

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the consolidated financial statements and all other information presented in this Annual Report. The *Financial Administration Act* and regulations require the consolidated financial statements to be prepared in accordance with Canadian generally accepted accounting principles. Where appropriate, the consolidated financial statements include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

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

The Board of Directors has delegated responsibility for oversight of the financial reporting process to the Audit Committee. The Committee acts on behalf of the Board of Directors in fulfilling the Board's responsibilities, which are prescribed by Section 148 of the *Financial Administration Act*. The Audit Committee is entirely constituted of non-executive directors and currently composed of six members who are therefore independent in accordance with the Corporation's standards of independence. The Audit Committee is responsible for reviewing the consolidated financial statements and Annual Report and for meeting with management, internal auditors and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues. The Audit Committee meets not less than four times a year, focusing in particular on the areas of financial reporting, risk management and internal control.

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

Canada Post Corporation is a Crown corporation included since 1989 in Part II of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and KPMG LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2007, in accordance with the *Financial Administration Act*. The Auditor General and KPMG LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as the Minister of Transport, Infrastructure and Communities.



President and Chief Executive Officer

March 28, 2008



Chief Financial Officer

AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

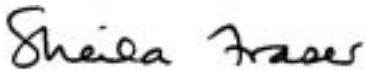
To the Minister of Transport, Infrastructure and Communities,

We have audited the consolidated balance sheet of Canada Post Corporation as at December 31, 2007 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, 2007 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, FCA
Auditor General of Canada

Ottawa, Canada
March 28, 2008



Chartered Accountants, Licensed Public Accountants

CONSOLIDATED BALANCE SHEET

As at December 31 (in millions of dollars)	2007	2006
Assets		
Current assets		
Cash and cash equivalents (note 7)	\$ 386	\$ 499
Marketable securities (note 7)	309	231
Accounts receivable	592	582
Income tax recoverable	10	4
Prepaid expenses	68	69
Current portion of segregated securities (note 7)	-	21
Current portion of future income tax assets (note 8)	20	63
Total current assets	1,385	1,469
Segregated securities (note 7)	632	469
Capital assets (note 9)	1,847	1,722
Accrued pension benefit asset (note 10)	944	1,010
Future income tax assets (note 8)	203	135
Goodwill (note 11)	124	123
Other assets (note 12)	16	56
Total assets	\$ 5,151	\$ 4,984
Liabilities and Equity of Canada		
Current liabilities		
Accounts payable and accrued liabilities	\$ 446	\$ 453
Salaries and benefits payable	374	385
Income tax payable	34	68
Deferred revenue	153	177
Outstanding money orders	47	52
Current portion of long-term debt (note 13)	3	3
Current portion of accrued post-employment benefit liability (note 10)	-	32
Total current liabilities	1,057	1,170
Long-term debt (note 13)	55	58
Accrued pension, other retirement and post-employment benefit liability (note 10)	2,513	2,247
Future income tax liabilities (note 8)	24	19
Other long-term liabilities	41	38
Total liabilities	3,690	3,532
Non-controlling interest	22	19
Equity of Canada	1,439	1,433
Total liabilities and equity of Canada	\$ 5,151	\$ 4,984

Commitments and contingencies (notes 1 and 16)
Conditional asset retirement obligations (note 14)

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)	2007	2006
Contributed capital	\$ 1,155	\$ 1,155
Retained earnings		
Balance, beginning of year	278	239
Transition adjustments on adoption of financial instruments standards (note 3)	(1)	–
Net income	54	119
Dividend (note 15)	(47)	(80)
Balance, end of year	284	278
Equity of Canada	\$ 1,439	\$ 1,433

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

CONSOLIDATED INCOME STATEMENT

Year ended December 31 (in millions of dollars)	2007	2006
Revenue from operations	\$ 7,474	\$ 7,264
Cost of operations		
Salaries	3,809	3,641
Benefits, net of transitional support of \$106 million (2006 – \$161 million) (note 10e)	960	1,005
Non-labour collection, processing and delivery	1,132	1,049
Facilities	292	279
Amortization and impairment	214	215
Other	939	927
Total cost of operations	<u>7,346</u>	<u>7,116</u>
Income from operations	128	148
Non-operating income (expense)		
Investment and other income	42	29
Interest and other expense	(10)	(11)
Total non-operating income	<u>32</u>	<u>18</u>
Income before income taxes	160	166
Income tax expense (note 8)	102	44
Net income before non-controlling interest	58	122
Non-controlling interest in net income of subsidiaries	4	3
Net income	\$ 54	\$ 119

