

Moya Greene addresses employees on our challenges and priorities for the coming year

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I want to be as specific as I can about our plans in this very challenging year ahead of us. You all know me now, I've been around more than a few years. And sometimes the messages are easier than other times, but I think one thing that you can count on is, as I know things, as we things become clear to me, I will try my best to explain them as I see them. And that's why I'm here today.

These are extraordinary times. Not just in Canada, everywhere. Since last fall, look at what we have seen. We have seen a stock market crash, of such magnitude that some people think that we haven't seen anything like that in maybe eight decades. We have seen huge companies, great giants in their fields, go bankrupt. In the United States and other places around the world, and now starting as well in Canada, literally thousands of jobs have been starting to disappear. Families feel threatened by all of this. I understand this and I know all of you do as well. This is a crisis that is across the globe, and it affects every sector. No one's left untouched. It touches all of us.

At Canada Post, I really thought 2008 was probably the most challenging year in my whole professional career. In March, when we looked at how things were going in the first quarter, we could foresee that we were going to be in trouble if we didn't take very aggressive and swift action, which we did. We put in place a very large cost-cutting program. If not for that, Canada Post would have lost money at the operating level for the first time in 14 years. We would have been in the red by about \$80 million.

I really want to congratulate all of you, particularly our people in Operations. It was really an unbelievable achievement. I know, every year we plan for a certain amount of reduction in Operations. Last year, it was an historic achievement and if it had not happened, we would not be in the position that we are, at the end of 2008, able to report again a black bottom line. We've got a lot of work done in Canada Post in 2008, in less time.

Congratulations to everyone. We put in place extraordinary measures, as you know, all across the company. You knew it had to be done, you trusted it was necessary, you organized quickly to make sure that these measures were going to be effective in keeping us in the black as we rolled toward the end of the year.

And, you know, things didn't get better toward the end of the year. In fact, it got a lot worse than we thought they would be, in March, when we put these measures in place. But it was determination and organisation that really delivered for us at Canada Post successfully at the end of the year.

In the last two months of 2008, we saw perhaps the most dramatic drop in revenue in a monthly period that we have ever seen – a sure sign that the recession was deepening, and very quickly.

So now, we're like every other company. I'm like every other CEO. There's not a single projection that lasts longer than a day, it seems to me. We're constantly having to revamp our numbers and do the best we can. And what I want to say to you today... I wish I could tell you that the huge and absolutely successful effort that was delivered in this company in 2008 set us up for an easier 2009. I can't say that. In fact, I think 2009 is going to be even harder.

Our shareholder, the Government of Canada, has just brought down a budget which forecasts a deficit for the first time in our country in more than a decade. The government says this recession will not end overnight – or anytime soon. There are a few more optimistic voices out there and I must say, probably like you, I choose to listen to them. But I have to plan for the worst. I can hope for the best, but when you lead a big company like this one you have to plan for the worst. And as the economy goes... This is a company that is very dependent on the level of overall economic activity that's going on around it. As the economy goes, so goes Canada Post. Right now, the economy is contracting and it is really imperilling lots of bottom lines in Canada, including our own.

There's something that you all know, and I did too, and we've been trying to get others to appreciate this very important fact. Even before this economic crisis, the postal sector was in decline around the world. Just yesterday, my colleague Jack Potter, the CEO of the U.S. Postal Service, said they will lose almost \$3 billion in 2008, because of increasing costs and very significant decreases volume. He also said that if they don't take quick action right now, that figure is going to be \$6 billion in 2009. These are enormous sums. It tells you that when the drop-off happens, these are marginal revenues that immediately affect the bottom line of companies such as Canada Post.

And I think you are seeing it yourself, everywhere, across our system: people tell me they notice that there is less mail in our plants. The amount of transaction mail per point of delivery has dropped by close to seven per cent since 2005. The costs keep going up, but the volumes are decidedly down. We have seen the impact of the cost-cutting measures that are forced upon our customers. Let me just give you a very recent example: Bell Canada. We just lost \$4 million of revenue – a small thing that they did, really. They decided to stop their Show Magazine. So just that simple decision alone is a \$4 million hit for Canada Post.

