AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Minister of Transport, Infrastructure and Communities,

We have audited the consolidated balance sheet of Canada Post Corporation as at December 31, 2008 and the consolidated equity of Canada statement, the consolidated income statement and the consolidated cash flow statement for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Financial Administration Act*, we report that, in our opinion, except for the changes in accounting policies adopted in the current year as explained in Note 3 to the consolidated financial statements, these principles have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of the Corporation and 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 the Corporation and its wholly-owned subsidiaries and the government directives issued pursuant to section 89 of the *Financial Administration Act*.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
March 6, 2009

KPMG LLP

Chartered Accountants, Licensed Public Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 (in millions of dollars)	**2008**	2007
Assets		
Current assets		
Cash and cash equivalents (note 8)	**$ 605**	$ 386
Marketable securities (note 8)	**103**	309
Accounts receivable (note 7)	**575**	587
Income tax recoverable	**7**	10
Prepaid expenses	**71**	76
Current portion of future income tax assets (note 9)	**23**	20
Total current assets	**1,384**	1,388
Segregated securities (note 8)	**862**	632
Capital assets (note 10)	**2,034**	1,855
Accrued pension benefit asset (note 11)	**898**	944
Future income tax assets (note 9)	**270**	203
Goodwill (note 12)	**124**	124
Other assets (note 13)	**19**	21
Total assets	**$ 5,591**	$ 5,167
Liabilities and equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	**$ 469**	$ 446
Salaries and benefits payable	**509**	390
Income tax payable	**16**	34
Deferred revenue	**145**	153
Outstanding money orders	**42**	47
Current portion of long-term debt (note 14)	**–**	3
Total current liabilities	**1,181**	1,073
Long-term debt (note 14)	**74**	55
Accrued pension, other retirement and post-employment benefit liability (note 11)	**2,722**	2,513
Future income tax liabilities (note 9)	**30**	24
Other long-term liabilities	**51**	41
Total liabilities	**4,058**	3,706
Non-controlling interest	**26**	22
Equity of Canada	**1,507**	1,439
Total liabilities and equity of Canada	**$ 5,591**	$ 5,167

Commitments and contingencies (notes 1 and 17)
Conditional asset retirement obligations (note 15)

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

Approved on behalf of the Board:

Chairman of the Board of Directors

Chairperson of the Audit Committee

CONSOLIDATED EQUITY OF CANADA STATEMENT

Year ended December 31 (in millions of dollars)	**2008**	2007
Contributed capital	**$ 1,155**	$ 1,155
Retained earnings		
Balance, beginning of year	**284**	278
Transition adjustments on adoption of financial instruments standards	**–**	(1)
Net income	**90**	54
Dividend (note 16)	**(22)**	(47)
Balance, end of year	**352**	284
Equity of Canada	**$ 1,507**	$ 1,439

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

CONSOLIDATED INCOME STATEMENT

Year ended December 31 (in millions of dollars)	**2008**	2007
Revenue from operations	**$ 7,729**	$ 7,474
Cost of operations		
Salaries	**3,932**	3,809
Benefits, net of transitional support of $81 million (2007 – $106 million) (note 11e)	**907**	960
Non-labour collection, processing and delivery	**1,278**	1,132
Facilities	**303**	292
Amortization and impairment	**237**	214
Other	**937**	939
Total cost of operations	**7,594**	7,346
Income from operations	**135**	128
Non-operating income (expense)		
Investment and other income	**38**	42
Interest and other expense	**(12)**	(10)
Non-operating income, net	**26**	32
Income before income taxes	**161**	160
Income tax expense (note 9)	**67**	102
Net income before non-controlling interest	**94**	58
Non-controlling interest in net income of subsidiaries	**4**	4
Net income	**$ 90**	$ 54

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended December 31 (in millions of dollars)	2008	2007
Operating activities		
Net income	$ 90	$ 54
Adjustments to reconcile net income to cash provided by operating activities:		
Accrued pension, other retirement and post-employment benefits	476	577
Pension, other retirement and post-employment benefit payments	(221)	(277)
Transitional support offsetting pension reform incremental costs	(81)	(106)
Amortization and impairment	237	215
Future income tax benefit	(64)	(23)
Gain on sale of capital assets	(2)	(10)
Proceeds from long-term incentive	8	7
Other income not affecting cash, net	11	–
Change in non-cash operating working capital (note 18)	143	(93)
Cash provided by operating activities	597	344
Investing activities		
Business acquisitions or dispositions (note 5)	(13)	(14)
Acquisition of securities	(3,392)	(3,970)
Proceeds from sale of securities	3,356	3,740
Acquisition of capital assets	(391)	(331)
Proceeds from sale of capital assets	7	61
Other investing activities, net	(1)	1
Cash used in investing activities	(434)	(513)
Financing activities		
Transitional support received from the Government of Canada	81	106
Repayment of long-term debt	(3)	(4)
Dividend paid	(22)	(47)
Other financing activities, net	–	1
Cash provided by financing activities	56	56
Net increase (decrease) in cash and cash equivalents	219	(113)
Cash and cash equivalents, beginning of year	386	499
Cash and cash equivalents, end of year	$ 605	$ 386

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2008)

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* ("the Act") in1981, Canada Post Corporation ("the 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 in 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 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 Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business, not covered by the exclusive privilege, include parcels and direct marketing products and services. The Corporation's subsidiaries offer courier, transportation and logistics services. Innovapost, a joint venture, provides information technology services to The Canada Post Group.

In December 2006, the Corporation was issued two directives pursuant to section 89 of the *Financial Administration Act*.

The Corporation was directed to continue its financial contribution to the Publications Assistance Program until March 31, 2009. This financial contribution shall not exceed $15 million per year (note 21).

The Corporation was also directed to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation on September 1, 2005, while respecting all applicable laws. In 2007 and 2008, the Corporation continued assessing the safety risks related to all the rural roadside mailboxes, initially focusing on those mailboxes affected by the directive.

2. Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Canadian generally accepted accounting principles require management to make complex or subjective judgments related to estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. The significant areas requiring the use of management estimates and assumptions include: useful lives of capital assets; fair value measurement; pension, other retirement and post-employment benefits; income taxes; conditional asset retirement obligations; measuring the impairment of long-lived assets and goodwill; and assessing the resolution of contingent liabilities. Actual results may differ from those estimates. In light of the unprecedented conditions of the current global and Canadian economy, and the general inability to forecast its impacts, 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 material change in reported amounts and disclosures in the consolidated financial statements of future periods.

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2008.

2. Significant Accounting Policies (continued)

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

(a) Consolidation • These consolidated financial statements include the accounts of the Corporation and its subsidiaries, as well as its proportionate share of the accounts of its joint ventures (collectively referred to as "The Canada Post Group"). The results of any subsidiary or joint venture acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Effective January 1, 2009 the name of SCI Logistics Inc. was changed to SCI Group Inc. As at December 31, 2008, Purolator Courier Ltd (Purolator) and SCI Group Inc. (SCI) are the principal subsidiaries of the Corporation, and Innovapost Inc. (Innovapost) is the only joint venture. On April 3, 2008, a subsidiary of the Corporation, Canada Post International Limited (CPIL), transferred all of the shares of its subsidiary Nieuwe Post Nederlandse Antillen N.V. (NPNA) to the Government of the Netherlands Antilles, thereby terminating early the concession agreement to provide postal and postbanking services in the Netherlands Antilles. Subsequently, on November 19, 2008 the Corporation wound up CPIL. The operations of CPIL and NPNA were not significant to the Corporation.

(b) Financial instruments • All financial assets are classified as (i) held for trading, (ii) held to maturity investments, (iii) loans and receivables or (iv) available for sale. All financial liabilities are classified as (i) held for trading or (ii) other financial liabilities. The classification depends on the nature and purpose of the financial instruments and is determined at the time of initial recognition.

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

The Canada Post Group's financial instruments consist of the following:

(b.1) All **investments** are financial assets designated as held for trading and, therefore, are measured at estimated fair value when presented on the consolidated balance sheet. With the exception of illiquid securities (note 8), fair value is determined directly by reference to quoted market prices, and may not be realized on sale. Investments are initially recognized at the settlement date and changes in fair value are recognized as they occur. When investments are segregated to manage defined benefit plans, the interest income and gains and losses are recorded in benefit costs, whereas in all other cases, interest income and gains and losses are recorded in investment and other income.

Investments are divided into four categories for separate presentation on the consolidated balance sheet. Each category is defined as follows:

– **Cash equivalents** are highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value. Therefore, cash equivalents consist of investments with maturities of three months or less from the date of acquisition.

– **Marketable securities** are investments with initial maturities greater than three months. Marketable securities are classified as current assets since reasonably prompt liquidation is possible.

– **Illiquid securities** are investments that are not traded actively and would be difficult to sell.

– **Segregated securities** are segregated funds invested by the Corporation. Although the liquidity of segregated securities varies, only the portion related to a current liability is presented as a current asset.

