

President's Message

AS THE NEEDS OF CANADIAN BUSINESSES AND CITIZENS EVOLVE, CANADA POST HAS POSITIONED ITSELF TO BECOME A TRULY MODERN POST. WE ARE READY TO BUILD THE FUTURE TOGETHER.

When I first joined Canada Post three years ago, I set two important goals: to engage our employees and to make our customers the focus of all that we do. I'm proud to say that, during 2007, we have made real, measurable progress on both, thanks to the tremendous efforts of our people, Canada Post employees.

This progress was made even though 2007 was a challenging year. We saw a softening in revenues for our core product of domestic Lettermail™, where volumes decreased by 0.9 per cent compared to 2006. While we experienced solid revenue growth in our Parcels and Direct Marketing lines of business, they were not sufficient to help us meet our revenue objectives. As the year unfolded, there was growing uncertainty about whether we would meet our financial targets. Across the company, however, people rose to meet the challenge by applying stringent cost-cutting measures, which resulted in \$93 million in savings, enabling us to reach our financial threshold. As a result, a team incentive was triggered to reward employees' extraordinary efforts and to encourage even greater engagement in our business.

Particularly gratifying was that 2007 marked the first year that the vast majority of employees were able to participate, as members of the Canadian Union of Postal Workers (CUPW) became eligible to share in the team incentive. This agreement was part of a negotiated, four-year settlement reached with the CUPW in the spring of 2007 – a milestone settlement that stands as testament to the improved relationship we have built with our largest union.

As a Modern Post, our people are the heart and soul of our company; their commitment to deliver the best products and services to Canadians is truly the foundation of our success. As such, we set out to meet, share with and learn from our employees in open, face-to-face exchanges. In 2007, we conducted 22 regional forums and more than 450 senior-executive visits, sharing the "big picture" and listening to the opinions and suggestions of thousands of employees.

The health and safety of our people continued to be a key priority for both me and my management team. Our employees suffered from more than 9,000 work-related accidents in 2007, with the vast majority of accidents, ranging from dog attacks to slips and falls, occurring in offsite locations over which we have little or no control. We



CHALLENGE: DELIVERING THE MAIL TO RURAL AREAS

Canada Post's 6,000 Rural and Suburban Mail Carriers (RSMCs) use vehicles to deliver the mail to more than 800,000 rural mailboxes. These employees pull their vehicles over at each rural mailbox, deposit the mail, and then merge back into traffic. The nature of roads (narrow or no shoulder), visual obstructions like curves and hills, and greatly increased traffic volumes are just some of the hazards during mail delivery.

Our RSMCs have been involved in more than 70 accidents since 2005, including three fatalities, and more than 1,400 workplace safety complaints have been received since 2004. As a responsible employer and respected service provider, Canada Post has a moral and legal obligation to address this issue. Under the direction of Human Resources and Social Development Canada, Canada Post has begun a Rural Mail Safety Review. The \$500 million review will assess the safety of all rural mailboxes in Canada. Changing a customer's mode of delivery is only undertaken when the safety of our mail carrier is at risk and no other alternative is feasible.



take these issues very seriously. Reducing accidents requires a multi-part solution. During 2007, we laid important groundwork and have taken several steps to create more modern and ergonomic workspaces. We have hired health and safety professionals and have invested in new processes and tools to make our employees safer. In 2007, our front-line employees received safety training, and new anti-slip footwear was distributed to thousands of our delivery employees.

Our efforts have been recognized. For the second year in a row, Canada Post was named one of the Top 100 Employers in Canada in Maclean's magazine. Further evidence of our

progress was seen in our annual independent Employee Engagement Survey, which showed a five percentage point overall increase in engagement compared with 2006. Conducted by International Survey Research (ISR), the survey revealed improvements across the board in almost every category; a remarkable achievement made in only one year. Still, more work needs to be done.

One area of continued concern is the safety of our rural and suburban mail carriers (RSMC). As part of our ongoing safety evaluation of Canada's rural mailboxes, we have assessed more than 69,000 mailboxes to date. This evaluation comes after Human Resources and Social Development Canada handed down to us more than 40 workplace safety decisions, which stem from the more than 1,400 workplace safety complaints from our rural and suburban mail carriers. The need for this review is critical; three people lost their lives delivering to rural mailboxes last year. RSMC vehicles have been equipped with lights and signs for better visibility, and when rural mailboxes are deemed unsafe, delivery is moved to other locations. We will continue to work to find the best solutions possible for all our stakeholders.

Addressing our health and safety challenges will be a major part of our postal transformation. We intend to replace obsolete buildings and upgrade mail-processing equipment and technology to meet modern competitive standards. The total amount of incremental capital spending over the next



CHALLENGE: PREVENTING INJURIES TO OUR EMPLOYEES

In 2007, Canada Post employees suffered more than 9,000 reportable, work-related accidents. Fifty-two per cent of these required external medical attention, with the employee returning to work the following day, while 48 per cent required at least one additional full day off work following the incident. Most of these injuries occur off of Canada Post property, when our employees are out in the community delivering the mail. Reducing accidents and ensuring the safety of our employees will require an increased public awareness regarding the importance of controlling dogs and keeping walkways clear of ice, snow and debris. The safety of our delivery personnel falls into the hands of many stakeholders.