There's another significant issue here at Canada Post that I want to talk to you about, and that's the funding of our pension plan. But first I want to reassure you about something. Our Pension Plan remains fully funded on a longer term basis. So our pensions are secure. And I know that that is golden at Canada Post. But like others in the country, our assets have declined in value. There's been a 40 per cent decline in value in the Canadian stock market in the last, let's say, five months of 2008. I'm glad to tell you, though, our pension plan, the losses are significantly less than other pension plans. Some other funds are down very significantly indeed.

But all you've got to do if any of you have RRSPs outside our pension plan, I mean look at what's happening. I'm, thank God, this is the only time since I've been at Canada Post, have I been grateful to say, all my money has got to be in a blind trust, so I have no idea what's going on with it. I used to think, oh my word! that is one of the real drawbacks of the job, until this year! I don't have to see the envelopes coming in, so I don't have to open it and... But, you know, they're not magicians, the people that are managing my money, so I imagine that the hits that others are taking in their RRSPs, they're probably there for me too.

Our pension liabilities are just enormous. Think about it, our liabilities are about \$14 billion. That is twice the annual revenue base of our company, roughly. Our revenues at Canada Post are about 7.5 billion, the pension's \$14 billion worth of liabilities ... so you really don't need to be an actuary, or an accountant or a mathematician to see that small changes in the market can have huge impacts on a liability base that is as large as that.

So that is one of the reasons why, in our submission to the Strategy Review panel, we sought relief from some of the rules that apply to private sector pension plans. We're in a situation where we have a

public servant benefit program, but the rules that apply to us for funding it are not the same as the rules that apply to the federal government for funding their pensions. The rules that apply to us are private sector pension funding rules.

And so we face a lot of difficulty in the months ahead to try to make all the ends come together. To even know how much cash we have on a quarter by quarter basis, to even project it, is difficult. We face uncertainty in other areas, every area. I meant it when I said it's very hard these days to keep hold of any projection for even longer than a couple of weeks. That is definitely true for us, just like it is for other companies.

But we have to face reality. I know revenues are going to be off. And revenues for us, if we lose \$100 million worth of revenue, off the \$7.5 billion base, those are marginal revenues. They drop right away to the bottom line, they affect the amount of cash we have, almost dollar for dollar. So if I think that revenues in Canada Post are going to be off by... I don't actually know how much they're going to be off, but for planning purposes we're using about \$250 million right now, in that range. Then, there's one thing for certain that I know I have to do. And that is that I have to take very important cost-reduction measures as early in the year as we can to try to make up that difference. And hopefully, at the end of the year, when all things are added up and consolidated, we're going to stay in the black. Because we have to stay in the black.

So the reason that I've asked to spend a little time this afternoon is to let you know what we're doing as a team. We are going to reduce expenditures and put a plan in place, right now, to reduce expenditures by \$200 million in 2009. That's an enormous figure for anybody and it's certainly very, very big here. A large share of our costs are prefixed, so for us to put a plan in place to cut 200 million out of our company, it's going to take the effort of every single person in our company to feel certain that we will be successful.

But I am certain, even if it is a big figure, I know that it is achievable. And I wouldn't put something out there for you to rally around, if I didn't think it was achievable. I have seen this before. In fact, I have seen this in 2008 – when the going gets tough at Canada Post, I have seen the tough get going. And that's what we have in this company. But it's one thing to do that one year and make it, and take a sigh of relief when you successfully get there. It's another thing to say OK,

chin up, we're going to have to do the same thing, except more so, in 2009.

We are looking at every activity. Anything that we can sensibly delay, we will do that. Any place that is truly discretionary and will not hurt our company, we are going to cut those expenditures for now. So we're going to look to postpone and eliminate what we can. And in the process, you are probably going to look at what we're doing and you're probably going to scratch your head and you're going to say, you know what, some of that looks pretty mindless. But that's what happens when you have to take these kinds of measures. You have to sometimes just put a plan together and not all of it is going to seem entirely sensible to everybody as you're living through it. And some of it is going to be downright dumb. But that's what you've got to do in order to make sure at the end of the year, we're in the black.