2. Significant Accounting Policies (continued)

(b.2) **Accounts receivable** are financial assets classified as loans and receivables. These financial assets are subsequently measured at amortized cost using the effective interest method, less any impairment. Where the time value of money is not significant due to their short-term settlement, accounts receivable are carried at the original invoice amount less allowances for doubtful accounts.

Trade 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 Corporation will not be able to collect all amounts due according to the original terms of trade receivables. The amount of the allowance is the difference between the receivable's carrying amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in the income statement within "other cost of operations".

(b.3) **Accounts payable and accrued liabilities, salaries and benefits payable** and **outstanding money orders** include other financial liabilities as well as obligations created by statutory requirements imposed by governments and other non-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 their short-term settlement, the other financial liabilities are carried at payment or settlement amounts.

(b.4) **Long-term debt** instruments are classified as other financial liabilities and initially recognized at fair value, net of any transaction costs. After initial recognition, long-term debt instruments are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any transaction costs, and any discount or premium on settlement. Interest expense on long-term debt is recognized in interest and other expense.

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

(c.1) **Cost** • Capital assets acquired or developed internally are initially recorded at cost, with the exception of property, plant and equipment transferred from the Government of Canada on incorporation in 1981 that were recorded at their estimated fair value at that date. Assets acquired under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Fair values of land and buildings were determined by independent appraisals, based on existing use of the land at the time and amortized replacement cost of the buildings. Fair value for other assets was based on amortized replacement cost or original cost less estimated amortization.

2. Significant Accounting Policies (continued)

(c.2) Amortization • Amortization commences when the assets are placed into service and is recognized over the estimated useful lives of the assets, using the following methods:

Type of asset	Amortization method	Amortization period or rate
Buildings	Straight-line	15, 30 and 40 years
Leasehold improvements	Straight-line	Initial fixed lease term plus period of first renewal option
Plant equipment	Straight-line	5 to 20 years
Vehicles:		
Passenger and light-duty commercial	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 10 years
Sales counters, office furniture and equipment	Straight-line	3 to 20 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 5 years
Customer contracts	Straight-line	Term of contract plus period of renewal options, maximum of 10 years in 2008
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business, maximum of 20 years in 2008

Assets held under capital leases are amortized over the period of the lease.

(c.3) Asset retirement obligations • Asset retirement 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. Conditional asset retirement obligations are legal obligations to perform an asset retirement activity for which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Corporation. The Corporation recognizes asset retirement obligations in the period in which they are incurred if a reasonable estimate of fair value can be determined. The liability is initially measured at fair value, and is subsequently adjusted each period to reflect the passage of time through accretion expense and any changes in the estimated future cash flows underlying the initial fair value measurement. The associated costs are capitalized as part of the carrying value of the related asset and amortized over its remaining life.

(c.4) Impairment • Capital assets that are held for use are reviewed for impairment whenever events or changes in circumstances indicate that their net carrying value may not be recoverable from estimated undiscounted future cash flows generated by their use and eventual disposition. For the purpose of assessing recoverability, capital assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities which the Corporation has identified as the corporate entities included in the consolidated financial statements. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized during the year and presented with amortization expense. The impairment loss is equal to the amount by which the net carrying value of the asset exceeds its fair value, determined using the expected present value of future cash flows.

(c.5) Capital assets to be disposed of by sale • Capital assets classified as held for sale are included in Other Assets (note 13) on the consolidated balance sheet, and recognized at the lower of carrying amount or fair value less disposal costs. A write-down to fair value less disposal costs is recorded as a charge to net income and no further amortization is recorded.

2. Significant Accounting Policies (continued)

(d) Goodwill • Goodwill, arising on the acquisition of a business, represents the excess of the cost of acquisition over The Canada Post Group's interest in 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 amortization and impairment losses. Goodwill is not amortized but is instead tested for impairment annually, or more frequently if events and circumstances indicate that there may be impairment.

For the purpose of impairment testing, goodwill is allocated to reporting units. Reporting units comprise business operations with similar economic characteristics and may represent either an operating segment or a business unit within an operating segment. Potential impairment is identified when the carrying value of a reporting unit, including the allocated goodwill, exceeds its fair value. Fair value of the reporting unit is determined using the expected present value of future cash flows. Goodwill impairment is measured as the excess of the net carrying value of the reporting unit's allocated goodwill over the implied fair value of the goodwill, based on the fair value of the assets and liabilities of the reporting unit. An impairment loss is recognized in the year in which it is determined.

(e) Revenue recognition • The Canada Post Group's revenue is mostly derived from providing the products and services that comprise the three lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes the physical and electronic 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. The third line of business, Direct Marketing, includes Addressed Admail™, Unaddressed Admail™ and Publications Mail™, such as newspapers and periodicals. Other mail products and services include money orders and postal box rentals, as well as retail and philatelic products.

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

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

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

(f) Incentive and lease inducement • The incentive received upon signing of a 10 year outsourcing contract in 2002 was deferred, and is being amortized on a straight-line basis over the term of the contract. Lease inducements are also deferred, and are amortized on a straight-line basis over the initial fixed lease term. Amortization of the incentive is presented as reduction of other cost of operations while amortization of the lease inducements is presented as reduction of facilities expense. The current portion of the deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in other long-term liabilities.

2. Significant Accounting Policies (continued)

(g) Defined pension, other retirement and post-employment benefit plans • The obligation for providing defined pension, other retirement and employee termination benefit plans is recognized over the period of employee service. However, 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. Therefore, defined benefit plans can be divided into two types as follows:

(g.1) Service-related defined benefit plans • The estimated costs and accrued benefit obligations are determined annually, on an actuarial basis, using the projected benefit method prorated on service. For accounting purposes, accrued benefit obligations and fair value of plan assets are measured annually as at December 31.

The actuarial calculations include management's best estimate of the rates of return on plan assets, inflation, rates of compensation increase, retirement age, rates of employee disability, mortality, growth rates of health care costs and dental costs, as applicable. The expected long-term rates of return on plan assets are based on historical long-term returns provided by various asset categories weighted according to each pension plan's targeted asset allocations. The discount rates used to value the accrued benefit obligations are determined by reference to market conditions at year end, assuming a portfolio of Corporate AA bonds with terms to maturity that, on average, match the terms of the respective accrued benefit obligations.

Defined benefit costs include, as applicable, the estimated cost of employee benefits for current year's service, interest on accrued benefit obligations, expected return on plan assets, gain or loss on curtailment or settlement, expense recognized for special termination benefits and adjustments to allocate actuarial gains (losses), plan amendments, transitional obligation and funding excess to different years consistent with the long-term nature of employee future benefits.

To calculate the expected return on plan assets, these assets are valued at market-related values, whereby actuarial gains (losses) on plan assets for a year are recognized on a straight-line basis over five years.

Actuarial gains (losses) on plan assets for a year arise from the difference between the actual return on plan assets and the expected return. Actuarial gains (losses) on the accrued benefit obligations arise from the differences between actual and expected experience and changes in the assumptions used to determine the accrued benefit obligations. For each plan, the unrecognized net actuarial gain or loss exceeding 10% of the greater of the accrued benefit obligation or the market-related value of plan assets at the beginning of the year is recognized over the average remaining service period of active employees. Actuarial estimates indicate that the average remaining service periods of active employees covered by service-related defined benefit plans are as follows:

As at December 31	**2008**		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Canada Post Corporation	11 years	5 to 11 years	11 years	5 to 11 years
Purolator	12 to 14 years	N/A	11 to 14 years	N/A
SCI	5 to 11 years	14 years	15 years	17 years
Innovapost	9 years	N/A	9 years	N/A

Past service costs arising from plan amendments are recognized on a straight-line basis over the expected average remaining service period of employees active on the date of amendment, up to the date of full eligibility.

On October 1, 2000, the Corporation assumed responsibility for a defined benefit provincial health insurance premium retirement plan and applied the accounting standards on employee future benefits to this obligation on a prospective basis. The transitional obligation, representing the unrecognized deficit in the plan at that date, is recognized on a straight-line basis over 8 years, being the expected average remaining service period, up to the date of full eligibility, of employees expected to receive benefits as of that date.

2. Significant Accounting Policies (continued)

The funding excess, resulting from the *Federal Public Sector Pension Reform* effective October 1, 2000, represents the excess amount of the assets, transferred from the Government of Canada to the Corporation's pension plan, over the obligations assumed for the defined benefit pension plan. The funding excess is recognized on a straight-line basis over 11 years, being the expected average remaining service period of active employees covered by the pension plan as of that date.

The asset and liability recorded in the consolidated balance sheet represent the cumulative difference between the defined benefit costs and the total cash payments for the defined benefit plans.

(g.2) Event-driven defined benefit plans • The same methodology and assumptions as service-related defined benefit plans apply, except for the following:

- The projected benefit method is not prorated on service since the obligations are recognized when the event triggering the obligation occurs;
- Management's best estimate also takes into account the experience and assumptions of provincial workers' compensation boards;
- Actuarial gains (losses) are recognized over the average duration of the accrued benefit obligation; and
- Actuarial estimates indicate that the average duration of the accrued benefit obligations ranges from 3 to 9 years (2007 – from 3 to 9 years).

