assumed by employees, if any, are determined in accordance with the rules of each plan, the provisions of labour contracts and respective provincial worker's compensation legislation.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. The Corporation is a self-insured employer, responsible for workers' compensation benefits incurred since incorporation. The Corporation's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential future awards for accidents that occurred up to the measurement date. Workers' compensation benefits are provided according to the respective provincial workers' compensation legislation. Benefit entitlements in the three territories are based on the Alberta legislation.

(b) Risks associated with defined benefit plans

Funding risk
One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension funding obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. In February 2014, the Corporation received approval to reduce special contributions from 2014 to 2017. Additional details and risks associated with the funding relief are disclosed in Note 10 (i).

The most significant contributors to funding risk are the declines in solvency discount rates, investments failing to achieve expected returns, and non-economic factors like changes in member demographics. Changes to member demographics, such as an increase in life expectancies of plan members, also contribute to increasing the funding obligations, which increases the funding risk faced by plan sponsors.

The Group of Companies manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with individual investment policies and procedures and applicable legislation. Investment policies and procedures are designed to provide the pension plans with a long-term rate of return sufficient to assist the plans in meeting funding objectives and the ongoing growth of the pension funding obligations. A Statement of Investment Policies and Procedures (SIPP), addressing the manner in which the pension plan assets will be invested, is reviewed at least annually for significant plans. Under the current SIPP, it is recognized that it is not always desirable to have the investment portfolio exactly match the long-term asset target allocation. Therefore, minimum and maximum asset category limits have been established. For the most significant plans, asset-liability studies are conducted periodically to ensure that the pension plans' investment strategies remain appropriate in challenging economic environments. The investment strategies also incorporate a mix of return-generating and liability-matching investments. The portion of plan assets invested in liability-matching investments has characteristics that offset a portion of variation in the pension funding requirements.

Other risks
Plan assets are also subject to a variety of financial risks as a result of investment activities. These risks include credit risk, market risk (interest rate, currency and price risk) and liquidity risk arising from financial instruments. In addition, defined benefit obligations are subject to measurement uncertainty due to the use of significant actuarial assumptions (Note 10 [g]). The impact of these factors on the remeasurement of the pension benefit asset, and pension, other post-employment and other long-term benefit obligations can be significant and volatile (Note 10 [h]).

(in millions of Canadian dollars, unless otherwise indicated)

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

(c) Net defined benefit liability

A reconciliation of the net defined benefit liability of the defined benefit plans was as follows, including the present value of defined benefit plan obligations and the fair value of plan assets:

As at December 31		**2016**		2015
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 25,848	$ 3,640	$ 25,423	$ 3,577
Current service cost	489	106	513	112
Interest cost	1,052	151	1,014	145
Employee contributions	230	–	238	–
Benefits paid	(989)	(157)	(926)	(147)
Actuarial gains (Note 10 [f])	(130)	(97)	(414)	(47)
Gains from plan amendments	–	(31)	–	–
Balance, end of year	$ 26,500	$ 3,612	$ 25,848	$ 3,640
Fair value of plan assets				
Balance, beginning of year	$ 23,185	$ –	$ 22,039	$ –
Interest income on plan assets	942	–	876	–
Return on plan assets, excluding interest income on plan assets	755	–	623	–
Employer regular contributions	297	–	291	–
Employer special contributions	52	–	57	–
Employee contributions	230	–	238	–
Other administration costs	(13)	–	(13)	–
Benefits paid	(989)	–	(926)	–
Balance, end of year	$ 24,459	$ –	$ 23,185	$ –
Net defined benefit liability	**$ 2,041**	**$ 3,612**	$ 2,663	$ 3,640

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no resulting decrease in the pension benefit assets and no resulting increase in the pension benefit liabilities as at December 31, 2016, and 2015.

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

As at December 31		**2016**		2015
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	$ 2,663	$ 3,640	$ 3,384	$ 3,577
Remeasurements of defined benefit plans (Note 10 [e])	(885)	(108)	(1,037)	(21)
Benefits paid directly to beneficiaries	–	(157)	–	(147)
Employer regular contributions paid	(297)	–	(291)	–
Employer special contributions paid	(52)	–	(57)	–
Defined benefit expense (Note 10 [e])	612	237	664	231
Net defined benefit liability, end of the year	**$ 2,041**	**$ 3,612**	$ 2,663	$ 3,640

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

As at December 31	**2016**	2015
Pension benefit assets	**$ 135**	$ 157
Pension benefit liabilities	$ 2,176	$ 2,820
Other post-employment and other long-term benefit liabilities	3,612	3,640
Total pension, other post-employment and other long-term benefit liabilities	$ 5,788	$ 6,460
Current other long-term benefit liabilities	**$ 62**	$ 62
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 5,726**	$ 6,398

(in millions of Canadian dollars, unless otherwise indicated)

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

(d) Fair value measurement of plan assets

The fair value measurement of plan assets disaggregated by asset class and the fair value hierarchy described in Note 19 for the Group of Companies were as follows:

As at December 31, 2016

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

As at December 31, 2015

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 242	1 %	$ 114	1 %	$ –	– %	$ 356	2 %
Fixed income	49	– %	8,332	36 %	–	– %	8,381	36 %
Equities	11,478	50 %	14	– %	–	– %	11,492	50 %
Real estate	–	– %	–	– %	1,766	8 %	1,766	8 %
Private equity	–	– %	–	– %	641	3 %	641	3 %
Infrastructure	–	– %	–	– %	377	1 %	377	1 %
Derivatives	–	– %	(20)	– %	–	– %	(20)	– %
Other	–	– %	–	– %	–	– %	–	– %
Total investment assets	$ 11,769	51 %	$ 8,440	37 %	$ 2,784	12 %	$ 22,993	100 %
Non-investment assets less liabilities							$ 192	
Fair value of plan assets							$ 23,185	

Total plan assets included $2,688 million (2015 – $2,556 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $162 million (2015 – $158 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the non-investment assets less liabilities, which included the refundable taxes, approximated the carrying value.