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended December 31 (in millions of dollars)	2007	2006
Operating activities		
Net income	\$ 54	\$ 119
Adjustments to reconcile net income to cash provided by operating activities:		
Accrued pension, other retirement and post-employment benefits	577	703
Pension, other retirement and post-employment benefit payments	(277)	(691)
Transitional support offsetting pension reform incremental costs	(106)	(161)
Amortization and impairment	214	215
Future income tax benefit	(23)	(65)
Gain on sale of capital assets	(10)	–
Proceeds from long-term incentive	7	14
Other income not affecting cash, net	–	(9)
Change in non-cash operating working capital (note 17)	(94)	142
Cash provided by operating activities	342	267
Investing activities		
Business acquisitions (note 5)	(14)	–
Acquisition of securities	(3,970)	(2,223)
Proceeds from sale of securities	3,740	2,246
Acquisition of capital assets	(330)	(305)
Proceeds from sale of capital assets	61	4
Other investing activities, net	2	–
Cash used in investing activities	(511)	(278)
Financing activities		
Transitional support received from the Government of Canada	106	131
Repayment of long-term debt	(4)	(15)
Dividend paid	(47)	(80)
Other financing activities, net	1	–
Cash provided by financing activities	56	36
Net increase (decrease) in cash and cash equivalents	(113)	25
Cash and cash equivalents, beginning of year	499	474
Cash and cash equivalents, end of year	\$ 386	\$ 499

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(December 31, 2007)

1. Incorporation, Directives and Corporate Plan

Canada Post Corporation (the "Corporation") was established by the *Canada Post Corporation Act* in 1981 to operate a postal service on a self-sustaining financial basis while providing a standard of service that will meet the needs of the people of Canada. Canada Post Corporation is a Crown corporation included in Part II of Schedule III to the *Financial Administration Act* and is an agent of Her Majesty.

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 20).

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. In 2007, the Corporation continued assessing the safety risks related to all the rural roadside mailboxes, initially focusing on those mailboxes affected by the directive.

As of March 28, 2008, the Corporation's 2007 Corporate Plan had not been approved by the Government of Canada.

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 estimates and assumptions 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 are: 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.

Certain comparative figures have been reclassified in order to conform to the presentation adopted in 2007.

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. On January 9, 2007, the Corporation disposed of its joint venture interest in Intelcom Courier Canada Inc. (Intelcom). The operations of Intelcom were not significant to the Corporation. On March 29, 2007, the name of Progistix-Solutions Inc. was changed to SCI Logistics Inc. As at December 31, 2007, Purolator Courier Ltd (Purolator), SCI Logistics Inc. (SCI Logistics) and Canada Post International Limited (CPIL) are the principal subsidiaries of the Corporation, and Innovapost Inc. (Innovapost) is the only joint venture.
- (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.

2. Significant Accounting Policies (continued)

Financial instruments are recognized at fair value initially; subsequent measurement depends on the classification of the financial instrument. 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 fair value when presented on the consolidated balance sheet. Fair value is determined directly by reference to quoted market prices, and may not be realized on sale. If quoted market prices are not available, an appropriate valuation technique is used to determine fair value. 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 or notes referenced thereto. 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 offsetting a current liability is presented as a current asset.

For the year ended December 31, 2006, investments in money market instruments are recorded at cost whereas investments in bonds are recorded at amortized cost.

(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 material due to their short-term nature, accounts receivable are carried at the original invoice amount less allowances for doubtful receivables.

(b.3) Accounts payable and accrued liabilities, salaries and benefits payable and outstanding money orders are classified as other financial liabilities. After initial recognition at fair value, these financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not material due to their short-term nature, the 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.

2. Significant Accounting Policies (continued)

(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. 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.

(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 2007
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business, maximum of 20 years in 2007

(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. 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. 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 presented separately 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. As of January 1, 2002, goodwill is no longer 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. The Parcels line of business includes regular parcels, all expedited delivery and courier services, as well as third-party logistics services. 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. Likewise, 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	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Canada Post Corporation	11 years	5 to 11 years	11 years	9 to 11 years
Purulator	11 to 14 years	N/A	11 to 17 years	N/A
SCI Logistics	15 years	17 years	15 years	17 years
Innovapost	9 years	N/A	11 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 (2006 – from 3 to 9 years).

(h) Defined contribution and multiemployer pension plans • Defined contribution plan accounting was applied to the multiemployer defined benefit pension plan of CPIL's subsidiary. 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 \$150 million of transitional support over the next three years as follows: \$81 million in 2008; \$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

Financial instruments • Effective January 1, 2007, The Canada Post Group prospectively adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3855 “Financial Instruments – Recognition and Measurement”, Section 3861 “Financial Instruments – Disclosure and Presentation”, Section 3865 “Hedges”, Section 1530 “Comprehensive Income” and the amendments to Section 3251 “Equity” with no restatement of prior years. These new sections provide standards for recognition, measurement, presentation and disclosure of financial assets, financial liabilities and non-financial derivatives and describe how and when hedge accounting should be applied. Section 1530 provides standards for the reporting and presentation of other comprehensive income.