(h) Defined contribution and multiemployer pension plans • Employer contributions to the defined contribution and multiemployer pension plans are expensed as incurred.

(i) Transitional support from the Government of Canada • The Government of Canada, as part of the *Federal Public Sector Pension Reform*, committed to provide declining transitional support to assist the Corporation with the incremental costs incurred as a result of establishing the Canada Post Corporation Pension Plan and the associated ancillary benefits. Receipt of the transitional support is conditional on the Corporation maintaining other retirement enhancements similar to those offered to the *Public Service Superannuation Act* participants and, also, the Corporation showing visible commitment and progress towards achieving the financial and service performance objectives set out in the Policy Framework and reflecting them in future corporate plans. Therefore, transitional support is accounted for only when received. The entire amount of transitional support is deferred and drawn down on a first-in, first-out, basis to cover the incremental costs incurred. The draw down from deferred transitional support is recorded as a reduction of expense.

The Corporation is scheduled to receive the remaining $69 million of transitional support over the next two years as follows: $56 million in 2009; and $13 million in 2010.

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

Scientific research and experimental development ("SR&ED") tax credits are recorded using the cost reduction method, whereby the credits are recorded as a reduction of 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 • Transactions in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are adjusted to reflect the rates of exchange in effect at the balance sheet date. All exchange gains and losses are included in determining net income for the current year.

3. Changes in Accounting Policies

The Canada Post Group has prospectively adopted the following Canadian Institute of Chartered Accountants ("CICA") accounting standards effective January 1, 2008. These new standards relate to disclosure and presentation only and did not have any effect on financial results:

(a) Capital disclosures • A new section 1535 "Capital Disclosures" converges with amendments to International Financial Reporting Standard IAS 1 "Presentation of Financial Statements". Section 1535 requires an entity to disclose information about its objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, as well as its compliance with any externally imposed capital requirements. These additional disclosures are included in note 16.

(b) Financial instruments disclosures and presentation • The CICA issued new section 3862 "Financial Instruments – Disclosures" that improves the disclosure requirements in superseded Handbook Section 3861 "Financial Instruments – Disclosure and Presentation", and places an increased emphasis on risk disclosures. Entities are required to provide both qualitative and quantitative information about exposures to risks arising from financial instruments, including market, credit and liquidity risks. These additional disclosures are included in note 7. The transitional provisions state that certain of the incremental disclosures need not be provided on a comparative basis in the year of adoption. The existing recommendations for the presentation of financial instruments were carried forward unchanged in new CICA Handbook Section 3863 "Financial Instruments – Presentation".

4. Recent Accounting Pronouncements Requiring Implementation in Future Years

(a) Goodwill and Intangible Assets • In February 2008, the CICA issued new Section 3064 "Goodwill and Intangible Assets" replacing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The new standard is effective for fiscal years beginning on or after October 1, 2008. The Accounting Standards Board ("AcSB") also amended Section 1000 "Financial Statement Concepts" and Accounting Guideline AcG 11 "Enterprises in the Development Stage". The new and amended guidance clarifies that costs may only be deferred when they relate to an item that meets the definition of an asset. The practice of matching revenues and expenses remains appropriate only for allocating the cost of an asset that is consumed in generating revenue over multiple reporting periods. New Section 3064 provides extensive guidance on when expenditures qualify for recognition as intangible assets. These recommendations, which will be adopted by The Canada Post Group on January 1, 2009, are not expected to have a significant effect on the consolidated financial statements.

(b) International Financial Reporting Standards ("IFRS") • In February 2008, the AcSB confirmed that publicly accountable entities will be required to adopt IFRS in place of Generally Accepted Accounting Principles ("GAAP") for fiscal years beginning on or after January 1, 2011. The Corporation (which meets the current definition of a publicly accountable entity) will report under IFRS in its financial statements for the year ending December 31, 2011.

The Corporation has developed and implemented an IFRS changeover plan to support the transition from Canadian GAAP to IFRS in the 2011 financial statements. It has established a multi-disciplinary IFRS implementation team and instituted regular progress reporting to the Audit Committee of the Board of Directors.

The implementation plan consists of three phases. The first phase, focusing on planning and on early issue identification, was completed during the year. Work on the second and third phases of the plan, covering detailed evaluations for each financial reporting area and implementation of the new standards, has commenced and will continue through 2009 and 2010. The impact on the Corporation's financial results has not yet been determined.

5. Significant Business Acquisitions

There were no significant business acquisitions in 2008.

On March 30, 2007, a subsidiary of the Corporation, SCI, acquired all of the outstanding common shares of AMG Logistics Inc., First Team Transport Inc. and Partnership Inc. (collectively referred to as "The AMG Group") for a total cost of $13 million, which was paid in cash. The AMG Group provides logistics and transportation services in the small to medium enterprise market. Goodwill recognized in the transaction amounted to $3 million and was assigned to the Logistics segment (note 12). Intangible assets acquired consist of customer contracts and relationships of $10 million.

6. Regulation of Customer Postage Rates

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

The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray the costs incurred by the Corporation in the conduct of its operations under the Act. The domestic basic letter rate prescribed under the *Letter Mail Regulations* is determined by a price-cap formula, which limits increases to 66.67% of increases in the Consumer Price Index, implemented no more than once a year. In 2008, there was no increase in the domestic Lettermail rate (January 2007 – from $0.51 to $0.52). Effective January 12, 2009, the rate increased by 2 cents to $0.54.

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

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government mailings and for mailing of materials for the blind. The Government of Canada provides compensation to the Corporation in respect of these services (note 20).

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

Revenue from products and services charged to customers at regulated rates comprises 31% (2007 – 33%) of the Canada Post segment revenue.

7. Nature and Extent of Risks From Financial Instruments

Financial risk factors

The Corporation's financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk. Risk management for investment activities is carried out by the Corporate Treasury function. Investments are held for liquidity purposes, or for longer terms, to achieve returns consistent with the investment policies approved by the Board of Directors. The Corporation has various other financial instruments such as accounts receivable, accounts payable, salaries payable and money orders, which arise directly from operations. The Corporation does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Risk management strategies are likely to evolve in response to future conditions and circumstances, including the effects and consequences resulting from the current economic downturn. These future strategies may not fully insulate the Corporation 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 currency exchange rates and other prices, such as commodities.

(i) Interest rate risk

The Corporation's investments are designated as held for trading. All investments are fixed-rate debt securities and are therefore exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by maintaining a short term to maturity, and the maximum duration in the portfolio was 92 days as at December 31, 2008. The incremental return for longer term maturities is currently considered insufficient to offset the risk of higher interest rates and associated declines in capital values. This investment decision is assessed on an ongoing basis and may be changed if longer term rates of interest increase sufficiently.

The Corporation has performed sensitivity analysis on interest rate risk using a 50 basis point increase or decrease, which represents management's assessment of the reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 50 basis points in market interest rates, with all other variables held constant, would not have a significant impact on the fair value of the Corporation's investments, excluding non-bank-sponsored asset-backed commercial paper, at December 31, 2008. Please refer to note 8(b) for sensitivity analysis on non-bank-sponsored asset-backed commercial paper. The Corporation's fixed-rate long-term debt will mature in 2016. There are no prepayment terms associated with the debt.

(ii) Foreign currency risk

The Corporation's exposure to foreign currency risk mostly arises from international settlements with foreign postal administrations and from 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 US Dollar ("US$"), Japanese Yen, Sterling and Euro, whereas payment is usually denominated in US$ or, in some circumstances, the Euro. The Corporation's principle exposure is to the US$. The effect of a 10% increase or decrease in the US$ exchange rate on the balance sheet date, all other variables held constant, would have increased or decreased net income for the year by $6 million. There is no significant impact on net income arising from exposures to other currencies. Net exchange gains included in net income amounted to $13 million (2007 – $9 million of net exchange losses).

(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 Corporation. 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.

7. Nature and Extent of Risks From Financial Instruments (continued)

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

Credit risks arising from investments are mitigated by investing with issuers who meet specific criteria, and the imposition of 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 (DBRS) ratings of R-1 (middle) for short-term investments and A for long-term investments. The Corporation regularly reviews the credit ratings of issuers with whom the Corporation holds investments, and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels. Impairment losses on investments recognized during the year were $9 million (2007 – $8 million) as described in note 8.

Credit risk associated with accounts receivable from wholesale and commercial customers is mitigated by the Corporation's large customer base which covers substantially all business sectors in Canada. The Corporation follows a program of individual customer credit evaluation based upon financial strength and payment history, and limits the amount of credit extended when deemed necessary. The Corporation monitors customer accounts against these credit limits and the aging of past due invoices. The Corporation establishes an allowance for doubtful accounts that reflects the estimated impairment of accounts receivable. A general provision is estimated based on prior experience with, and the past due status of, doubtful debtors, while large accounts are assessed individually based on factors that include ability to pay and payment history. Despite the worsening economy in 2008, the Corporation has not experienced any increase in bad debts. The Corporation proactively examines accounts on a stratified account basis, and has increased its vigilance and credit monitoring due to the current economy. Weekly monitoring of aged receivables and day's sales outstanding has revealed 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 offsetting accounts payable to foreign postal administrations on an individual country basis, under the provisions of the Universal Postal Union (UPU). Amounts receivable from and payable to the USPS are settled independently under the bilateral agreement between Canada Post Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics in regards to the weights and number of pieces exchanged by the two countries. Final settlement with each foreign postal administration can be billed a year or more after the service is performed. The Corporation's provision for impairment of receivables from specific foreign postal administrations is based on the period past due after billing of the final settlement.