The Group of Companies' pension plans do not own financial instruments or any other assets of the Group of Companies.

(in millions of Canadian dollars, unless otherwise indicated)

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

(e) Defined benefit and defined contribution costs

The defined benefit and defined contribution costs components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31			2016			2015
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 489	$ 106	$ 595	$ 513	$ 112	$ 625
Interest cost	1,052	151	1,203	1,014	145	1,159
Interest income on plan assets	(942)	–	(942)	(876)	–	(876)
Actuarial (gains) losses (Note 10 [f])[1]	–	11	11	–	(26)	(26)
Other administration costs	13	–	13	13	–	13
Gains from plan amendments	–	(31)	(31)	–	–	–
Defined benefit expense (Note 10 [c])	612	237	849	664	231	895
Defined contribution expense	12	–	12	10	–	10
Total expense	624	237	861	674	231	905
Return on segregated securities (Note 6b)	–	(20)	(20)	–	(29)	(29)
Component included in employee benefits expense (Note 9)	**$ 624**	**$ 217**	**$ 841**	$ 674	$ 202	$ 876
Remeasurement gains:						
Return on plan assets, excluding interest income on plan assets	$ (755)	$ –	$ (755)	$ (623)	$ –	$ (623)
Actuarial gains (Note10 [f])	(130)	(108)	(238)	(414)	(21)	(435)
Component included in other comprehensive income (Note 10 [c])	**$ (885)**	**$ (108)**	**$ (993)**	$ (1,037)	$ (21)	$ (1,058)

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

During the year, the Corporation concluded a new collective agreement with the Canadian Postmasters and Assistants Association. The new terms and conditions led to modifications of the post-employment health plan arrangement. For employees who retired after November 30, 2016, the cost of the medical portion of the post-employment health plan is shared equally between the employer and the employees. The resulting gain from the plan amendment of $44 million was recorded in net profit.

The Corporation also ratified a new collective agreement with employees represented by Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO). The new terms and conditions within the agreement led to modifications of the post-employment health plan arrangement. The resulting loss from the plan amendment of $13 million was recorded in net profit.

(in millions of Canadian dollars, unless otherwise indicated)

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

(f) Actuarial (gains) losses

The actuarial (gains) losses components recognized in the statement of comprehensive income were as follows:

For the year ended December 31		**2016**			2015	
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ –	$ 7	$ 7	$ –	$ (9)	$ (9)
Actuarial gains arising from changes in financial assumptions	–	(11)	(11)	–	(1)	(1)
Actuarial (gains) losses arising from experience adjustments	–	15	15	–	(16)	(16)
Actuarial (gains) losses included in net profit (Note10 [e])	**$ –**	**$ 11**	**$ 11**	$ –	$ (26)	$ (26)
Actuarial (gains) losses on defined benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ 521	$ (2)	$ 519	$ (8)	$ (1)	$ (9)
Actuarial gains arising from changes in financial assumptions	(510)	(108)	(618)	(286)	(102)	(388)
Actuarial (gains) losses arising from experience adjustments	(141)	2	(139)	(120)	82	(38)
Actuarial gains included in other comprehensive income (Note 10 [e])	**$ (130)**	**$ (108)**	**$ (238)**	$ (414)	$ (21)	$ (435)
Total actuarial gains (Note 10 [c])	**$ (130)**	**$ (97)**	**$ (227)**	$ (414)	$ (47)	$ (461)

(g) Significant actuarial assumptions

The weighted-average actuarial assumptions used in measuring the Group of Companies' significant defined benefit plans were as follows:

As at December 31		**2016**		2015
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate[1]	4.0 %	4.1 %	4.1 %	4.2 %
Consumer price index	2.0 %	2.0 %	2.25 %	2.25 %
Defined benefit expense:				
Discount rate[1]	4.1 %	4.2 %	4.0 %	4.1 %
Consumer price index	2.25 %	2.25 %	2.25 %	2.25 %
Health care cost trend rate[2]	N/A	5.3 %	N/A	5.4 %

1. For 2016, the methodology used to set the discount rate is based on the observed relationship between spreads relative to provincial bonds of AA and A-rated bonds at the mid-term of the yield curve. For 2015, the methodology used to set the discount rate is based on the observed spreads between the long AA-rated corporate bond yields and the long provincial bond yields.
2. For 2016, the health care cost trend rate was 5.3%, decreasing progressively to a rate of 4.5% by 2029. For 2015, the health care cost trend rate was 5.4%, decreasing progressively to a rate of 4.5% by 2029.

