These documents are being submitted in accordance with section 125 of the *Financial Administration Act* (FAA) and summarize the Corporate Plan and the Capital Budget as approved by the Board of Directors of Canada Post Corporation on October 21, 2014. Given that Canada Post Corporation is listed in Part II of Schedule III of the FAA, an operating budget is not included.

The first year of the Plan and Budget received Governor in Council approval on December 11, 2014. In accordance with section 153 of the FAA, information that if published could be detrimental to the commercial interests of the Corporation has not been included.
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1. EXECUTIVE SUMMARY

Preamble

Facing its largest existential challenge in a century, in 2013, Canada Post embarked on a bold, yet realistic plan to transform its business from a mail centric model to a parcel centric business.

On the one hand, ubiquitous internet is swallowing traditional Lettermail volumes at an unprecedented pace, eating over 1.3 billion pieces of mail within a short span of seven years. Yet, the same internet is creating the largest opportunity for Canada Post to deliver more packages, as an increasing number of Canadians embrace online shopping. The Five-point Action Plan announced last year is intended to build a new, flexible cost structure that not only prepares the company for less than half the mail volumes from its peak, but also lays the foundation to seize this once-in-a-lifetime opportunity to redefine its relevance in the digital era. The plan successfully positions Canada Post to compete in a highly contested parcel market. The Corporation expects that a larger percentage of its consolidated revenues will be generated from products other than traditional Lettermail and it must adopt a commercial mind-set to succeed in the future.

Over the past century, Canada Post’s exclusive privilege to carry the nation’s mail funded a largely fixed cost national postal network. Unfortunately, Canadians have quietly adopted alternative means to communicate thereby fundamentally eroding the value of exclusive privilege. This means Canada Post must now turn to commercial tools to reinvent its business.

Our Transformation Continues

The journey to a sustainable and self-sufficient Canada Post is well underway. The Corporation has begun to implement its Five-point Action Plan to address mail erosion and the long-standing issues with its cost structure detailed in its last Corporate Plan. Positive results are already showing and this Corporate Plan takes those changes to the next level, and looks beyond simply addressing past challenges.

The growth initiatives and strategies in the Corporate Plan have been developed to take advantage of our changing environment, to adapt to the needs and wants of Canadians, and to thrive. The centre of gravity of Canada Post is shifting, from mail to parcels. There is a long road ahead, but through this Corporate Plan we have set clear objectives and developed the strategies to get us there.

Industry-wide change on this scale is rare, but it is a kind of change that Canada Post has seen before. By the 1950s, credit card and utility bills brought a wave of new commercial mail into the system. From 1947 to 1968, postal volumes doubled to five billion pieces per year, and the number of addresses Canada Post served doubled as well. No technology existed to manage this new growth, and no roadmap existed for the transition.
Canada Post underwent a series of difficult transformations to adapt to this growth. The Postal Code system was developed, and the first mechanized sorting in major urban centres was put in place. As with any major change, there was significant resistance. Canada Post had nine strikes and 16 walkouts over seven years. Starting in the early 1970s, what was then a government department recorded accumulated losses of $3.6 billion over ten years. In 1981 Canada Post became a Crown corporation.

Although that transformation was difficult, it positioned us well and we entered a period of sustained growth and profits. Lettermail™ volumes and costs continued to grow until they peaked in 2006. As we face the next cycle where our industry turns upside down, we are prepared to adapt and transform again. But this time we no longer have the comfort of the exclusive privilege, nor do Canadians have an appetite for bailing out Canada Post through their tax dollars. Therefore a disciplined approach to executing the plan is vital to our success.

The Five-point Action Plan

On December 11, 2013, Canada Post announced its Five-point Action Plan. It was built to help return the Corporation to financial self-sufficiency, a necessary condition for future growth.

The Action Plan includes five initiatives: converting door-to-door delivery households to community mailboxes (CMBs), restructuring the pricing model, optimizing the retail network, streamlining operations and addressing the cost of labour. Implementation is underway, and it is already producing results:

- community mailboxes for close to 100,000 addresses will have been installed by the end of 2014;
- the new pricing model produced an immediate short-term impact and will provide additional revenue in 2014;
- reduced operating hours to match reduced traffic in our retail network have produced ongoing savings;
- streamlining of our processing and delivery networks completed through the end of 2014 will provide annual savings going forward; and
- a new collective agreement signed with the Public Service Alliance of Canada (PSAC) moves new employees to a defined contribution pension plan model and includes a two-year wage freeze, continuing our pattern of reducing our labour and pension costs through collective bargaining.