The Canada Post Group’s financial assets and financial liabilities have been classified according to the provisions of these standards, as outlined in note 2(b), and January 1, 2003 was selected as the transition date for embedded derivatives. The adjustments on initial adoption of these new standards have had no material impact on these consolidated financial statements. More specifically, the adjustments resulted in a decrease of \$1 million to retained earnings and segregated securities on January 1, 2007.

4. Recent Accounting Pronouncements Requiring Implementation in Future Years

- (a) **Capital disclosures** • In December 2006, the Canadian Institute of Chartered Accountants (“CICA”) issued a new accounting standard, Handbook Section 1535 “Capital Disclosures”, to converge with recent amendments to International Financial Reporting Standard IAS 1 “Presentation of Financial Statements”. This new standard is effective for fiscal years beginning on or after October 1, 2007 although earlier adoption is permitted. 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. The Canada Post Group will adopt this standard in 2008.
- (b) **Financial instruments disclosures and presentation** • The CICA issued Handbook Section 3862 “Financial Instruments – Disclosures” in December 2006. This standard is converged with International Financial Reporting Standard IFRS 7 “Financial Instruments: Disclosures”. Section 3862 improves upon the disclosure requirements in existing Handbook Section 3861 “Financial Instruments – Disclosure and Presentation”, and places an increased emphasis on risk disclosures compared with Section 3861. Entities are required to provide both qualitative and quantitative information about exposures to risks arising from financial instruments, including credit, interest rate, liquidity, currency and other price risks.

Concurrent with the release of Section 3862, the Accounting Standards Board (“AcSB”) issued Handbook Section 3863 “Financial Instruments – Presentation”, which carries forward unchanged the presentation requirements of Section 3861 and must be applied at the same time that Section 3862 is adopted.

Sections 3862 and 3863 are effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2007, although early adoption is permitted. The Canada Post Group will adopt these standards in 2008.

- (c) **International Financial Reporting Standards** • On February 13, 2008, the AcSB confirmed that use of International Financial Reporting Standards (“IFRS”) will be required in 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current generally accepted accounting principles for listed companies and other profit-oriented enterprises that are responsible to large or diverse groups of stakeholders. Entities will be required to provide comparative IFRS information for 2010 and an opening IFRS consolidated balance sheet at the beginning of 2010. The Canada Post Group has commenced its initial assessment of the impact to its consolidated financial statements of adopting IFRS.

5. Significant Business Acquisitions

On March 30, 2007, a subsidiary of the Corporation, SCI Logistics, 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 11). 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 approved 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 January 2007, the domestic Lettermail rate increased by one cent from \$0.51 to \$0.52 (January 2006 – from \$0.50 to \$0.51) based on the price-cap formula.

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 19).

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 33% (2006 – 34%) of the Canada Post segment revenue.

7. 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 *			2007	2006
	Within 3 months	Three to 12 months	One to 8 years	Total	Total
Cash and cash equivalents					
Cash	\$ 95	\$ –	\$ –	\$ 95	\$ 86
Money market instruments issued by:					
Government of Canada	–	–	–	–	4
Provincial governments	92	–	–	92	–
Financial institutions	110	–	–	110	115
Corporations	89	–	–	89	294
Total cash and cash equivalents	\$ 386	\$ –	\$ –	\$ 386	\$ 499
Marketable securities					
Money market instruments issued by:					
Government of Canada	\$ 42	\$ 221	\$ –	\$ 263	\$ 105
Provincial governments	10	10	–	20	–
Financial institutions	23	–	–	23	53
Corporations	3	–	–	3	73
Total marketable securities	\$ 78	\$ 231	\$ –	\$ 309	\$ 231
Illiquid securities					
Non-bank-sponsored asset-backed commercial paper	\$ –	\$ –	\$ 7	\$ 7	\$ –
Segregated securities					
Money market instruments issued by:					
Government of Canada	\$ –	\$ 392	\$ –	\$ 392	\$ 45
Provincial governments	27	–	–	27	–
Financial institutions	126	–	–	126	116
Corporations	64	–	–	64	201
Bonds issued by:					
Government of Canada	–	–	–	–	128
Non-bank-sponsored asset-backed commercial paper	–	–	23	23	–
Total segregated securities	217	392	23	632	490
Less current portion	–	–	–	–	21
Segregated securities, non-current	\$ 217	\$ 392	\$ 23	\$ 632	\$ 469

* 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.

7. 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, 2007, the Corporation held non-bank-sponsored asset-backed commercial paper ("ABCP") with an original cost and principal amount of \$38 million, comprising \$18 million in Whitehall Trust Series A and \$20 million in Rocket Trust Series A. 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. As a result, the Corporation has classified its ABCP as long-term assets, either in illiquid securities or segregated securities.

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement to convert the ABCP into pooled long-term floating rate notes maturing no earlier than the scheduled maturity of the underlying assets. On September 6, 2007, the Pan-Canadian Investors Committee for Third-Party Structured Asset-Backed Commercial Paper ("the Committee") consisting of major investors was created to propose a solution to the liquidity problem affecting the ABCP market, and has retained legal and financial advisors to oversee the proposed restructuring process.