(in millions of Canadian dollars, unless otherwise indicated)

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

The average life expectancies used in the measurement[1] of the defined benefit obligations for the significant plans were as follows:

As at December 31	**2016**	2015
Life expectancy[1] at age 60 at December 31, 2016, and 2015 (in years):		
Males	27	27
Females	29	29
Life expectancy[1] at age 60 at December 31, 2036, and 2035 (in years):		
Males	29	28
Females	30	30

1. For 2016, the average life expectancies are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM), more specifically the CPM 2014 Public Sector Mortality Tables with the CPM improvement scale B. A new study of Canada Post pension plan experience was performed in 2016, the results of which show that the unadjusted tables give the best agreement with past experience. In 2015, the average life expectancies were based on the same tables with adjustments.

(h) Sensitivity analysis

The sensitivity analysis of the significant actuarial assumptions on the Group of Companies' defined benefit obligations was as follows:

As at December 31, 2016

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

As at December 31, 2015

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,003)	$ (282)	$ (2,285)
0.5% decrease in discount rates	$ 2,187	$ 320	$ 2,507
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 857	$ 35	$ 892
0.25% decrease in CPI	$ (828)	$ (33)	$ (861)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (489)	$ (67)	$ (556)
10% decrease in mortality tables	$ 499	$ 78	$ 577
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 467	$ 467
1% decrease in health care trend rates	N/A	$ (362)	$ (362)

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in amounts may not be linear. The sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining this sensitivity analysis are consistent with those used to determine the pension and other benefit plan obligations and with the methods used in 2015.

(in millions of Canadian dollars, unless otherwise indicated)

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

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

The weighted-average duration of the pension plans, other post-employment plans and other long-term employee benefit plan obligations for the Group of Companies ranges from 15 to 24, 14 to 18, and 5 to 8 years, respectively.

(i) Total cash payments and funding relief

Total cash payments for pension, other post-employment and other long-term benefits for the Group of Companies were as follows:

For the year ended December 31	**2016**	2015
Benefits paid directly to beneficiaries for other benefit plans	$ 157	$ 147
Employer regular contributions to pension benefit plans	297	291
Employer special contributions to pension benefit plans	52	57
Cash payments for defined benefit plans	506	495
Contributions to defined contribution plans	12	10
Total cash payments	**$ 518**	$ 505

Over the past few years, low solvency discount rates increased the pension plans' solvency obligations and deficits significantly. Changes to pension legislation were implemented by the Government of Canada providing Crown corporations with funding relief on special solvency contributions if certain conditions are met. Under the regulations in the *Pensions Benefits Standards Act, 1985*, the aggregate amount of the relief was limited to 15% of the fair value of plan assets.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations.* Under these regulations, the Corporation is exempt from making special contributions into its registered pension plan from 2014 to 2017. Temporary measures were implemented to address the Corporation's operational challenges and provided immediate relief on its capital resources. The Corporation continues to evaluate options in order to ensure the financial sustainability of its pension plan. The Corporation is expected to resume special contributions in 2018, at the end of the temporary relief period.

Without relief as outlined in the regulations under the *Pensions Benefits Standards Act, 1985* and the *Canada Post Corporation Pension Plan Funding Regulations* significant special contributions would have been required in 2016 as well as in 2017.

(j) Future expected contributions

In 2017, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $395 million, including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $271 million.

(in millions of Canadian dollars, unless otherwise indicated)

11. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*. The Corporation's subsidiaries are subject to federal and provincial income taxes.

The sources of the temporary differences giving rise to net deferred tax assets (liabilities), affecting net profit and other comprehensive income or loss (OCI), were as follows:

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

	December 31, 2014	Recognized in net profit	Recognized in OCI	December 31, 2015
Net deferred tax assets (liabilities)				
Capital assets	$ (53)	$ (5)	$ –	$ (58)
Salaries and benefits payable and related provisions	47	(10)	–	37
Pension, other post-employment and other long-term benefit liabilities	1,708	105	(264)	1,549
Other	2	5	3	10
Net deferred tax assets	$ 1,704	$ 95	$ (261)	$ 1,538

As presented in the consolidated statement of financial position:

As at December 31	**2016**	2015
Deferred tax assets	**$ 1,384**	$ 1,540
Deferred tax liabilities, included in non-current other liabilities	**2**	2
	$ 1,382	$ 1,538

Deferred tax liabilities have not been recognized for temporary differences associated with investments in subsidiaries as the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2016, was $262 million (2015 – $244 million).

The major components of tax expense were as follows:

For the year ended December 31	**2016**	2015
Current tax expense relating to		
Current tax expense	$ 128	$ 130
Adjustments for prior years	(4)	2
	124	132
Deferred tax expense (income) relating to		
Origination and reversal of temporary differences	(95)	(94)
Adjustments for prior years	4	(1)
	(91)	(95)
Tax expense	**$ 33**	$ 37

(in millions of Canadian dollars, unless otherwise indicated)

11. Income Taxes (continued)

The tax expense differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2015 – 25%) to profit before tax. The reasons for the differences were as follows:

For the year ended December 31	**2016**	2015
Profit before tax	$ 114	$ 136
Federal tax at Corporation's statutory rate	29	34
Subsidiaries' provincial tax less federal tax abatement	1	1
Effect of non-taxable portion of gain on sale of capital assets	–	(1)
Other	3	3
Tax expense	**$ 33**	$ 37

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2016 (2015 – 25%).

12. Goodwill

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

As at December 31			**2016**	2015
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning and end of the year	$ 121	$ 9	**$ 130**	$ 130

Goodwill impairment testing
Impairment testing for goodwill is carried out annually at the end of the third quarter for the Purolator and Logistics segments. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior year.