The following table sets out details of the age of receivables and the allowance for doubtful accounts:

Trade and Other Receivables (in millions of dollars)	**2008**
Trade accounts receivable:	
Current	$ 338
1–15 days past due	71
16–30 days past due	26
Over 30 days past due	22
Allowance for doubtful accounts	(11)
Trade accounts receivable – net	$ 446
Receivables from foreign postal administrations	76
Other receivables	53
Accounts receivable	**$ 575**

Impairment losses on accounts receivable recognized during the year were $7 million.

7. Nature and Extent of Risks From Financial Instruments (continued)

(c) Liquidity risk

Liquidity risk is the risk that a company will encounter difficulty in meeting its financial obligations as they fall due. The Corporation manages liquidity risk by maintaining cash and investments, banking facilities and reserve borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Corporation's objective is to maintain a cash balance of at least $200 million to support current operating activities. Surplus cash is invested into a range of short-term money market securities. The Corporation invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and then is submitted for approval to the Governor in Council on the recommendation of the Minister responsible for Canada Post, as part of its Corporate Plan approval process. The Minister of Finance may require that his recommendation also be obtained before the Corporate Plan is submitted to the Governor in Council for approval. In addition, the detailed terms and conditions for each borrowing must also be approved by the Minister of Finance. 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. 3, 1996-97*, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $300 million. Of this, no more than $150 million can be short-term in nature.

Although the Corporation's level of indebtedness has been maintained at a low level, the Corporation would consider increasing its indebtedness to support the financing of future capital expenditures. The Canada Post Group's borrowings amounted to $74 million as at December 31, 2008 (2007 – $58 million), of which $74 million (2007 – $55 million) was long-term. Within the above limits, the Corporation has a line of credit of $68 million with a Canadian chartered bank and a commercial paper program that were not used during 2007 or 2008.

The Corporation's subsidiaries and joint venture also have access to financing facilities totalling $100 million as at December 31, 2008. Of this amount $18 million was drawn for the purchase of equipment; this amount will be converted into capital leases in 2009.

The following table sets out details of the Corporation's remaining contractual maturities for its financial liabilities. The amounts represent the undiscounted cash flows of financial liabilities based on the earliest date on which the Corporation can be required to pay. The table includes both principal and interest cash flows.

2008
(in millions of dollars)

	Weighted average effective interest rate	Less than 1 year	1–5 years	More than 5 years	Total
Non-interest bearing*		$ 731	$ 1	$ –	$ 732
Non-redeemable bonds	10.35%	6	23	69	98
Other borrowings	Prime	–	18	–	18
Capital lease obligation	6.8%	–	1	–	1
		$ 737	**$ 43**	**$ 69**	**$ 849**

* Non-interest bearing consists of financial liabilities included in accounts payable and accrued liabilities, salaries and benefits payable and outstanding money orders.

(d) Fair values of financial instruments

The fair values of financial assets and liabilities not otherwise disclosed in the consolidated financial statements are determined as follows:

The fair value of the following items approximate their carrying values due to their expected short-term settlement: accounts receivable; other financial liabilities included in accounts payable and accrued liabilities; other financial liabilities included in salaries and benefits payable; and outstanding money orders.

8. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities

(a) Nature and extent of investments

The nature and extent of the investments for each category are as follows:

As at December 31 (in millions of dollars)	Remaining term to maturity* Within 3 months	3 to 12 months	One to 9 years	2008 Total	2007 Total
Cash and cash equivalents					
Cash	$ 90	$ –	$ –	$ 90	$ 95
Money market instruments issued by:					
Government of Canada	400	–	–	400	–
Provincial governments	40	–	–	40	92
Financial institutions	60	–	–	60	110
Corporations	15	–	–	15	89
Total cash and cash equivalents	**$ 605**	**$ –**	**$ –**	**$ 605**	$ 386
Marketable securities					
Money market instruments issued by:					
Government of Canada	$ 38	$ 65	$ –	$ 103	$ 263
Provincial governments	–	–	–	–	20
Financial institutions	–	–	–	–	23
Corporations	–	–	–	–	3
Total marketable securities	**$ 38**	**$ 65**	**$ –**	**$ 103**	$ 309
Illiquid securities					
Non-bank-sponsored asset-backed commercial paper (note 13)	**$ –**	**$ –**	**$ 5**	**$ 5**	$ 7
Segregated securities					
Money market instruments issued by:					
Cash	$ 1	$ –	$ –	$ 1	$ –
Government of Canada	599	92	–	691	392
Provincial governments	88	–	–	88	27
Financial institutions	50	–	–	50	126
Corporations	15	–	–	15	64
Non-bank-sponsored asset-backed commercial paper	–	–	17	17	23
Total segregated securities	**$ 753**	**$ 92**	**$ 17**	**$ 862**	$ 632

*Remaining term to maturity classifications are based on the contractual maturity of the investments or expected maturities for non-bank-sponsored asset-backed commercial paper.

All money market instruments and bonds held as at December 31, 2008 were issued by Canadian entities at fixed interest rates or discounted values. The weighted average effective interest rate as at December 31, 2008 was 1.3% for money market instruments (2007 – 4.4%). In 2007, the weighted average effective interest rate for bonds was 3.7%.

8. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities (continued)

(b) Fair value of non-bank-sponsored asset-backed commercial paper

At December 31, 2008, the Corporation held non-bank-sponsored asset-backed commercial paper ("ABCP") issued by two trusts with an original cost and principal amount of $38 million and a fair value of $22 million. These investments matured during the months of September and October 2007 but, as a result of liquidity issues in the ABCP market, did not settle on maturity. The ABCP in which the Corporation has invested has not traded in an active market since mid-August 2007, and, as at December 31, 2008, there were no market quotations available. As a result, the Corporation has classified its ABCP as long-term assets, either in illiquid securities or segregated securities.

In September 2007, the Pan-Canadian Investors Committee ("the Committee") was formed to propose a solution to the liquidity problem affecting the ABCP and oversee the proposed restructuring process. On March 17, 2008, the Committee for ABCP filed proceedings for a plan of compromise and arrangement ("the Plan") under the *Companies Creditors Arrangement Act* (Canada) (CCAA) with the Ontario Superior Court (the "Court"). On March 20, 2008, the Committee issued an Information Statement containing details about the proposed restructuring. The Court granted the Plan Implementation Order allowing implementation of the agreement on January 12, 2009, and the restructuring closed on January 21, 2009. The exchange of restructured ABCP notes was completed on January 21, 2009 and the first payment of interest accrued between August 2007 and August 31, 2008 was paid on the same day.

Based on the information contained in the Information Statement and other public information available at December 31, 2008, the Corporation estimated that, of the $38 million of ABCP in which the Corporation has invested, comprising $18 million issued by Whitehall Trust and $20 million in Rocket Trust Series A, it would receive upon completion of the restructuring in January 2009:

- $35 million of senior Master Asset Vehicle MAV II Class A-1 and A-2 notes and subordinated Class B and Class C notes as follows:

Class A-1	$24 million
Class A-2	$8 million
Class B	$2 million
Class C	$1 million

  Class A-1, Class A-2 and Class B notes will bear interest at the Bankers' Acceptance ("BA") rate less 0.50% and Class C notes will bear interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 and A-2 notes is January 22, 2017. The senior notes (Class A-1 and Class A-2) have been rated "A" by Dominion Bond Rating Service ("DBRS") while the subordinated notes (Classes B and C) are unrated.
- $3 million represented by assets that included exposure to US sub-prime mortgages. On restructuring the Corporation is likely to receive long-term floating rate notes that are unlikely to be rated.

There is a significant amount of uncertainty in estimating the amount and timing of cash flows associated with the ABCP. The Corporation's estimate of the fair value of ABCP was determined using a discounted cash flow technique, based on the best available information as at December 31, 2008. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Committee.

The significant assumptions used in the valuation model at December 31, 2008 based on expected maturities at January 22, 2017 include:

Weighted average interest rate	1.58%
Weighted average discount rate	9.43%
Credit losses	Up to 50%

8. Cash and Cash Equivalents, Marketable Securities, Illiquid Securities and Segregated Securities (continued)

Based on this analysis, a further impairment of the total fair value of ABCP of $9 million was recorded in 2008 (2007 – $8 million), offset by interest receivable for the period from August 2007 to August 2008 of $1 million. The Corporation's valuation of the ABCP was based on its assessment of the conditions as at December 31, 2008, which may change in subsequent periods. The most important assumptions in determining the fair value of ABCP are the discount rate and coupon interest rates assigned to the new notes. A 1% increase (decrease) in the weighted average discount rate or a 1% decrease (increase) in the weighted average interest rate would result in a decrease (increase) in the estimated fair value of ABCP held by the Corporation of approximately $2 million.