Effective March 17, 2008, a court order was put in place that commits investors not to take any action that would precipitate an event of default. It is expected that the restructuring of the ABCP will occur in April or May 2008, if approval by investors is obtained to do so. On December 23, 2007, the Committee provided certain details about the expected restructuring.

The Corporation plans to participate in the Committee's proposed Master Asset Partnership ("MAP") 2 restructuring option, which does not require the investor to participate in the margin funding facility. Participants in MAP 2 will pay an additional fee for the provision of the margin funding facility by third parties. Rocket Trust Series A was assumed to hold 13% of assets that are ineligible for participation in the pooled trusts, due to exposure to U.S. sub-prime assets, and these assets are to be managed independently. It was assumed that 87% of the remaining assets of Rocket Trust Series A, and 85% of Whitehall Trust Series A, would qualify for senior note status within MAP 2, expected to obtain a AAA credit rating. The remaining assets are expected to be unrated subordinated notes within MAP 2.

Since there is no active market for the valuation of ABCP, the fair value of the Corporation's investment in ABCP was determined using a valuation technique. The principal amount of the investments was discounted for certain factors related to underlying assets of the original investments, and the terms and conditions which may apply to the restructured investments. General market observations, prices and rates were used in developing the discount assumptions. The discount ranges considered by the Corporation for the valuation within MAP 2 are as follows:

Restructured / ineligible assets	Discount rate range
Ineligible assets	45% – 55%
Senior notes	7% – 13%
Subordinated notes	30% – 43%

The total adjustment to the Corporation's ABCP at December 31, 2007 reflecting the assumptions above is between \$5 million and \$8 million. To adequately reflect the uncertainty associated with the assumptions, the more conservative assessment of \$8 million was applied, resulting in a fair value of ABCP at December 31, 2007 of \$30 million.

Continuing uncertainties regarding the value of the assets that underlie the ABCP, the credit and liquidity risks associated with the restructured notes and the final outcome of the restructuring process, 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.

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

(c) Risk management and interest rates

Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return in the long-term consistent with the investment policies approved by the Board of Directors. Liquidity and credit risks are mitigated by way of differing investment maturity dates, placement with issuers who meet specific investment criteria and the imposition of dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations have a minimum rating of R1 low.

All investments held as at December 31, 2007 were issued by Canadian entities at fixed interest rates or discounted values. The weighted average effective interest rate as at December 31, 2007 was 4.4% for money market instruments (2006 – 4.3% for money market instruments and 3.7% for bonds)

(d) Income from investments

Interest income and gains and losses on cash and cash equivalents, marketable and illiquid securities amounted to \$26 million (2006 – \$26 million). Interest income and gains and losses on segregated securities amounted to \$18 million (2006 – \$20 million). The portion of income relating to the defined benefit plans was \$16 million (2006 – \$20 million) and was used to offset benefit costs. The remaining \$2 million relates to internally restricted funds and was recognized in investment and other income.

(e) Segregated securities

Funds have been segregated for the following purposes:

As at December 31 (in millions of dollars)	2007	2006
Employee termination benefits	\$ –	\$ 21
Other retirement dental and life insurance benefits	497	469
Internally restricted funds	135	–
Total segregated securities	\$ 632	\$ 490

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.
- In 2007, the Corporation decided to segregate certain funds in anticipation of future cash flow requirements. These new segregated funds would 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.

8. 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 ventures 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)	2007	2006
Net future income tax assets		
Capital assets	\$ 13	\$ 29
Salaries and benefits payable	15	20
Accrued pension, other retirement and post-employment benefits	148	84
Recognition of losses carried forward	–	28
Other	23	18
Net future income tax assets	\$ 199	\$ 179
Presented in the consolidated balance sheet as:		
Future income tax assets:		
Current	\$ 20	\$ 63
Long-term	203	135
Total future income tax assets	223	198
Future income tax liabilities:		
Long-term	(24)	(19)
Net future income tax assets	\$ 199	\$ 179

Deductible temporary differences for which no future income tax assets have been recognized amount to \$780 million (2006 – \$772 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.