The calculation of the value in use for the Purolator segment, the only segment with a material balance, was based on the following assumptions:

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (2015 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 15% (2015 – 15%), which is based on Purolator's weighted-average cost of capital.

13. Trade and Other Payables

As at December 31	**2016**	2015
Trade payables	$ 117	$ 88
Accruals and other payables	264	276
Payables to foreign postal administrations	78	81
Outstanding money orders	20	23
Taxes payable	69	62
Total	**$ 548**	$ 530

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

(in millions of Canadian dollars, unless otherwise indicated)

14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2016:

	Claims	Other	Total
Balance at December 31, 2015	$ 46	$ 20	$ 66
Additional provisions recognized	17	29	46
Provisions used during the year	(10)	(23)	(33)
Reduction from remeasurement of provisions	(5)	(3)	(8)
Balance at December 31, 2016	**$ 48**	**$ 23**	**$ 71**
Current provisions	**$ 48**	**$ 22**	**$ 70**
Non-current provisions, included in non-current other liabilities	**$ –**	**$ 1**	**$ 1**

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

Other
The December 31, 2016, and 2015 balances for the other provisions category consist of a number of items, such as lease retirement obligations, tax provisions and other corporate provisions. A provision for severance is also included in this category and represents management's best estimate of the probable cash outflows related to severance payments. With the exception of lease retirement obligations, the timing of cash outflows relating to these items is current. The cash outflows relating to lease retirement obligations are expected to occur over the next eleven years.

Disclosures regarding contingent liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 16.

15. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. The following matters have evolved during the year:

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

(b) In October 2012, the Corporation received notice from the Canadian Human Rights Commission (Commission) that the Canadian Postmasters and Assistants Association (CPAA) had requested the reactivation of its pay equity complaint, originally filed in 1982. The report of the Commission's investigator, which was released December 8, 2014, found that pay equity issues for the period of 1991 to 1997 remained unresolved and the Commission thereafter referred this matter to the Tribunal without further investigation. Although the Corporation sought to have this matter dismissed for lack of evidence, both the Federal Court and the Tribunal determined that it move forward to its merits. The parties exchanged Statements of Particulars in late 2016 and are in the process of addressing the CPAA's additional disclosure requests.

(c) On September 1, 2016 Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender based wage gap exists for the rural and suburban mail carriers' female predominant occupational group or groups. The study will be coordinated by a committee made up of representatives from both Canada Post and CUPW. During the study, an analysis will be conducted to determine whether a wage gap exists under the *Human Rights Act*. If there is a wage gap, the two parties will endeavor to negotiate a resolution to the said wage gap. If the parties are unable to reach a mutually agreeable solution, the matter will be referred to binding arbitration. Any wage gap adjustment will be retroactive to January 1, 2016.

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

(in millions of Canadian dollars, unless otherwise indicated)

16. Contingent Liabilities

(a) The collective agreement that was signed in May 2007 between the Corporation and the Canadian Union of Postal Workers (CUPW) expired in January 2011. In response to rotating strikes across the country by CUPW and the lockout of employees by the Corporation, back-to-work legislation tabled by the Government of Canada received royal assent in June 2011. In October 2011, CUPW filed an application contesting the constitutionality of the legislation. Thereafter, new agreements were ratified and signed in December 2012.

CUPW's application was heard in October 2015. The court released its judgment April 28, 2016, and found that the back-to-work legislation was invalid. No other remedy was granted, financial or otherwise.

(b) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. A hearing on the application has not yet been scheduled, and the matter is currently held in abeyance pending the results of the independent review of Canada Post. The outcome of this challenge is currently not determinable, and as a result no provision has been recorded in the consolidated financial statements.

(c) In the normal course of business, the Group of Companies enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies its respective directors, officers and certain employees, either through corporate by-laws or indemnity agreements, against claims and expenses incurred by them as a result of serving as directors or officers of the Group of Companies or as directors or officers or in a similar capacity of another entity at the request of the Group of Companies.

These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(d) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, when an outflow of resources is probable, and amounts can be reasonably estimated.

(e) Some of the Corporation's owned buildings have asbestos-containing materials, which the Corporation would be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the consolidated financial statements as there is currently no obligation to remove and dispose of asbestos-containing materials.

The fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

17. Loans and Borrowings

As at December 31		**2016**		2015
	Fair value	**Carrying value**	Fair value	Carrying value
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,2]	$ 629	$ 498	$ 653	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2]	571	499	601	498
Non-redeemable bonds matured March 2016, interest at 10.35%, payable semi-annually on March 15 and September 15[2,3]	–	–	56	55
Finance lease obligations, maturing on various dates through 2022, net of implicit interest at rates varying from 2.4% to 4.1%[4]	62	62	84	84
Total loans and borrowings	**$ 1,262**	**$ 1,059**	$ 1,394	$ 1,135
Current loans and borrowings	**$ 22**	**$ 22**	$ 76	$ 76
Non-current loans and borrowings	**$ 1,240**	**$ 1,037**	$ 1,318	$ 1,059

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
3. There were no prepayment terms associated with this debt.
4. The leasing facility of a subsidiary, which allows for borrowings of up to $80 million to acquire capital assets, requires that, every quarter, the funded debt to income before interest, tax and amortization covenant ratio be equal to or less than 2.5:1. The subsidiary is in compliance with this covenant.