While this initial momentum is encouraging, the Corporation recognizes that its 2015 plans will occur in the backdrop of a complicated environment: public discussion of our plans is expected to continue; labour relations will be affected by preparations on both sides for the upcoming round of negotiations with the Canadian Union of Postal Workers (CUPW); and business decisions and any discussions about changes to our pension plan will continue to occur under the oversight of the pension regulator.

Canada Post is committed to building on the success of 2014, while remaining open to adjusting its plans to ensure it continues to meet the dual mandate of serving Canadians and remaining financially self-sustaining. Our plan is a challenging one, but remains the best path forward.
Engaging With Canadians

The Five-point Action Plan initiatives affect many stakeholders, and it is essential that Canada Post carries out each initiative in a thoughtful and transparent manner. This is particularly the case for converting the remaining one-third of addresses in Canada that receive door-to-door delivery to community mailboxes.

To help make the transition as smooth as possible, the Corporation has pursued a robust consultation and communication process. This includes working with municipal officials, gathering feedback on the priorities and preferences of transitioning households through surveys and online tools, and speaking face-to-face with customers who live adjacent to proposed community mailbox sites. Canada Post is not just gathering feedback, it is using it. Numerous community mailbox locations have been revised based on ongoing consultations, which have helped ensure that each site best serves the needs of the community.

Canada Post has also developed a program to accommodate mobility-challenged customers who express concern about their ability to use or access a community mailbox. These accommodations are tailored to individual needs, and are considered on a case-by-case basis to ensure that everyone has continued access to their mail and parcels.

The Corporation is also proactively communicating with employees regarding the changes, and easing potential concerns. We are advising employees that the reduction in the number of employees is expected to primarily occur through attrition, and we are carefully managing transfers, offering re-training so employees can begin new positions with confidence. A strong commitment to health and safety underlies all initiatives, and is incorporated into every new process.

Pension and Labour Negotiations

Canada Post has the largest corporate single employer-sponsored pension plan in Canada, with over $19 billion in assets at the end of 2013. The Plan’s solvency obligation, valued at $24 billion at the end of 2013, creates volatile swings in benefit costs that can overshadow any operating results or cost-saving initiatives we put in place. The impact of interest and discount rate changes on the Pension Plan has become the single biggest variable in our results, making it wholly disproportionate to the size of the business itself. Without any relief from special payments, Canada Post would have been required to make $1.3 billion in cash payments in 2014 alone. The Canada Post Corporation Pension Funding Regulations give us a four year window, from 2014 to 2017, to work with stakeholders to restructure the pension plan. If no solution is agreed upon and implemented current assumptions project a solvency deficit to be funded of $6.7 billion at the end of 2017.

In 2014 Canada Post worked with its unions and other representatives of Pension Plan members to establish a framework for communication and consultation on pension reform. Separate discussions with representatives will determine what actual changes will be proposed, and will be tied into the next round of collective agreement negotiations. The goal will be a Pension Plan structure that is sustainable for current and future members and one that addresses the massive and volatile
long-term liabilities. These discussion will take place under the oversight of the pension regulator.

**Growth Initiatives**

Cutting costs and fixing the pension, though necessary, cannot deliver a sustainable future. Canada Post must do more than just survive. It needs to adapt to the needs of businesses and consumers in a digital age in order to stay relevant, to continue to enable the Canadian economy, and to grow. With this in mind, Canada Post is pursuing an exciting set of growth strategies that capitalize on what it does best.

**E-commerce**

E-commerce is a dynamic and rapidly growing industry, and Canada Post is ideally positioned to participate in it. For example:

- We have invested in technologies and collaborated with key e-commerce solutions companies to provide more convenience, flexibility and control to shoppers and retailers of all sizes;
- The new state-of-the-art Pacific Processing Centre in Richmond, B.C., offers the most efficient and sophisticated sorting and processing equipment in North America, allowing us to better serve and enable the e-commerce market in Canada, and the thriving markets of the Pacific Rim;
- We are extending the same day delivery service—which was launched in Toronto in 2013—to Vancouver for the 2014 holiday season;
- We are launching our new FlexDelivery™, service giving online shoppers the power to have their online purchases delivered to their choice of close to 6,000 post offices in Canada;
- Our Parcel business is expected to experience significant growth over the course of the plan.

**Direct Mail**

Direct mail, although still a challenging business, is also showing the promise of growth. Currently, direct mail represents just a fraction of Canada’s $16 billion advertising market. But with marketers and their clients looking to stand out in a cluttered digital marketing space, direct mail has a strong opportunity to maintain its unique position, thanks to its ability to put a company’s message directly into the hands of potential customers.

Canada Post’s Direct Marketing business generates over $1.2 billion in revenue annually. The Corporation plans to protect this revenue by creating new product offerings for samples and loyalty mailings, leveraging its new larger mail and parcel compartments in the CMBs being rolled out as part of our Five-point Action plan. It also intends to continue making better use of its comprehensive customer data to provide greater targeting and personalization tools—which marketers increasingly desire—in its direct mail products, and by making the products more accessible and easier to use.