The expected year of maturity, rating assigned by DBRS, estimated fair value, and par value of notes received by the Corporation under MAVII on January 21, 2009 do not differ significantly from the estimates as at December 31, 2008. Continuing uncertainties regarding the development of a market for ABCP, the amount and timing of interest and principal payments, the value of the assets that underlie the ABCP, and the credit and liquidity risks associated with the restructured notes could give rise to further changes in the fair value of the Corporation's investment in ABCP, although this would not result in a significant impact on the Corporation's future earnings. The liquidity disruption in the Canadian market for ABCP has had no significant impact on the Corporation's operations since the Corporation holds sufficient cash to meet all of its financial, operational and regulatory obligations.

(c) Income from investments

Interest income and gains and losses on cash and cash equivalents, marketable and illiquid securities amounted to $18 million (2007 – $26 million). Interest income and gains and losses on segregated securities amounted to $18 million (2007 – $18 million). The portion of income relating to the defined benefit plans was $10 million (2007 – $16 million) and was used to offset benefit costs. The remaining $8 million (2007–$2 million) relates to internally restricted funds and was recognized in investment and other income.

(d) Segregated securities

Funds have been segregated as follows:

As at December 31 (in millions of dollars)	**2008**	2007
Other retirement dental and life insurance benefits	$ 511	$ 497
Internally restricted funds	351	135
Total segregated securities	**$ 862**	$ 632

Funds were segregated either to conform with externally imposed restrictions or in anticipation of future cash flow requirements as explained below:

– External restrictions were imposed on other retirement dental and life insurance benefit plans repatriated through the *Federal Public Sector Pension Reform*. These defined benefit plans are partially funded by the transitional support and, therefore, the Corporation is obligated to use these funds exclusively for related benefit payments.

– The Corporation has segregated certain funds in anticipation of future cash flow requirements. These segregated funds will be used either for significant projects to renew the future operational capability of the Corporation or required regulatory contributions to the Corporation's pension plan in the event of either a solvency or going-concern shortfall.

9. Income Taxes

On March 27, 1994, the Corporation became a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*. The Corporation's subsidiaries and joint venture are subject to federal and provincial income taxes.

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

As at December 31 (in millions of dollars)	**2008**	2007
Net future income tax assets		
Capital assets	$ 6	$ 13
Salaries and benefits payable	20	15
Accrued pension, other retirement and post-employment benefits	213	148
Other	24	23
Net future income tax assets	**$ 263**	$ 199
Presented in the consolidated balance sheet as:		
Future income tax assets:		
Current	$ 23	$ 20
Long-term	270	203
Total future income tax assets	293	223
Future income tax liabilities:		
Long-term	(30)	(24)
Net future income tax assets	**$ 263**	$ 199

Deductible temporary differences for which no future income tax assets have been recognized amount to $768 million (2007 – $780 million) and relate mainly to the accrued other retirement and post-employment benefit liability. These differences are not expected to reverse in the foreseeable future.

9. Income Taxes (continued)

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

Year ended December 31 (in millions of dollars)	**2008**	2007
Current income tax expense	$ 131	$ 125
Future income tax expense (benefit) relating to:		
Origination and reversal of temporary differences	(64)	(42)
Reduction in tax rate	–	19
Income tax expense	**$ 67**	$ 102

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

Year ended December 31 (in millions of dollars)	**2008**	2007
Income before income taxes	$ 161	$ 160
Federal income taxes at parent's statutory tax rate	$ 48	$ 52
Subsidiaries and joint venture's provincial income taxes less federal tax abatement	4	3
(Increase) decrease in future income taxes resulting from:		
Previously unrecognized losses carried forward	(3)	–
Reduction in future tax rate	12	40
Other	6	7
Income tax expense	**$ 67**	$ 102

10. Capital Assets

As at December 31
(in millions of dollars)

	2008			2007		
	Cost	**Accumulated amortization and impairment**	**Net carrying value**	Cost	Accumulated amortization and impairment	Net carrying value
Property, plant and equipment						
Land	$ 259	$ –	$ 259	$ 214	$ –	$ 214
Buildings	1,801	1,024	777	1,718	971	747
Leasehold improvements	201	133	68	185	123	62
Plant equipment	975	738	237	924	689	235
Vehicles	219	152	67	215	133	82
Sales counters, office furniture and equipment	339	257	82	346	278	68
Other equipment	799	478	321	739	447	292
Assets under development	70	–	70	10	–	10
Total property, plant and equipment	4,663	2,782	1,881	4,351	2,641	1,710
Intangible assets						
Software	418	326	92	382	290	92
Software under development	52	–	52	42	–	42
Customer contracts and relationships	27	18	9	27	16	11
Total intangible assets	497	344	153	451	306	145
Total capital assets	**$ 5,160**	**$ 3,126**	**$ 2,034**	$ 4,802	$ 2,947	$ 1,855

Amortization of property, plant and equipment amounted to $196 million in 2008 (2007 – $172 million) while amortization of intangible assets amounted to $41 million (2007 – $34 million).

During the year, The Canada Post Group invested $391 million (2007 – $331 million) in capital assets, comprising $342 million (2007 – $258 million) of property, plant and equipment and $49 million (2007 – $73 million) of intangible assets.

As at December 31, 2008, a net carrying value of $1 million included in sales counters, office furniture and equipment is held under a capital lease.

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

(a) Description of benefit plans

The Corporation has a number of funded and unfunded defined benefit plans that provide pension, other retirement and post-employment benefits for most of its employees. Unfunded plans are plans where benefits are paid directly by the Corporation. With funded plans, funds are transferred to external trusts and the benefits are paid directly from these trusts. The Corporation's defined benefit pension plan is a funded plan based on length of pensionable service, the average of the best five consecutive years of pensionable salary and retirement age. The plan provides for retirement pension, survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plan and the retirement compensation arrangement, for benefits in excess of statutory limits as defined under the *Income Tax Act*. Pension benefits in pay are indexed annually. Both the Corporation's contributions and the employees' contributions to the external trusts are made in accordance with the provisions of the plan. In addition, the Corporation's contributions 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.

Other retirement defined benefit plans include unfunded health care, dental and life insurance plans. The post-employment defined benefit plans include unfunded employee termination benefits and health and dental coverage for employees receiving long-term disability benefits. The benefit costs covered by the Corporation and the costs assumed by employees and retirees are determined in accordance with the rules of each plan and the provisions of labour contracts.

By the end of 2006, the Corporation's employee termination benefit plan was fully curtailed. The curtailment of the plan froze the employees' entitlement based on the accumulation of years of service as of the curtailment date, and further benefit entitlements based on years of service was discontinued. On curtailment, employees were given the option of settlement by receiving the cash value of their accrued termination benefit or the option of deferring receipt of their benefit until departure, at which time the benefit would reflect their base salary at retirement or their base salary at the curtailment date if they resign or are terminated. Most employees chose the option of settlement. The settlement payments were made for the members of each bargaining group, and non-union employees, at different times during the period from 2004 to 2007, resulting in a settlement loss being recognized in each of these years. In 2007, a settlement loss of $9 million was recognized and the plan was fully settled.

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.

Purolator has a number of funded defined benefit pension plans. The defined benefit plans are based either on length of pensionable service and salary paid each year or on negotiated benefit rates, depending on the type of employees. Since these defined benefit plans are subject to the maximum pension payable under the *Income Tax Act*, a supplementary pension plan, based on length of pensionable service and final average salary, is offered to designated employees. Purolator also provides pension benefits to eligible employees through a defined contribution plan. Plan members are not required nor permitted to contribute to the defined benefit pension plans.

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

Certain employees of SCI presently belong to a pension plan sponsored by SCI's former owner, Bell Canada. The BCE Inc. Pension Plan is a non-contributory, defined benefit pension plan that provides for benefits based on length of pensionable service and final average salary. Pension benefits in pay are indexed annually. The assets of the pension plan are invested in units of the BCE Master Trust Fund with Royal Trust acting as trustee. However, in 2001 the Corporation entered into a Share Purchase Agreement with Bell Canada whereby the employees of SCI started participating in a new pension plan, disengaged from Bell Canada. The pension plan assets and liabilities for pensions and related benefits accrued at the date of change of ownership will be transferred to the new pension plan on completion of the related actuarial valuations, pending regulatory approval. The amounts of assets and liabilities included in these consolidated financial statements represent current estimates of the amounts to be transferred to the new Pension Plan, adjusted for all activity subsequent to the change of ownership. The estimate of the transfer amount relating to plan assets includes management's best estimate of the effect of certain events related to the BCE Inc. Pension Plan that occurred prior to the purchase of SCI by the Corporation. The estimate was revised in 2007 based on a report provided by BCE Corporate Services. The amounts to be transferred into the new, separate Pension Plan will be finalized and transferred over only when regulatory approval has been obtained. In 2005, a supplementary pension plan was created for designated employees to replace the current plan, whereby employees who reach the maximum pension payable from the registered plan would receive the excess pension payable by SCI. The results for this plan are included with those of the regular plan. After the acquisition, a defined contribution provision was added to SCI's pension plan.