(in millions of Canadian dollars, unless otherwise indicated)

17. Loans and Borrowings (continued)

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

Interest expense on loans and borrowings amounted to $45 million (2015 – $50 million).

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

As at December 31	**2016**	2015
Maturity:		
2016	$ –	$ 55
2025	500	500
2040	500	500
	$ 1,000	$ 1,055

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

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

Finance lease obligations at December 31, 2015, were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 23	$ 2	$ 21
Later than one year and not later than five years	61	4	57
Later than five years	6	–	6
Finance lease obligations	$ 90	$ 6	$ 84
Current finance lease obligations	$ 23	$ 2	$ 21
Non-current finance lease obligations	$ 67	$ 4	$ 63

18. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* (Acts) and any directives issued pursuant to the Acts. The Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, while maintaining basic postal service and in carrying out its objectives, the Corporation must have regard for the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that meets the needs of the people of Canada.

The Corporation views capital as the sum of loans and borrowings, other liabilities (non-current) and equity of Canada. This definition of capital is used by management and may not be comparable to measures presented by other postal organizations or public companies.

The total outstanding loans and borrowings were $1,059 million at December 31, 2016, compared to $1,135 million at December 31, 2015. The decrease of $76 million in 2016 was due to repayment of non-redeemable bonds that matured in March 2016 and a decrease in finance lease obligations. Non-current other liabilities decreased by $5 million in 2016, primarily due to a decline in long-term deferred revenue. The increase in the equity of Canada was primarily attributable to the remeasurements of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit. The equity of Canada was in a deficit position of $331 million at December 31, 2016, compared to a deficit position of $1,151 million at December 31, 2015.

(in millions of Canadian dollars, unless otherwise indicated)

18. Capital Management (continued)

The Corporation's objectives in managing capital are as follows:

- Provide sufficient liquidity to support and repay its financial obligations and support its operating and strategic plans.
- Maintain financial capacity and access to credit facilities to support future development of the business.

These objectives and their related strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan, which is then forwarded for Governor-in-Council approval. While an interim 2017-2021 Corporate Plan was filed with the Minister responsible for Canada Post, it was not advanced for Governor-in-Council consideration in light of the Government's review of Canada Post currently under way.

The declaration, amount and payment of a dividend to the Government of Canada are subject to the Acts. The dividend is reviewed annually as the Corporation is required to submit a dividend proposal each year as part of its Corporate Plan. The Corporation indicated in the 2015-2019 Corporate Plan its intention not to pay a dividend in 2016. No dividend has been paid to the shareholder from 2009 to 2016.

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk arising from financial instruments in Note 19 (c). Pursuant to the *Financial Administration Act,* Part X, the Corporation must indicate its intention to borrow money in the annual Corporate Plan, or in an amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Governor in Council. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The Corporation's borrowing limit, other than from the Crown, is authorized pursuant to *Appropriation Act No. 4, 2009-10*. The *Canada Post Corporation Act* provides a maximum limit for borrowing from the Government of Canada's Consolidated Revenue Fund and for the establishment of a share capital structure, giving the Corporation the ability to raise funds through the issuance of shares to the Government of Canada and to the Corporation's employees. No such shares have been issued. Additional information regarding the Corporation's total authorized borrowing limit is disclosed in Note 19 (c).

The Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, subsidiaries must satisfy certain restrictive covenants related to funded debt to income before interest, tax and amortization, and interest coverage ratios. The subsidiaries are in compliance with all covenants.

19. Financial Instruments and Risk Management

Fair values of financial instruments

The following table provides the estimated fair values of financial instruments in accordance with the Group of Companies' accounting policies. Fair values are measured and disclosed based on a hierarchy described below that reflects the significance of inputs used in making these estimates.

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

As at December 31, 2015	Level 1[1]	Level 2[2]	Level 3[3]	Total
Assets measured at fair value				
Cash and cash equivalents	$ 515	$ 260	$ –	$ 775
Marketable securities	$ –	$ 837	$ –	$ 837
Segregated securities	$ –	$ 539	$ –	$ 539
Liabilities measured at fair value				
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	$ 1
Liabilities measured at amortized cost				
Loans and borrowings	$ –	$ 1,394	$ –	$ 1,394

1. Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
2. Level 2: Fair value is based on valuation techniques using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active. Financial assets and liabilities are measured by discounting future cash flows, making maximum use of directly or indirectly observable market data, such as interest rates with similar terms and characteristics and yield curves and forward market prices from interest rates and credit spreads of identical or similar instruments.
3. Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

19. Financial Instruments and Risk Management (continued)

There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2016.

The fair values of trade and other receivables, trade and other payables and salaries and benefits payable and related provisions approximate their carrying values due to their expected short-term settlement.

Financial risk factors

The Group of Companies' financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and commodity risk), credit risk and liquidity risk. Risk management for investment activities is carried out by the Corporate Treasury function under policies approved by the Board of Directors. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return, consistent with the investment policies approved by the Board of Directors. The Group of Companies has various other financial instruments, such as trade and other receivables, trade and other payables and salaries payable, which arise directly from operations. The Group of Companies enters into and trades derivatives to manage certain risks in accordance with its risk management policy. Derivatives are never purchased for speculative purposes.

Risk management strategies are likely to evolve in response to future conditions and circumstances, including the effects and consequences resulting from changes in the economic environment. These future strategies may not fully insulate the Group of Companies in the near term from adverse effects, the more significant of which relate to liquidity and capital resources as well as exposure to credit losses.