8. Income Taxes (continued)

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

Year ended December 31 (in millions of dollars)	2007	2006
Current income tax expense	\$ 125	\$ 109
Future income tax expense (benefit) relating to:		
Origination and reversal of temporary differences	(42)	(50)
Previously unrecognized losses carried forward	–	(22)
Reduction in tax rate	19	7
Income tax expense	\$ 102	\$ 44

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)	2007	2006
Income before income taxes	\$ 160	\$ 166
Federal income taxes at parent's statutory tax rate	\$ 52	\$ 54
Subsidiaries and joint ventures' provincial income taxes less federal tax abatement	3	4
(Increase) decrease in future income taxes resulting from:		
Previously unrecognized losses carried forward	–	(22)
Reduction in future tax rate	40	11
Other	7	(3)
Income tax expense	\$ 102	\$ 44

9. Capital Assets

As at December 31

(in millions of dollars)

2007

2006

	Cost	Accumulated amortization and impairment	Net carrying value	Cost	Accumulated amortization and impairment	Net carrying value
Property, plant and equipment						
Land	\$ 214	\$ –	\$ 214	\$ 198	\$ –	\$ 198
Buildings	1,718	971	747	1,641	935	706
Leasehold improvements	185	123	62	164	115	49
Plant equipment	907	680	227	862	657	205
Vehicles	215	133	82	211	115	96
Sales counters, office furniture and equipment	346	278	68	374	322	52
Other equipment	739	447	292	687	420	267
Assets under development	10	–	10	48	–	48
Total property, plant and equipment	4,334	2,632	1,702	4,185	2,564	1,621
Intangible assets						
Software	382	290	92	322	269	53
Software under development	42	–	42	38	–	38
Customer contracts and relationships	27	16	11	29	19	10
Total intangible assets	451	306	145	389	288	101
Total capital assets	\$ 4,785	\$ 2,938	\$ 1,847	\$ 4,574	\$ 2,852	\$ 1,722

Amortization of property, plant and equipment amounted to \$172 million in 2007 (2006 – \$161 million) while amortization of intangible assets amounted to \$34 million (2006 – \$54 million). In 2007, the Corporation recorded a \$5 million impairment charge for customer contracts related to epost.

During the year, The Canada Post Group invested \$330 million (2006 – \$305 million) in capital assets, comprising \$257 million (2006 – \$269 million) of property, plant and equipment and \$73 million (2006 – \$36 million) of intangible assets.

10. 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 last four years, resulting in a settlement loss being recognized in each year from 2004 to 2007. In 2007, the settlement loss was \$9 million (2006 – \$6 million).

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 any of the pension plans.

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

CPL's subsidiary participates in a multiemployer defined benefit pension plan. According to the concession agreement (described in note 16 (c)), the Government of the Netherlands Antilles is responsible for all pension benefits accrued prior to May 2003.

Certain employees of SCI Logistics presently belong to a pension plan sponsored by SCI Logistics' 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 Logistics 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 Logistics 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 that reach the maximum pension payable from the registered plan would receive the excess pension payable by SCI Logistics. The results for this plan are included with those of the regular plan. After the acquisition, a defined contribution provision was added to SCI Logistics' pension plan.

The other retirement benefit plans pertaining to SCI Logistics' employees consist of medical and dental benefits, and life insurance after retirement. SCI Logistics 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.

10. 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)	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations				
Balance, beginning of year	\$ 13,729	\$ 3,327	\$ 13,079	\$ 3,260
Current service cost	449	111	464	110
Interest cost	736	176	677	165
Employee contributions	183	–	161	–
Benefits paid	(324)	(133)	(259)	(130)
Actuarial gains	(564)	(149)	(402)	(63)
Plan amendments	–	(119)	2	(17)
Corporate restructuring giving rise to special termination benefits	–	–	7	–
Curtailment	(1)	–	–	–
Settlement	–	2	–	2
Balance, end of year	14,208	3,215	13,729	3,327
Plan assets				
Fair value, beginning of year	14,928	–	12,675	–
Reduction in estimated amount of surplus transfer from BCE Inc.	(11)	–	–	–
Actual return on plan assets	263	–	1,792	–
Employer regular contributions	129	–	255	–
Employer special solvency contributions	12	–	304	–
Employee contributions	183	–	161	–
Benefits paid	(324)	–	(259)	–
Fair value, end of year	15,180	–	14,928	–
Funded status of defined benefit plans – surplus (deficit)	972	(3,215)	1,199	(3,327)
Unrecognized net actuarial (gain) loss	63	904	(64)	1,139
Unrecognized past service costs (credits)	16	(190)	17	(86)
Unrecognized transitional obligation	–	3	–	7
Unrecognized funding excess	(121)	–	(153)	–
Net amount recognized for:				
Defined benefit plans	930	(2,498)	999	(2,267)
Defined contribution plans	(1)	–	(1)	–
Total amount recognized	\$ 929	\$ (2,498)	\$ 998	\$ (2,267)
Presented in the consolidated balance sheet as:				
Accrued pension benefit asset	\$ 944	\$ –	\$ 1,010	\$ –
Current portion of accrued post-employment benefit liability	–	–	–	(32)
Accrued pension, other retirement and post-employment benefit liability	(15)	(2,498)	(12)	(2,235)
Total amount presented	\$ 929	\$ (2,498)	\$ 998	\$ (2,267)

10. 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)	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations	\$ 323	\$ 3,215	\$ 331	\$ 3,327
Plan assets	273	–	273	–
Funded status of defined benefit plans – deficit	\$ (50)	\$ (3,215)	\$ (58)	\$ (3,327)

(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 4.5%. 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	2007		2006
	Target	Actual	Actual
Cash and money market instruments	1 %	5 %	5 %
Bonds	36 %	30 %	27 %
Canadian equities	24 %	28 %	29 %
U.S. equities	20 %	16 %	19 %
International equities	15 %	17 %	18 %
Real estate	3 %	3 %	1 %
Other assets less liabilities	1 %	1 %	1 %
Pension plan assets of the Corporation	100 %	100 %	100 %

The pension plan assets of Purolator, SCI Logistics and Innovapost are governed by similar investment objectives and policies and account for 2% (2006 – 2%) of the total plan assets of \$15,180 million (2006 – \$14,928 million).