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

Innovapost has a funded defined benefit pension plan. Like the Corporation, pension benefits that are not permissible in the registered pension plan are provided by a retirement compensation arrangement. Pension benefits, based on length of pensionable service and average pensionable salary, are indexed according to the annual increase in the consumer price index. Employer and employees' contributions are made in accordance with the plan. After October 31, 2002, no new members are eligible to join Innovapost's pension plan.

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

(b) Obligations and assets

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

Year ended, and as at, December 31 (in millions of dollars)	**2008**		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Balance, beginning of year	$ 14,208	$ 3,215	$ 13,729	$ 3,327
Current service cost	447	107	449	111
Interest cost	803	180	736	176
Employee contributions	188	–	183	–
Benefits paid	(391)	(105)	(324)	(133)
Actuarial gains	(3,531)	(900)	(564)	(149)
Plan amendments	12	(6)	–	(119)
Curtailment	–	(2)	(1)	–
Settlement	(4)	–	–	2
Balance, end of year	11,732	2,489	14,208	3,215
Plan assets				
Fair value, beginning of year	15,180	–	14,928	–
Reduction in estimated amount of surplus transfer from BCE Inc.	–	–	(11)	–
Actual return on plan assets	(2,909)	–	263	–
Employer regular contributions	98	–	129	–
Employer special solvency contributions	13	–	12	–
Employee contributions	188	–	183	–
Benefits paid	(391)	–	(324)	–
Settlement	(4)	–	–	–
Fair value, end of year	12,175	–	15,180	–
Funded status of defined benefit plans – surplus (deficit)	443	(2,489)	972	(3,215)
Unrecognized net actuarial (gain) loss	506	(53)	63	904
Unrecognized past service costs (credits)	25	(166)	16	(190)
Unrecognized transitional obligation	–	–	–	3
Unrecognized funding excess	(89)	–	(121)	–
Net amount recognized for:				
Defined benefit plans	885	(2,708)	930	(2,498)
Defined contribution plans	(1)	–	(1)	–
Total amount recognized	**$ 884**	**$ (2,708)**	$ 929	$ (2,498)
Presented in the consolidated balance sheet as:				
Accrued pension benefit asset	$ 898	$ –	$ 944	$ –
Accrued pension, other retirement and post-employment benefit liability	(14)	(2,708)	(15)	(2,498)
Total amount presented	**$ 884**	**$ (2,708)**	$ 929	$ (2,498)

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

(c) Benefit plans in a deficit position

Included in the above accrued benefit obligations and fair value of plan assets at year end are the following amounts with respect to plans that are in a deficit position:

As at December 31 (in millions of dollars)	2008		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations	$ 57	$ 2,489	$ 323	$ 3,215
Plan assets	44	–	273	–
Funded status of defined benefit plans – deficit	**$ (13)**	**$ (2,489)**	$ (50)	$ (3,215)

(d) Investment objective and plan asset allocations

The Board of Directors of the Corporation adopts and reviews at least annually a Statement of Investment Policies and Procedures ("SIPP") addressing the manner in which the Corporation's pension plan assets will be invested. Investment principles and beliefs are revisited periodically to ensure that changes to the investment policies may be made if warranted. The Corporation believes that an investment portfolio with an appropriate asset allocation, the target portfolio, can over the long-term achieve the investment objective of ensuring that sufficient assets will be available to meet the obligations of the pension plan as they come due. 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 and therefore minimum and maximum asset category limits have been established.

The Corporation's investment objective for its pension plan assets is to achieve a long-term rate of return, net of administrative expenses, which exceeds inflation by at least 4.75%. Investments are made according to criteria and limitations set by the Board of Directors and applicable legislation. Allowable types of investment, individual investment limits, portfolio investment limits, maturity limits and minimum credit quality ratings are set by the Board to reduce the level of risk and provide diversification between industry sectors, geographic/economic areas and management styles. The asset allocations, by asset category, of the Corporation's pension plan are as follows:

As at December 31		2008	2007
	Target	**Actual**	Actual
Cash and money market instruments	**1 %**	**3 %**	5 %
Bonds	**36 %**	**38 %**	30 %
Canadian equities	**24 %**	**22 %**	28 %
U.S. equities	**20 %**	**17 %**	16 %
International equities	**15 %**	**14 %**	17 %
Real estate	**3 %**	**5 %**	3 %
Other assets less liabilities	**1 %**	**1 %**	1 %
Pension plan assets of the Corporation	**100 %**	**100 %**	100 %

The pension plan assets of Purolator, SCI and Innovapost are governed by similar investment objectives and policies and account for 2% (2007 – 2%) of the total plan assets of $12,175 million (2007 – $15,180 million).

Total plan assets include $2,338 million (2007 – $2,147 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $122 million (2007 – $112 million) in refundable taxes held by the Canada Revenue Agency.

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

(e) Costs

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

Year ended December 31 (in millions of dollars)	**2008**			2007		
	Incurred in year	**Adjustments***	**Recognized in year**	Incurred in year	Adjustments*	Recognized in year
Pension benefit plans						
Current service cost	$ 447	$ –	$ 447	$ 449	$ –	$ 449
Interest cost	803	–	803	736	–	736
Return on plan assets	2,909	(3,976)	(1,067)	(263)	(683)	(946)
Actuarial (gains) losses on accrued benefit obligations	(3,531)	3,532	1	(564)	567	3
Plan amendments	12	(9)	3	–	1	1
Curtailment gain	–	–	–	(1)	–	(1)
Settlement loss	1	–	1	–	–	–
Amortization of funding excess	–	(32)	(32)	–	(32)	(32)
Defined benefit costs	641	(485)	156	357	(147)	210
Defined contribution costs	5	–	5	2	–	2
Multiemployer defined benefit costs	–	–	–	1	–	1
Total pension benefit costs	646	(485)	161	360	(147)	213
Transitional support from the Government of Canada	(35)	–	(35)	(63)	–	(63)
Net pension benefit costs	**$ 611**	**$ (485)**	**$ 126**	$ 297	$ (147)	$ 150
Other benefit plans						
Current service cost	$ 107	$ –	$ 107	$ 111	$ –	$ 111
Interest cost	180	–	180	176	–	176
Actuarial (gains) losses on accrued benefit obligations	(900)	957	57	(149)	228	79
Plan amendments	(6)	(24)	(30)	(119)	104	(15)
Curtailment gain	(2)	–	(2)	–	–	–
Settlement loss	–	–	–	9	–	9
Amortization of transitional obligation	–	3	3	–	4	4
Defined benefit costs	(621)	936	315	28	336	364
Return on segregated securities	(10)	–	(10)	(16)	–	(16)
Transitional support from the Government of Canada	(46)	–	(46)	(43)	–	(43)
Net other benefit costs	**$ (677)**	**$ 936**	**$ 259**	$ (31)	$ 336	$ 305

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

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

(f) Assumptions

The assumptions used in measuring the costs and accrued benefit obligations for the Corporation's significant defined benefit plans were as follows:

As at December 31	2008		2007	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Accrued benefit obligations:				
Discount rate	7.5%	7.6%	5.6%	5.5%
Long-term rate of compensation increase	3.0%	3.0%	3.0%	3.0%
Benefit costs:				
Discount rate	5.6%	5.5%	5.3%	5.3%
Expected long-term rate of return on plan assets	7.25%	N/A	7.0%	N/A
Long-term rate of compensation increase	3.0%	3.0%	3.0%	3.0%
Assumed health care cost trend rates:				
Initial health care cost trend rate	N/A	8.9%	N/A	8.8%
Cost trend rate declines to	N/A	5.3%	N/A	5.3%
Year that the rate reaches the rate it is assumed to remain at	N/A	year 10	N/A	year 10

(g) Sensitivity analysis

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans.
A one-percentage-point change in assumed health care cost trend rates would have had the following effects for 2008:

(in millions of dollars)	Increase	Decrease
Total of current service and interest costs	**$ 52**	**$ (39)**
Accrued benefit obligations	**$ 360**	**$ (283)**

The above sensitivities are hypothetical and must be used with caution. Changes in amounts based on a one-percentage-point variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in amounts may not be linear. The sensitivities have been calculated independently of changes in other key assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities.