Within our facilities, many employee injuries are musculoskeletal and can be attributed to poor ergonomics. Ergonomics are especially important for employees who spend much of their workday doing repetitive movements. Canada Post is investing in improvements for our equipment and processes, as well as new health and safety training for all CUPW employees, to minimize the risks associated with lifting, carrying, pulling and pushing the mail.

five years could reach \$1.9 billion. We will prioritize our greatest needs and invest only what we can afford.

These initiatives not only make our workplaces more pleasant for employees, but also help increase productivity, lower costs, meet strict environmental standards, and provide faster, enhanced service to our customers. This investment in our infrastructure is timely. We're facing one of the most competitive marketplaces in our history. International competitors, including FedEx, DHL and UPS, as well as Posts from overseas countries, such as Deutsche Post, are all operating within Canada. All are supported by world-class equipment and the latest in technology. Transforming Canada Post's current equipment, some of which dates back to the 1970s, is essential to ensuring a competitive, cost-effective Canadian postal service, one that

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meets the growing demands of consumers, entrepreneurs and large enterprises.

We have already made great progress by establishing a structure to better respond to those demands. Two years ago, we realigned Canada Post's operations into three lines of business: Transaction Mail, Parcels and Direct Marketing. Through these lines of business and our sales organization, we continue to listen to our customers so that our solutions respond to their specific business challenges. During 2007, these solutions ranged from addressing core needs, such as improving our on-time delivery of Admail™, making it easier to trace parcels and simplifying our products to innovative new products like SmartFlow, our new multi-channel electronic document management solution.

We recognize that, as Canadians increasingly operate through the Internet, their needs and expectations are changing. Consumers want more relevant, targeted offers as well as more choice in delivery options. Businesses want higher return on their mailing dollar investments. And, while 85 per cent of Canadians say they prefer to receive their bills by mail, a growing number of consumers and businesses want the freedom of both physical and secure electronic channels to communicate with each other. We continue to believe that we can play a relevant role in new markets. By building on and investing in the strong foundation we have established, we will seek to diversify our revenues and grow.



CHALLENGE: BUILDING THE MODERN WORKPLACE

To succeed, Canada Post requires an engaged workforce – employees who feel involved in the company, understand the Corporation's goals and are eager to give their best to our customers, every day. To attract and retain model employees, Canada Post must become a model workplace. We believe we can achieve this by fostering an environment based on respect and fairness, a dedication to health and safety and open communication with employees about business decisions that affect them, and a commitment to develop our employees.

By 2016, some 27,000 employees are expected to leave Canada Post, mostly due to retirement. Finding new leaders to replace these experienced employees, from both within the company and through external candidates, will require strategic planning and a sound knowledge of the skills and characteristics required to lead the Corporation into the future. Customers are recognizing our efforts to create positive change. We've seen proof in the results of our Customer Value Index (CVI). Out of 18 performance indicators in our CVI, we reached our targets in eight and improved in 10 during 2007.

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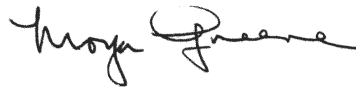
Of course, success in business means creating conditions today that also allow future generations to thrive. With 72,500 employees, The Canada Post Group has a presence in virtually every community across Canada. Our size and reach into Canadian households and Canadian companies means that we can help effect real change and influence everyday lives. In recognition of this, we made a commitment in 2007 to integrate sustainable practices companywide.

For many years, Canada Post employees have been actively involved in protecting the environment. Across the company, grassroots initiatives, ranging from composting to tree planting to green commuting challenges, have complemented corporate environmental programs. Our future investments will reflect this philosophy. A shining example will be our new Winnipeg plant that will be built to “green building” standards and equipped with environmentally friendly technologies. In 2007, we chose to address the stigma of mental illness and shine a light on the plight of millions of Canadians who often suffer in silence. With tremendous employee support, Canada Post has officially

made mental health our corporate cause of choice. We are committed to raising funds to support awareness, research and local community treatment for this important cause.

We are also producing our first Corporate Social Responsibility Report, set for release in the spring of 2008. This report will not only be a benchmark for the Corporation’s ongoing green initiatives and programs, but will serve as a valuable tool to enable even more positive change in the future.

Looking forward, we will continue to strive to create a successful, sustainable future for our employees, our customers and all Canadians. It is clear, however, that 2008 will be equally as challenging as 2007, if not more so. The threat of a recession in the United States is likely sufficient in itself to cause businesses to curb spending. This reduced spending will put pressure on Canada Post revenues. It is clear that we need to further reduce our cost base if we are to weather the inevitable revenue declines. I am certain that our people, once again, will rise to the challenge. As the needs of Canadian businesses and citizens evolve, Canada Post has positioned itself to become a truly Modern Post. We are ready to build the future together.



Moya Greene
President and Chief Executive Officer



CHALLENGE: FUNDING OUR TRANSFORMATION

To ensure Canadians continue to enjoy high-quality, cost-effective services, Canada Post needs to invest \$1.9 billion of incremental capital and \$0.6 billion in related program expenses to bring its aging plants, infrastructure and equipment up to modern standards. Canada Post will face challenges in making this funding available over the next five years. Costs such as fuel prices are increasing while the basic postage rate is restricted by a price-cap formula. An economic slowdown could affect our customers’ bottom lines and, in turn, Canada Post’s revenues.

Funding will also be derived from an employer-contribution holiday to the Canada Post Pension Plan. More than \$750 million of supplementary contributions have created a healthy surplus, but financial markets also have an important impact on the valuation of our pension plan and related funding requirements.

To mitigate these risks, Canada Post is reviewing its cost structure and developing contingency plans to ensure our investment plans are prudent and flexible.