Total plan assets include \$2,147 million (2006 – \$2,146 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and \$112 million (2006 – \$121 million) in refundable taxes held by the Canada Revenue Agency.

10. 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)	2007			2006		
	Incurred in year	Adjustments*	Recognized in year	Incurred in year	Adjustments*	Recognized in year
Pension benefit plans						
Current service cost	\$ 449	\$ –	\$ 449	\$ 464	\$ –	\$ 464
Interest cost	736	–	736	677	–	677
Return on plan assets	(263)	(683)	(946)	(1,792)	948	(844)
Actuarial (gains) losses on accrued benefit obligations	(564)	567	3	(402)	470	68
Plan amendments	–	1	1	2	–	2
Curtailment gain	(1)	–	(1)	–	–	–
Special termination benefits	–	–	–	7	–	7
Amortization of funding excess	–	(32)	(32)	–	(32)	(32)
Defined benefit costs	357	(147)	210	(1,044)	1,386	342
Defined contribution costs	2	–	2	1	–	1
Multiemployer defined benefit costs	1	–	1	1	–	1
Total pension benefit costs	360	(147)	213	(1,042)	1,386	344
Transitional support from the Government of Canada	(63)	–	(63)	(120)	–	(120)
Net pension benefit costs	\$ 297	\$ (147)	\$ 150	\$ (1,162)	\$ 1,386	\$ 224
Other benefit plans						
Current service cost	\$ 111	\$ –	\$ 111	\$ 110	\$ –	\$ 110
Interest cost	176	–	176	165	–	165
Actuarial (gains) losses on accrued benefit obligations	(149)	228	79	(63)	150	87
Plan amendments	(119)	104	(15)	(17)	4	(13)
Settlement loss	9	–	9	6	–	6
Amortization of transitional obligation	–	4	4	–	4	4
Defined benefit costs	28	336	364	201	158	359
Return on segregated securities	(16)	–	(16)	(20)	–	(20)
Transitional support from the Government of Canada	(43)	–	(43)	(41)	–	(41)
Net other benefit costs	\$ (31)	\$ 336	\$ 305	\$ 140	\$ 158	\$ 298

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

10. 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	2007		2006	
	Pension benefit plans	Other benefit plans	Pension benefit plans	Other benefit plans
Accrued benefit obligations:				
Discount rate	5.6%	5.5%	5.3%	5.3%
Long-term rate of compensation increase	3.0%	3.0%	3.0%	3.0%
Benefit costs:				
Discount rate	5.3%	5.3%	5.1%	5.1%
Expected long-term rate of return on plan assets	7.0%	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	8.8%	N/A	8.9%
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 2007:

(in millions of dollars)	Increase	Decrease
Total of current service and interest costs	\$ 53	\$ (40)
Accrued benefit obligations	\$ 533	\$ (409)

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.

10. 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)	2007	2006
Benefits paid directly to beneficiaries for unfunded other benefit plans	\$ 133	\$ 130
Employer regular contributions to funded pension benefit plans	129	255
Employer special solvency contributions to funded pension benefit plans	12	304
Total cash payments for defined benefit plans	274	689
Contributions to defined contribution plans	2	1
Contributions to multiemployer defined benefit plan	1	1
Total cash payments	\$ 277	\$ 691

The actuarial valuations of the defined benefit pension plans for funding purposes are conducted at least on a triennial basis and annually when a solvency or going-concern shortfall has occurred. At the end of 2006, the Corporation's pension plan solvency shortfall was eliminated. As the surplus position of the Corporation's pension plan continued to increase in the first half of 2007, both on a solvency and going-concern basis, the Corporation took a contribution holiday for the second half of the year, as permitted under the *Pension Benefits Standards Act*. 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, 2006	December 31, 2009
Purolator	December 31, 2006	December 31, 2007
SCI Logistics	December 31, 2006	December 31, 2009
Innovapost	December 31, 2004	December 31, 2007

11. Goodwill

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

Year ended December 31 (in millions of dollars)	2007			2006	
	Canada Post segment	Purolator segment	Logistics segment	Total	Total
Balance, beginning of year	\$ 3	\$ 120	\$ –	\$ 123	\$ 123
Acquisition	–	1	3	4	–
Impairment	(3)	–	–	(3)	–
Balance, end of year	\$ –	\$ 121	\$ 3	\$ 124	\$ 123

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

12. Other Assets

As at December 31 (in millions of dollars)	2007	2006
Assets held for sale	\$ 2	\$ 48
Illiquid securities (note 7)	7	–
Other	7	8
Total other assets	\$ 16	\$ 56

The Corporation has classified one property as held for sale at the end of 2007. It is anticipated that the carrying amount of the property will be fully recovered through the sale proceeds. The two properties held for sale at the end of 2006 were sold during the year as anticipated. A gain of \$8 million was recorded on the dispositions.