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

(h) Total cash payments

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

Year ended December 31 (in millions of dollars)	**2008**	2007
Benefits paid directly to beneficiaries for unfunded other benefit plans	$ 105	$ 133
Employer regular contributions to funded pension benefit plans	98	129
Employer special solvency contributions to funded pension benefit plans	13	12
Total cash payments for defined benefit plans	216	274
Contributions to defined contribution plans	5	2
Contributions to multiemployer defined benefit plan	–	1
Total cash payments	**$ 221**	$ 277

The actuarial valuations of the defined benefit pension plans for funding purposes are required to be filed at least every three years and annually when a solvency shortfall has occurred. At the end of 2007, the Corporation's registered pension plan was in a funding excess position, both on a solvency and going-concern basis. The Corporation's contribution holiday that started in 2007 was continued until October 31, 2008 when registered pension plan contributions were resumed. If future actuarial valuations for funding purposes result in a going-concern or solvency deficit, the Corporation would be required to make special payments to the plan over periods specified by regulatory authorities. The most recent actuarial valuations for funding purposes, and the next required actuarial valuations, are as of the following dates:

	Most recent actuarial valuation for funding purposes	**Next required actuarial valuation for funding purposes**
Canada Post Corporation	December 31, 2007	December 31, 2010
Purolator	December 31, 2007	December 31, 2008
SCI	December 31, 2006	December 31, 2009
Innovapost	December 31, 2007	December 31, 2010

12. Goodwill

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

Year ended December 31 (in millions of dollars)	**2008**				2007
	Canada Post segment	**Purolator segment**	**Logistics segment**	**Total**	Total
Balance, beginning of year	$ –	$ 121	$ 3	$ 124	$ 123
Acquisition	–	–	–	–	4
Impairment	–	–	–	–	(3)
Balance, end of year	**$ –**	**$ 121**	**$ 3**	**$ 124**	$ 124

In 2007, the Corporation recorded a $3 million impairment charge, which represented all the goodwill related to epost™.

13. Other Assets

As at December 31 (in millions of dollars)	**2008**	2007
Assets held for sale	$ 1	$ 2
Illiquid securities (note 8)	5	7
Other	13	12
Total other assets	**$ 19**	$ 21

The Corporation has classified several properties as held for sale at the end of 2008. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds. The property held for sale at the end of 2007 was sold during the year as anticipated. A gain of $3 million was recorded on the disposition.

14. Long-Term Debt

As at December 31 (in millions of dollars)		**2008**		2007
	Fair value	**Carrying value**	Fair value	Carrying value
Non-redeemable bonds maturing March 2016, interest at 10.35% payable semi-annually on March 15 and September 15	$ 79	$ 55	$ 78	$ 55
Notes due to BCE Emergis Inc., plus accrued interest at the Bank of Canada overnight rate plus 1%, matured in December 2008	–	–	3	3
Other long–term borrowing, interest at Bank of Canada prime rate, repayment term five years	18	18	–	–
Capital lease obligation, expiring 2011, net of implicit interest at rates between 5.7% and 8.4%	1	1	–	–
Total long-term debt	98	74	81	58
Less current portion	–	–	3	3
Long-term portion	**$ 98**	**$ 74**	78	$ 55

Fair value of long-term bonds is estimated by reference to quoted market prices of similar bonds. The scheduled repayment date of these bonds is March 2016. There are no prepayment terms associated with this debt.

The other long-term borrowing of one of the Corporation's subsidiaries represents an amount drawn on a credit facility as at December 31, 2008, which is expected to be converted to capital leases during 2009. The term of the facility is for a period of five years. The fair value of this borrowing approximates its carrying value as a result of the floating interest rate at the Bank of Canada prime rate.

The capital lease obligations will be repaid in equal monthly installments over a period of 36 months.

The effective interest rate as at December 31, 2008 was 10.5% (2007 – 10.5%) for the non-redeemable bonds and 6.8% for the capital lease obligations. Interest expense on long-term debt amounted to $6 million (2007 – $6 million).

15. Conditional Asset Retirement Obligations

Certain of the Corporation's owned buildings have asbestos-containing materials which the Corporation will be obligated to remove and dispose of in a special manner should the property undergo major renovations or demolition. As a result of the longevity of the Corporation's buildings where asbestos exists, ongoing asbestos management programs, and the fact that the Corporation does not have plans for major changes that would require the removal of asbestos, the timing of the removal of the asbestos is indeterminable. The fair value of a conditional asset retirement obligation associated with asbestos removal can be reasonably estimated only when the Corporation has sufficient information to estimate the timing of the settlement of the obligation.

As of December 31, 2008, the Corporation has recognized conditional asset retirement obligations associated with asbestos removal for properties which are planned to be disposed of by sale. These conditional asset retirement obligations are expected to be transferred to the prospective purchasers of the properties on the date of sale. For the remaining properties with asbestos-containing materials, the Corporation does not have sufficient information as of December 31, 2008 to reasonably estimate the fair value of the conditional asset retirement obligations. Similarly, the fair value of conditional asset retirement 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 asset retirement obligations at each future reporting date.

The Corporation estimates that the undiscounted cash flows required to transfer its recognized conditional asset retirement obligations approximate $11 million. The sales of the properties are expected to occur within the next three years, and the estimated cash flows have been discounted at a credit-adjusted risk-free rate of 4.2%. The present values of the Corporation's conditional asset retirement obligations at December 31, 2008, totalling $10 million, are included in other long-term liabilities. No asset retirement obligations were recorded in 2007.

16. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* ("the Acts") and any directives issued pursuant to the Acts. These 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. In December 1998, the Government of Canada approved a Multi-Year Policy and Financial Framework ("Policy Framework") that set financial performance targets, service standards and a price-cap formula for the domestic basic letter rate, for the Corporation. A strategic review of the Corporation's public policy objectives, its ability to remain financially self-sustaining and the continued relevance of the 1998 Policy Framework was conducted in 2008, and is currently under consideration by the Government of Canada.

16. Capital Management (continued)

The Corporation defines and computes its capital as follows:

As at December 31 (in millions of dollars)	2008	2007
Equity of Canada	$ 1,507	$ 1,439
Long-term debt	74	58
Other long-term financial obligation	19	17
Total capital	$ 1,600	$ 1,514

The Corporation's objectives in managing capital are to:
– Provide sufficient liquidity to support its financial obligations and its operating and strategic plans;
– Generate a reasonable return to the Government of Canada in support of the objectives of the Policy Framework; and
– Maintain financial capacity and access to credit facilities to support future development of the business.

In 2008 and 2007, the Corporation relied on cash flow provided by operations and accumulated funds to support its financial obligations and fund its capital and strategic requirements. Indebtedness has been maintained at a low level. Since 2007, the Corporation has segregated funds for specific future cash flow requirements. These segregated funds would be drawn only for significant projects related to the renewal of the Corporation's operational capabilities or to make regulatory contributions to the Corporation's pension plan.

The Corporation's ability to obtain additional capital is subject to market conditions and pursuant to the provisions of the Acts. The limitations on the borrowings of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk in Note 7 (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, which are subject to the approval of the Board of Directors and the Governor in Council. In addition, the detailed terms and conditions of any specific long-term borrowing transaction must be approved by the Minister of Finance. The Corporation does not intend to borrow additional capital within the next twelve months however, financing the Postal Transformation program will likely involve borrowing in the longer term. The timing of future borrowings is not determinable. The *Canada Post Corporation Act* provides 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, however no such shares have been issued.

The declaration, amount and payment of a dividend to the Government of Canada are subject to the Acts. Consistent with the objectives set out in the 1998 Policy Framework, dividends have been paid at 40% of the prior year's net income since 2004, when the Policy Framework objective to exceed an 11% return on equity was first reached. On May 17, 2007, a dividend of $47 million was paid and on May 15, 2008, the dividend paid was $22 million.

The Corporation's financial objectives and strategies as stated above have remained substantially unchanged over the last two years. These objectives and strategies are reviewed in the annual Corporate Plan submission, approved by the Board of Directors. The Corporation's 2008 and 2007 Corporate Plans were approved by the Governor in Council on July 28, 2008. As of March 6, 2009, the Corporation's 2009 Corporate Plan had not been approved by the Governor in Council.

The Corporation and its subsidiaries and joint venture are not subject to any externally imposed capital requirements.

17. Commitments and Contingencies

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

One complaint was filed by the Public Service Alliance of Canada ("PSAC") in 1983, retroactive to October 16, 1981, when Canada Post Corporation became a Crown corporation. The Commission referred the complaint to the Canadian Human Rights Tribunal ("the Tribunal") in 1992. The Tribunal rendered its decision on October 7, 2005, concluding that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of PSAC members contrary to Section 11 of the *Canadian Human Rights Act*.

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

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

The appeals were heard in the Federal Court Trial Division in November 2007 and January 2008. On February 21, 2008, the Federal Court Trial Division released its decision allowing Canada Post Corporation's application for judicial review setting aside the decision of the Tribunal and referred the complaint back to the Tribunal with the direction that the complaint be dismissed as not substantiated according to the legal standard of proof. PSAC's appeal against the decision of the Tribunal was dismissed.

On March 18, 2008, PSAC appealed the decision of the Federal Court Trial Division to the Federal Court of Appeal. On March 25, 2008, the Commission also appealed this decision to the Federal Court of Appeal. The parties exchanged written Memoranda of Fact and Law in October and November of 2008. It is anticipated the appeal will be heard in the Federal Court of Appeal in the fall of 2009.