(a) Market risk

Market risk is the potential for loss that may arise from changes in external market factors, such as interest rates, foreign exchange rates and commodity prices.

(a.1) Interest rate risk • The Group of Companies' investments consist of cash and cash equivalents, marketable securities and segregated securities and are designated as fair value through profit or loss or available for sale. Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value for changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment liabilities to which they are externally restricted. The average duration in the segregated securities portfolio was 13 years as at December 31, 2016 (2015 – 13 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities and other comprehensive income or loss by $68 million at December 31, 2016 (2015 – $70 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. Substantially all of the Group of Companies' loans and borrowings have fixed interest rates with prepayment terms at a premium to fair value.

(a.2) Foreign exchange risk • Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro (€), British pound (£), Japanese yen (JP¥) and Chinese renminbi (CN¥) whereas payment is usually denominated in US$.

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the five currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures, where cash flows are highly probable. The forward contracts outstanding were as follows:

As at December 31, 2016

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

As at December 31, 2015

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$25	$ 34	$1.35/US$	January 14, 2016	Sell forward	$ (1)
Euro	€15	23	$1.49/€	January 15, 2016	Sell forward	–
British pound	£3	6	$2.06/£	January 15, 2016	Sell forward	–
Japanese yen	JP¥300	3	$0.011/ JP¥	January 15, 2016	Sell forward	–
Total		$ 66				$ (1)

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

For the year ended December 31		**2016**			2015	
	Foreign exchange gains (losses)	**Derivative gains**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (6)	$ 1	(5)	$ 8	$ –	$ 8
Realized	2	12	14	13	(16)	(3)
Total	**$ (4)**	**$ 13**	**9**	$ 21	$ (16)	$ 5

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2016, all other variables held constant, would have been an increase or decrease in net profit for the year by $11 million (2015 – $9 million).

(a.3) Commodity risk • The Group of Companies is inherently exposed to fuel-price increases. It partially mitigates this risk through the use of a fuel-price surcharge on some of its products. This is an industry-accepted practice and long-standing technique in mitigating risk and as a result, does not require derivative instruments to manage the remaining exposure to commodity risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations, resulting in financial loss to the Group of Companies. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards.

The carrying amount of financial assets recorded in the consolidated financial statements, which are to be presented net of impairment losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe that it is subject to any significant concentration of credit risk.

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

Credit risk arising from investments in cash and cash equivalents, marketable securities and segregated securities is mitigated by investing with issuers who meet specific criteria and imposing dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations must have minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service ratings of R-1 (middle) for short-term investments and A for long-term investments. The Group of Companies regularly reviews the credit ratings of issuers with whom the Group of Companies holds investments and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels. There was no impairment loss on investments recognized during the year (2015 – nil).

Credit risk associated with trade receivables from wholesale and commercial customers is mitigated by the Group of Companies' large customer base, which covers substantially all business sectors in Canada. The Group of Companies follows a program of individual customer credit evaluation based on financial strength and payment history, and limits the amount of credit extended when deemed necessary. The Group of Companies monitors customer accounts against these credit limits and the aging of past-due invoices. The Group of Companies establishes an allowance for doubtful accounts that reflects the estimated realizable value of trade receivables. General and specific provisions are estimated based on prior experience with, and the past-due status of, doubtful debtors, write-offs, customers' ability to pay and payment history. Despite continued weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with prior years. Weekly and ad hoc monitoring of aged receivables and the day's sales outstanding has indicated no significant change in the trend of the aging of receivables.

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service (USPS), is generally mitigated by corresponding trade payables to each foreign postal administration, under the provisions of the Universal Postal Union. Amounts receivable from and payable to the USPS are settled independently under the bilateral agreement between the Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics for weights and number of pieces exchanged by Canada and the United States. Final settlement with each foreign postal administration can be billed a year or more after the service is performed. The Corporation's provision for uncollectible receivables from specific foreign postal administrations is based on the past-due period after billing of the final settlement.

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

As at December 31	**2016**	2015[1]
Trade receivables:		
Current	$ 441	$ 408
1-15 days past due	89	83
16-30 days past due	32	36
Over 30 days past due	46	41
Allowance for doubtful accounts	(8)	(8)
Trade receivables – net	600	560
Trade receivables from foreign postal administrations	191	191
Other receivables	38	39
Trade and other receivables	**$ 829**	$ 790

1. Comparative amounts have been reclassified due to a realignment of receivables aging.

Impairment losses on trade and other receivables recognized during the year were $5 million (2015 – $5 million).

(c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

In February 2014, the Corporation received relief from making special contributions into its registered pension plan from 2014 to 2017 (Note 10 [i]). The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted for approval to the Governor in Council on the recommendation of the Minister responsible for Canada Post and the Minister of Finance, as part of its Corporate Plan approval process (Note 18). Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance. As part of the total authorized borrowing limit, a maximum of $100 million (2015 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2016.

The Corporation's loans and borrowings amounted to $997 million (2015 – $1,051 million), and letters of credit of $12 million (2015 – $12 million) were issued at December 31, 2016. No amounts were drawn on the short-term borrowing facilities as of December 31, 2016.