13. Long-Term Debt

As at December 31 (in millions of dollars)	2007		2006	
	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	\$ 78	\$ 55	\$ 80	\$ 55
Notes due to BCE Emergis Inc., plus accrued interest at the Bank of Canada overnight rate plus 1%, maturing in December 2008	3	3	6	6
Total long-term debt	81	58	86	61
Less current portion	3	3	3	3
Long-term portion	\$ 78	\$ 55	83	\$ 58

Fair value of long-term bonds is estimated by reference to quoted market prices of similar bonds. The carrying amount of the other long-term debt instrument approximates its fair value as it is expected to be settled within one year.

The effective interest rate as at December 31, 2007 was 10.5% for the non-redeemable bonds and 4.8% for the notes due to BCE Emergis Inc. Interest expense on long-term debt amounted to \$6 million (2006 – \$6 million).

The scheduled long-term debt repayments are as follows:

(in millions of dollars)	
2008	\$ 3
2016	55
Total long-term debt	\$ 58

14. 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. Consequently, as of December 31, 2007, the Corporation does not have sufficient information to reasonably estimate the fair value of conditional asset retirement obligations related to asbestos. 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 related liability will be recognized when sufficient additional information becomes available for a particular asset.

15. Equity of Canada

The *Canada Post Corporation Act* provides for the establishment of a share capital structure. The Corporation is authorized to issue shares to the Government of Canada based on the net asset value of the Corporation on the date of the first issue of shares, as determined by the Board of Directors, with the approval of the Treasury Board. No such shares have been issued.

On May 17, 2007, a dividend of \$47 million was paid to the Government of Canada. In May 2006, the dividend paid was \$80 million. In respect of the current year, the directors declared that a dividend of \$22 million will be paid to the Government of Canada on May 15, 2008. This dividend was approved by the Board of Directors on March 28, 2008 and has not been included as a liability in these consolidated financial statements. The dividend is based on the rate established in the Policy Framework. The Policy Framework, developed in collaboration with the Government of Canada and announced in January 1999, established service, productivity and financial performance targets for the Corporation.

16. 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.

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*.

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.

16. 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 has been 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 Settlement Agreement in January 2008. The appropriate authorization under the *Financial Administration Act* was obtained in February 2008.

Subject to the terms and conditions set out in the Settlement Agreement, CPIL will transfer all of the shares of the subsidiary, Nieuwe Post Nederlandse Antillen N.V., to the Government of the Netherlands Antilles. As final settlement of all disputes and potential disputes between the parties arising out of the concession contract and the concession, the parties agreed to a total payment of \$7 million by CPIL. This amount was recorded as an accrued liability as at December 31, 2007.

- (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 and officers 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 current 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)

2008	\$	138
2009		123
2010		111
2011		102
2012		87
2013 and thereafter		315
Total	\$	876

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

- (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.

17. Cash Flow Information

Year ended December 31 (in millions of dollars)	2007	2006
Change in non-cash operating working capital		
Increase in accounts receivable	\$ (7)	\$ (29)
Increase (decrease) in net income tax payable	(37)	70
Increase (decrease) in accounts payable and accrued liabilities	(8)	53
Increase (decrease) in salaries and benefits payable	(11)	19
Increase (decrease) in deferred revenue	(27)	23
Net decrease in other non-cash operating working capital items	(4)	6
Total	\$ (94)	\$ 142
Supplementary information		
Interest paid	\$ 6	\$ 6
Income tax paid	\$ 163	\$ 45

18. Significant 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 \$283 million (2006 – \$276 million) of expenses related to these services. The Corporation's proportionate share of the assets and liabilities of Innovapost at year end is \$63 million (2006 – \$75 million) and \$37 million (2006 – \$50 million), respectively.

19. 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 compensates the Corporation for 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 \$68 million (2006 – \$62 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, 2007, the amounts of accounts receivable and deferred revenue from these related parties are \$24 million (2006 – \$19 million) and \$5 million (2006 – \$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: Davis + Henderson, Limited Partnership; and with Telus Corporation. The Corporation provided services to Davis + Henderson, Limited Partnership, of \$17 million in the first four months of 2007 (2006 – \$26 million) and to Telus Corporation of \$88 million (in the last four months of 2006 – \$15 million). Services received from Telus Corporation in 2007 amounted to \$5 million (in the last four months of 2006 – \$2 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 \$107 million (2006 – \$101 million). These transactions were made at prices and terms comparable to those given to other suppliers of the subsidiary.