Another complaint was filed by the Canadian Postmasters and Assistants Association initially in December 1982, seeking retroactivity to October 16, 1981. In December 1991, the Commission decided not to deal with the complaint. This complaint was refiled in November 1992. The Commission did not fully investigate the complaint. It did attempt to mediate/conciliate a resolution to the complaint without success. On February 28, 2006, the most recent conciliator recommended to the Commission that the Commission decline to deal with the complaint at this time because the complaint is one that could more appropriately be dealt with under the *Canada Labour Code*. There have been no new developments.

The outcome of these complaints is not currently determinable and as a result no provision has been recorded in the consolidated financial statements. Settlement, if any, arising from resolution of these matters, is presently planned to be recovered in future postal rates (as determined in accordance with the *Canada Post Corporation Act*) and/or from the Government of Canada.

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

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

17. Commitments and Contingencies (continued)

(c) CPIL and its subsidiary entered into an agreement with the Government of the Netherlands Antilles to provide postal and postbanking services, to the residents of the five islands that comprise the Netherlands Antilles, for a 20 year period that commenced in May 2003. Compliance with certain terms of the agreement for the concession was in dispute, with each party alleging defaults by the other. A number of meetings were held in 2007 with the Government of the Netherlands Antilles, with the objective of negotiating an amicable settlement. As a result of these meetings, the parties signed a Memorandum of Understanding in December 2007 and a Settlement Agreement in January 2008. The appropriate authorization under the *Financial Administration Act* was obtained in February 2008.

As per the terms and conditions set out in the Settlement Agreement, in April 2008, CPIL transferred 100% of the shares in its subsidiary, Nieuwe Post Nederlandse Antillen N.V., to the Government of the Netherlands Antilles and paid $7 million as full and final settlement.

(d) In the normal course of business, the Corporation has entered into agreements that include indemnities in favour of third parties. In addition, the Corporation has entered into indemnity agreements with each of its directors, officers and certain employees to indemnify them, subject to the terms of these agreements, against claims and expenses incurred by them as a result of serving as a director or officer of the Corporation or as a director, officer or in a similar capacity of another entity at the request of the Corporation.

These agreements generally do not contain specified limits on the Corporation's liability and, therefore, it is not possible to estimate the potential future liability under these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(e) The Corporation is involved in various claims and litigation in the normal course of business. Provisions are recorded when and if losses are likely and amounts can be reasonably estimated.

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

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

(in millions of dollars)

2009	$ 138
2010	129
2011	111
2012	87
2013	64
2014 and thereafter	629
Total	**$ 1,158**

Included in the above commitments are leases in the amount of $27 million with a related party, the Government of Canada, for premises used in postal operations (2007 – $15 million).

(h) In the normal course of business, the Corporation 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 Corporation's contractual rights of termination.

18. Cash Flow Information

Year ended December 31 (in millions of dollars)	2008	2007
Change in non-cash operating working capital		
Decrease (increase) in accounts receivable	$ 6	$ (6)
Decrease in net income tax payable	(13)	(37)
Increase (decrease) in accounts payable and accrued liabilities	38	(8)
Increase (decrease) in salaries and benefits payable	119	(10)
Decrease in deferred revenue	(9)	(27)
Net increase (decrease) in other non-cash operating working capital items	2	(5)
Total	**$ 143**	$ (93)
Supplementary information		
Interest paid	**$ 8**	$ 6
Income tax paid	**$ 142**	$ 163

19. Joint Venture

The Corporation has a 51% ownership interest in Innovapost, The Canada Post Group's primary information technology service provider. Virtually all of Innovapost's services are provided to The Canada Post Group based on consideration contractually established and agreed to by the related party. Cost of operations included in the consolidated financial statements of the Corporation, includes approximately $310 million (2007 – $283 million) of expenses related to these services. The Corporation's proportionate share of the assets and liabilities of Innovapost at year end is $75 million (2007 – $63 million) and $49 million (2007 – $37 million), respectively.

20. Related Party Transactions

The Corporation had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements:

(a) Government of Canada, its agencies and other Crown corporations • The Government of Canada provides compensation to the Corporation to partially offset foregone postage revenue from Government free mail services and mailing of materials for the blind (note 6). In addition, pursuant to an agreement with the Department of Indian Affairs and Northern Development, the Government of Canada compensates the Corporation for the difference between the Corporation's cost of shipping eligible goods under the Food Mail Program and the applicable postage paid by shippers. Compensation payments from the Government of Canada amounting to $78 million (2007 – $68 million) are included in revenue from operations.

In addition, the Corporation has other transactions with the Government of Canada, its agencies and other Crown corporations in the normal course of business at commercial prices and terms.

For the year ended December 31, 2008, the amounts of accounts receivable and deferred revenue from these related parties are $41 million (2007 – $24 million) and $4 million (2007 – $5 million), respectively.

(b) Directors • In the normal course of business, the Corporation may interact with companies whose directors or officers are directors of the Corporation. The affected directors always recuse themselves from all discussions and decisions related to transactions between the companies. Such cases of company interaction occurred during the year with Telus Corporation. In 2008, the Corporation provided services to Telus Corporation of $51 million (2007 – $88 million). Services received from Telus Corporation in 2008 amounted to $3 million (2007 – $5 million).

(c) Other • During the year, a subsidiary of the Corporation had business transactions with a company controlled by a minority shareholder of that subsidiary. The minority shareholder is also a director of the subsidiary. This company provided air services to the subsidiary in the amount of $109 million (2007 – $107 million). These transactions were made at prices and terms comparable to those given to other suppliers of the subsidiary.

21. Publications Assistance Program

Under the Government of Canada's Publications Assistance Program, the Government and the Corporation have subsidized a portion of the distribution costs incurred by eligible publishers of eligible publications using the Corporation's Publications Mail™ service. Although subsidy payments payable to eligible publishers vary over the Government's fiscal year, the Government's contribution to the Program was capped at $45 million in its fiscal year 2008/2009 ($45 million in 2007/2008). The Corporation's contribution to the Program was capped at $15 million in 2008/2009 ($15 million in 2007/2008) and is included in cost of operations. As directed by the shareholder, Canada Post will continue its financial contribution to the Program fund until March 31, 2009.

22. Segmented Information

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

The Canada Post segment provides transaction mail, parcels and direct marketing services, as well as other mail products and services. The Purolator segment derives its revenues from specialized courier services. The Logistics segment provides third-party logistics services in supply chain management and, from March 30, 2007, transportation services in the small to medium enterprise market.

Operating segments below the quantitative thresholds, for determining reportable operating segments, are combined and disclosed in the "all other" category. Their revenues are attributable to information technology services and, in 2007, to postal/postbanking services in the Netherlands Antilles.

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

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

In 2007 the Logistics segment recorded $3 million of restructuring costs related to the restructuring plan approved in 2006.

Year ended, and as at, December 31, 2008
(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 6,084	$ 1,495	$ 147	$ 3	$ –	$ 7,729
Intersegment revenue	24	68	9	173	(274)	–
Revenue from operations	$ 6,108	$ 1,563	$ 156	$ 176	$ (274)	$ 7,729
Income (loss) before the undernoted items	$ 211	$ 131	$ 20	$ 16	$ (6)	$ 372
Amortization and impairment	(191)	(40)	(7)	(2)	3	(237)
Investment and other income	54	4	–	1	(21)	38
Interest and other expense	(8)	(4)	–	–	–	(12)
Income (loss) by segment	$ 66	$ 91	$ 13	$ 15	$ (24)	161
Unallocated amounts and adjustments in consolidation						(4)
Income tax expense						(67)
Net income						$ 90
Assets by segment	$ 5,096	$ 689	$ 88	$ 240	$ (523)	$ 5,590
Unallocated amounts and adjustments in consolidation						1
Total assets						$ 5,591
Acquisition of capital assets	$ 271	$ 117	$ 6	$ 1	$ (4)	$ 391

22. Segmented Information (continued)

Year ended, and as at, December 31, 2007
(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	$ 5,933	$ 1,389	$ 137	$ 15	$ –	$ 7,474
Intersegment revenue	22	59	9	160	(250)	–
Revenue from operations	$ 5,955	$ 1,448	$ 146	$ 175	$ (250)	$ 7,474
Income (loss) before the undernoted items	$ 207	$ 118	$ 11	$ 9	$ (4)	$ 341
Amortization and impairment	(180)	(30)	(5)	(2)	2	(215)
Investment and other income	57	–	–	1	(16)	42
Interest and other expense	(6)	(4)	–	–	–	(10)
Income (loss) by segment	$ 78	$ 84	$ 6	$ 8	$ (18)	158
Unallocated amounts and adjustments in consolidation						(2)
Income tax expense						(102)
Net income						$ 54
Assets by segment	$ 4,734	$ 617	$ 102	$ 237	$ (522)	$ 5,168
Unallocated amounts and adjustments in consolidation						(1)
Total assets						$ 5,167
Acquisition of capital assets	$ 238	$ 83	$ 13	$ 2	$ (5)	$ 331