As at December 31, 2016, the Corporation's subsidiaries had access to financing facilities totalling $175 million (2015 – $220 million), of which $62 million (2015 – $84 million) was drawn at year-end. The subsidiaries also had letters of credit issued in the amount of $8 million (2015 – $7 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 17.

The following table details the Group of Companies' remaining contractual maturities for its financial liabilities. The amounts represent undiscounted cash flows of financial liabilities based on the earliest date on which the Group of Companies can be required to pay. The table includes both principal and interest cash flows.

As at December 31, 2016

	Effective interest rate	**Less than one year**	**Later than one year and not later than five years**	**Later than five years**	**Total**
Non-interest bearing[1]	N/A	$ 719	$ 1	$ –	$ 720
Bonds, Series 1	4.39 %	22	87	914	1,023
Bonds, Series 2	4.12 %	20	82	582	684
Finance lease obligations	2.4% – 5.5%	24	40	2	66
		$ 785	**$ 210**	**$ 1,498**	**$ 2,493**

As at December 31, 2015

	Effective interest rate	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	N/A	$ 686	$ 1	$ –	$ 687
Risk management liabilities	N/A	1	–	–	1
Bonds, Series 1	4.39 %	22	87	936	1,045
Bonds, Series 2	4.12 %	20	82	602	704
Non-redeemable bonds	10.6 %	58	–	–	58
Finance lease obligations	2.4% – 5.5%	23	61	6	90
		$ 810	$ 231	$ 1,544	$ 2,585

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

Liquidity risk arising from financial instruments is also affected by the Group of Companies' management of debt and equity levels that is summarized in Note 18.

(in millions of Canadian dollars, unless otherwise indicated)

20. Commitments

(a) The Group of Companies is committed to the following future minimum lease payments under facilities, transportation equipment and other operating leases:

As at December 31	2016	2015
Not later than one year	$ 138	$ 137
Later than one year and not later than five years	400	389
Later than five years	341	388
Total	**$ 879**	$ 914

Included in the above table are lease payments to be made to related parties, in the normal course of business, in the amount of $52 million for premises used in postal operations and transportation services (2015 – $65 million).

The Group of Companies leases a number of properties, including industrial buildings, retail stores, offices and land, as well as operating equipment under operating leases. The average lease term is five years. Where renewal options exist, exercise is at the discretion of the Group of Companies. Some of the Corporation's property leases include the right of first refusal to purchase the building.

During the year ended December 31, 2016, $129 million was recognized as an expense in net profit in respect of operating leases (2015 – $134 million). This amount is net of lease revenues of $10 million (2015 – $9 million).

(b) The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $701 million that extend to 2022.

(c) In the normal course of business, the Group of Companies enters into contractual arrangements for the supply of goods and services over periods extending beyond one year. Disbursements largely depend on future volume-related requirements and are subject to the Group of Companies' contractual rights of termination.

21. Other Operating Costs

For the year ended December 31	2016	2015
Non-labour collection, processing and delivery	$ 1,252	$ 1,263
Property, facilities and maintenance	353	347
Selling, administrative and other	515	622
Other operating costs	**$ 2,120**	$ 2,232

22. Investing and Financing Income (Expense)

For the year ended December 31	2016	2015
Interest revenue	$ 15	$ 14
(Loss) gain on sale of capital assets and assets held for sale	(4)	3
Investment and other income	**$ 11**	$ 17
Interest expense	$ (45)	$ (50)
Other expense	(1)	–
Finance costs and other expense	**$ (46)**	$ (50)
Investing and financing expense, net	**$ (35)**	$ (33)

(in millions of Canadian dollars, unless otherwise indicated)

23. Other Comprehensive Income

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of available-for-sale financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income
Accumulated balance as at December 31, 2014	$ 53	$ 1	$ 54		
Gains (losses) arising	$ (13)	$ 4	$ (9)	$ 1,058	$ 1,049
Income taxes	3	–	3	(264)	(261)
Net	$ (10)	$ 4	$ (6)	$ 794	$ 788
Accumulated balance as at December 31, 2015	$ 43	$ 5	$ 48		
Gains (losses) arising	$ (5)	$ –	$ (5)	$ 993	$ 988
Income taxes	1	–	1	(248)	(247)
Net	**$ (4)**	**$ –**	**$ (4)**	**$ 745**	**$ 741**
Accumulated balance as at December 31, 2016	**$ 39**	**$ 5**	**$ 44**		

24. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other government agencies and departments, and Crown corporations. The Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements:

(a) Government of Canada, its agencies and other Crown corporations

For the year ended December 31	**2016**	2015
Related party revenue	**$ 278**	$ 278
Compensation payments for programs		
Government mail and mailing of materials for the blind	**$ 22**	$ 22
Payments from related parties for premises leased from the Corporation	**$ 7**	$ 7
Related party expenditures	**$ 30**	$ 26

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage (Note 2).

As at December 31	**2016**	2015
Due to/from related parties		
Included in trade and other receivables	**$ 20**	$ 29
Included in trade and other payables	**$ 11**	$ 12
Deferred revenue from related parties	**$ 2**	$ 2

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

As at December 31	**2016**	2015
Not later than one year	$ 6	$ 6
Later than one year and not later than five years	12	18
Total	**$ 18**	$ 24

(in millions of Canadian dollars, unless otherwise indicated)

24. Related Party Transactions (continued)

(b) Key management personnel compensation

Key management personnel (KMP) are defined as the Boards of Directors and members of the senior executive teams responsible for planning, controlling and directing the activities of the Group of Companies.