I am very sorry to say this to the vice-presidential team at Canada Post. This is a marvelous group of executives. They have really planned and organised and successfully got us through, really well, got us through 2008. But I have asked our vice-presidents and above, and they have agreed, that there will be no salary increases in 2009. For other members of our management team, there will be increases, but I must tell you now that they will be modest, a lot less than you deserve as a management team.

We're going to take all kinds of steps and some of them are small, but they send an important signal. For example, John Smith said to me, Moya, if we change the way in which we're all standing in front of printing machines, and printing out paper after paper after paper, and start transferring information more online, we can save a couple of million dollars a year. So we're going to do that. We are going to remove many of the printers, particularly at the head office.

And we have to think twice about lots of things. Every dollar is going to count for 2009.

All staffing issues are going to be put under the microscope. I know that's hard. Some of you have been waiting to get key positions staffed, for months, a half a year. I'm going to ask you to cooperate. Don't even put it forward. If you think you can live without it, try to do that. Where we can, we're actually going to eliminate positions, because we want to change the cost structure of the company. Not just for a year, but going forward. I think you're going to see over time the workforce at Canada Post will be smaller and smaller. It will

be smaller at the end of the year than it is today. And if I was to look out four or five years, I think realistically, it will be continuously smaller. We will approach the executives of all of our unions to enlist their cooperation in reducing our costs. All of us share the very real concerns that this downturn in our economy, and in the economy globally, poses for our company and for our future.

So through all this, though, we will come up with a plan. And I want you to know that, no matter what we do, we will never lose sight of three areas:

Number one, the safety of our people. We're not going to compromise on that. We had a lot of things in train, we had a lot of training in train, we had a lot of investment in train, that was going to make Canada Post a safer place tomorrow than it is today. We're not going to compromise there.

Number two, the security of our mail. Our customers will not do business with us if they don't think that their mail and their parcels are safe with us. And you know better than I that we are coping now with technology that is so old and in many cases just non-existent to enable us to track the mail and parcels that people give to Canada Post.

And number three, we are not going to compromise on the sustainability of this great company, Canada Post. Our plants and equipments are so old. We have a great team and a great plan. It is very well advanced. People have put their heart and souls in thinking through what should Canada Post look like in the future. This is an investment that we can't delay. Postal Transformation is essential to the company and to all of us in this room if we're going to have a strong future with Canada Post.

Probably like me, you watched the inauguration of President Obama. His themes – the importance of determination, teamwork, old-fashioned hard-work – that resonated everywhere, and it certainly resonated with me. And I was struck, as CEO of Canada Post, I was struck by one passage, where he said: "Our time of standing pat... and putting off unpleasant decisions – that time has surely passed. Starting now, we must pick ourselves up and dust ourselves off... For everywhere we look, there is work to be done."

Our company is 26 years old. If I look back, and I have, I've looked back over the decades, and the ups and downs of Canada Post. We

have endured difficult economic times before. And together we are going to be successful in making it through this one.

But we do need to work together, as we always have done. I have felt that all of my time that I have been at Canada Post, that I could count on you to work together, that I could count on you to be collaborative, to do the things that need to get done. We have to plan together, and at the end of the day, we're going to have to be flexible. Not everything is going to be on the timeline that we hoped it would be on, or that we would like it to be on.

Eventually the economy is going to improve, that's for sure. As the only company that touches every single Canadian, we can help by focusing on our customers, and by being sensitive to the hardships that many Canadians are going to endure in the coming months. If we take the steps to get ready for those better days, if we do that now, we will be well-positioned to reap the benefits faster – and to continue to serve all Canadians the way we want to.

So there is an end game here, don't forget that. And the end game is a better, stronger Canada Post ... one that will be here in the long term to support you right through to your retirement ... just like it has shaped your careers to date.

I thank you for your commitment, for the determination that you showed in 2008, and for the collaboration that I know I will have in 2009.