20. Publications Assistance Program

Under the Government of Canada's Publications Assistance Program, the Government and the Corporation subsidize 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 2007/2008 (\$45 million in 2006/2007). The Corporation's contribution to the Program was capped at \$15 million in 2007/2008 (\$15 million in 2006/2007) and is included in cost of operations.

21. Financial Instruments

Exposure to risks and determination of fair value not otherwise disclosed in the consolidated financial statements are addressed below:

- (a) **Fair values** • The fair value of accounts receivable, accounts payable and accrued liabilities, salaries and benefits payable and outstanding money orders approximate their carrying values due to their expected short-term settlement.
- (b) **Credit risk** • The Corporation is exposed to normal credit risk with respect to accounts receivable. Credit risk associated with accounts receivable is minimized by the Company's large customer base which covers substantially all business sectors in Canada. The Corporation follows a program of customer credit evaluation and limits the amount of credit extended when deemed necessary. The Corporation monitors customer accounts against these credit limits and takes corrective action when appropriate. The Corporation maintains provisions for potential credit losses and any such losses to date have been within management's expectations. The Corporation does not believe it is subject to any significant concentration of credit risk.
- (c) **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\$, but the net overall exposure is not significant, after matching associated US payables and receivables. Net exchange losses included in revenue from operations amounted to \$8 million (2006 – \$6 million of net exchange gains).
- (d) **Available financing facilities** • The Corporation's borrowing plan, as part of the Corporate Plan, is reviewed and approved annually by the Board of Directors and the Government of Canada. The detailed terms and conditions for each long-term borrowing must also be approved by the Treasury Board and the Minister of Finance. The borrowings are direct obligation of the Corporation and thus constitute undertaking on behalf of Her Majesty in Right of Canada and carry the full faith and credit of the Government of Canada. 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 and long-term debt is also limited to \$150 million. Total borrowings were \$58 million as at December 31, 2007, of which \$55 million was long-term. Within the above limits, the Corporation has a line of credit and a commercial paper program that were not used during 2006 or 2007.

The Corporation's subsidiaries and joint venture also have access to financing facilities; the total unused amount was \$85 million at the consolidated balance sheet date.

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 Logistics and Intelcom up to its disposal on January 9, 2007.

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 postal/postbanking services in the Netherlands Antilles. EPO Inc., which provided web-based electronic mail delivery services, is also included in this "all other" category until October 31, 2006, when the entity was dissolved and its operations were integrated into the Canada Post segment and Innovapost.

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.

The Logistics segment completed the restructuring plan approved in 2006 in conjunction with the renewal of its operating contract with a major customer on which it is economically dependent. Restructuring costs, mostly facility consolidation costs, of \$3 million were recorded in 2007 (2006 – \$10 million, mostly workforce reduction costs).

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 segments	\$ 78	\$ 84	\$ 6	\$ 8	\$ (18)	158
Unallocated amounts and adjustments in consolidation						(2)
Income tax expense						(102)
Net income						\$ 54
Assets by segments	\$ 4,719	\$ 617	\$ 102	\$ 237	\$ (523)	\$ 5,152
Unallocated amounts and adjustments in consolidation						(1)
Total assets						\$ 5,151
Acquisition of capital assets	\$ 237	\$ 83	\$ 13	\$ 2	\$ (5)	\$ 330

22. Segmented Information (continued)

Year ended, and as at, December 31, 2006

(in millions of dollars)

	Canada Post	Purolator	Logistics	All other	Elimination of intersegment	The Canada Post Group
Revenue from external customers	\$ 5,811	\$ 1,310	\$ 124	\$ 19	\$ –	\$ 7,264
Intersegment revenue	20	37	10	158	(225)	–
Revenue from operations	\$ 5,831	\$ 1,347	\$ 134	\$ 177	\$ (225)	\$ 7,264
Income (loss) before the undernoted items	\$ 253	\$ 99	\$ 1	\$ 8	\$ (2)	\$ 359
Amortization	(183)	(27)	(3)	(4)	2	(215)
Investment and other income	35	–	1	2	(9)	29
Interest and other expense	(6)	(3)	–	(4)	2	(11)
Income (loss) by segments	\$ 99	\$ 69	\$ (1)	\$ 2	\$ (7)	162
Unallocated amounts and adjustments in consolidation						1
Income tax expense						(44)
Net income						\$ 119
Assets by segments	\$ 4,617	\$ 548	\$ 82	\$ 250	\$ (508)	\$ 4,989
Unallocated amounts and adjustments in consolidation						(5)
Total assets						\$ 4,984
Acquisition of capital assets	\$ 227	\$ 73	\$ 5	\$ 2	\$ (2)	\$ 305