The remuneration of the KMP was as follows:

For the year ended December 31	**2016**	2015
Short-term employee benefits	$ 9	$ 9
Post-employment benefits	1	1
Total compensation	**$ 10**	$ 10

The 2016 KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.3 million (2015 – $0.3 million).

In addition to the amounts noted in the table directly above, during 2016 KMP remuneration relating to one-time termination benefits in the amount of $1 million was incurred (2015 – nil). There were no transactions with the KMP other than compensation.

(c) Transactions with entities in which the KMP of the Canada Post Group of Companies has control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by the KMP of the Group of Companies. Affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2016, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $10 million (2015 – $32 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(d) Transactions with the Corporation's pension plans

During the year the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $11 million (2015 – $11 million). As at December 31, 2016, $4 million (2015 – $9 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables.

Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 10 (i).

(in millions of Canadian dollars, unless otherwise indicated)

25. Segmented Information

(a) Operating segments • A description of the Group of Companies' operating segments can be found in the significant accounting policies (Note 3 [m]). The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3). Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities. With the exception of the information technology (IT) business unit delivering shared services on a cost-recovery basis, the terms and conditions of these transactions are comparable to those offered in the marketplace. On a consolidated basis, no external customer's purchases account for more than 10% of total revenues.

For the year ended December 31, 2016, the IT business unit earned intersegment revenue of $261 million (December 31, 2015 – $263 million), incurred cost of operations of $261 million (December 31, 2015 – $263 million), and earned net profit of nil (December 31, 2015 – nil). Total assets and liabilities at December 31, 2016, were $120 million and $70 million, respectively (December 31, 2015 – $125 million and $74 million, respectively).

For the year ended and as at December 31, 2016

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

For the year ended and as at December 31, 2015

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,286	$ 1,511	$ 209	$ –	$ 8,006
Intersegment revenue	30	31	53	(114)	–
Revenue from operations	$ 6,316	$ 1,542	$ 262	$ (114)	$ 8,006
Labour and employee benefits	$ 4,338	$ 735	$ 120	$ 97	$ 5,290
Other operating costs	1,627	699	114	(208)	2,232
Depreciation and amortization	259	51	8	(3)	315
Cost of operations	$ 6,224	$ 1,485	$ 242	$ (114)	$ 7,837
Profit from operations	$ 92	$ 57	$ 20	$ –	$ 169
Investment and other income	$ 19	$ 1	$ –	$ (3)	$ 17
Finance costs and other expense	(48)	(2)	–	–	(50)
Profit (loss) before tax	$ 63	$ 56	$ 20	$ (3)	$ 136
Tax expense	16	16	5	–	37
Net profit (loss)	$ 47	$ 40	$ 15	$ (3)	$ 99
Total assets	$ 7,094	$ 847	$ 120	$ (341)	$ 7,720
Acquisition of capital assets	$ 310	$ 64	$ 8	$ (8)	$ 374
Total liabilities	$ 8,477	$ 358	$ 59	$ (50)	$ 8,844

(in millions of Canadian dollars, unless otherwise indicated)

25. Segmented Information (continued)

(b) Geographic area revenue information

Revenue reported for geographical areas outside of Canada is, for the Corporation, based on the location of the foreign postal administration hiring the service, and based on the location of the customer hiring the service for the other segments and the business unit. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

For the year ended December 31	**2016**	2015
Canada	$ 7,281	$ 7,426
United States	423	431
Rest of the world	176	149
Total revenue	**$ 7,880**	$ 8,006

(c) Products and services revenue information

Revenue reported for products and services is based on information available at the time of sale, such that stamps and meter revenue are reported separately, rather than being attributed to the lines of business.

For the year ended December 31, 2016

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

For the year ended December 31, 2015

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 2,021	$ (2)	$ 2,019
Parcels	3,455	(111)	3,344
Direct Marketing	1,208	–	1,208
Other	518	(264)	254
	$ 7,202	$ (377)	$ 6,825
Unattributed revenue			
Stamp postage	$ 507	$ –	$ 507
Meter postage	674	–	674
	$ 1,181	$ –	$ 1,181
Total	$ 8,383	$ (377)	$ 8,006

The 2015 comparative amounts have been reclassified to conform to the current year presentation. Due to a realignment of products and services between lines of business, an amount of $12 million was reclassified to Direct Marketing from the Other category.

Our size and scope

EMPLOYEES

Close to

64,000

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

FLEET

Almost

13,000

Canada Post vehicles

ADDRESSES SERVED

Residential

Almost

15 million

Businesses

More than

1 million

RETAIL POST OFFICES

More than

6,200

retail post offices across Canada

PIECES DELIVERED

8.4 billion

pieces of mail, parcels and messages

Group of Companies

DELIVERY METHOD

(by address)

Door to door

More than

4.2 million

Centralized or rural

11.8 million

ITEM TRACKING

More than

390 million

online tracking events (61 per cent on the mobile app)

CANADAPOST.CA

200 million

visits to canadapost.ca in 2016

(includes visits to epost.ca)

PLANTS AND DEPOTS

21

processing plants

485

letter carrier depots

CANADA POST
2701 RIVERSIDE DR SUITE N1200
OTTAWA ON K1A 0B1

General inquiries: 1-866-607-6301
For more detailed information, please visit our website at **canadapost.ca**.

Ce rapport est aussi publié en français.