**Foundations of Growth**

Canada Post is an organization with the largest retail and delivery network in Canada, one of the country’s largest transportation networks, and one of the nation’s
Overhauling this organization is as complex as it is crucial. But by focusing on the customer, engaging its employees, and transforming its mail centric brand to a parcel centric brand vision, the Corporation is confident that it’s on the road to success.

**Customer focus**
Canada Post’s future rests on its ability to serve the customer. The Corporation must now operate in the digital age and within highly competitive markets. To succeed today and going forward it must earn the loyalty of customers.

In 2014, the Corporation has begun to redesign how it manages its customer data to improve customer relationships and experiences, while respecting privacy. It also began a multi-stage initiative to improve its online and mobile channels. The first phase of this initiative entails redesigning the look and feel of its website, making the site easier to navigate so customers can find the postal services they need faster. Future developments will allow consumers and businesses to access more postal services and tools through online and mobile channels. The Corporation is also focusing on creating the most convenient experience for online shoppers by leveraging its vast retail network and community mailbox design to make parcel delivery as seamless as possible.

**Employee engagement**
Engaged employees are a necessary component of Canada Post’s growth initiatives—success cannot be achieved without it. The Corporation is initiating a comprehensive shift in corporate culture that will encourage and enable employees to place the customer at the focus of their work. Employees will be empowered to use their experience and judgment to create solutions, identify efficiencies and opportunities, and to manage customer needs. This will require the Corporation to find an innovative balance between loosening the traditional constraints of its hierarchical structure, while still maintaining the accountability and structure needed for an organization of its size.

**Brand vision**
Canada Post is one of the five best-known companies in Canada, and remains the leader in business-to-consumer parcel delivery. But as the Corporation transforms for the future, it must evolve its brand to reflect innovation, customer service and leadership in the thriving e-commerce market.

Recent marketing campaigns have had a measurable impact on improving Canada Post’s image as a leader in parcel delivery and in making the online shopping experience better. Efforts are underway to ensure that we continue to bring to life a new brand platform and ensure that decision-making for the organization is filtered through this lens.

**Lettermail**
Despite the shift from mail to parcels, Canada Post remains committed to protecting its core business through the transition period. After all, Lettermail remains a $3 billion business. The same focus on service that will support the e-commerce business will support Lettermail. Evidence mail such as identification cards, credit cards, licences and proof of transactions sent by governments and large institutions are expected to grow as online registration for these items expands. We aim to
enhance these products by introducing visibility features for businesses and consumers that provide greater control and peace-of-mind.

**Group of Companies**

As part of its transformation plan, Canada Post has brought what were sub-optimized, loosely connected subsidiaries into a coherent, synergy driven Group of Companies. Each subsidiary has a mission that is closely linked to Canada Post’s core growth strategy.

For example, Purolator’s business-to-business focus is a perfect complement to Canada Post’s role in connecting business to consumers. By pooling their resources, Purolator and Canada Post have created an innovative solution Puropost™ for U.S. shippers looking to bring products to Canadian consumers easily and efficiently.

Innovapost, now the Group of Companies’ IT shared services provider, has led a drive for efficiency with new solutions for the group’s data centre, application development and application management needs.

SCI Logistics is increasingly emerging as the glue for many Group of Companies’ initiatives, including powering Purolator Logistics. In 2015, SCI’s multi-user warehousing services will provide more Canada Post e-commerce customers with shorter delivery times for key products in more markets across Canada.

**Conclusion**

Through the early years of Confederation, Canada Post connected Canadians from coast to coast to coast. We enabled the first remote-economy boom delivering products from mail-order catalogues. With the mid-century explosion of credit cards and modern billing we experienced unprecedented growth in Lettermail, introducing postal codes and mechanized operations to enable it. In recent years the cycle has turned again.

Canada Post can no longer rely on an exclusive privilege provided either through regulation or high-barriers to entry. We compete with massive multi-nationals and with agile start-ups. We compete with our customers as they explore their own in-house delivery options. This Corporate Plan confirms that we have strategies and initiatives that will address our structural deficiencies and will position us to grow and thrive in this changing environment. But we must now begin to address our regulatory framework in this highly competitive digital economy.
2. CORPORATE PROFILE AND GOVERNANCE

2.1 Corporate Profile

Canada Post is the country’s leading provider of e-commerce and customer communication solutions. It reaches 15.5 million addresses and, with more than 6,300 post offices, operates the country’s largest retail network. The Canada Post segment is the undisputed leader in the parcels market, delivering more parcels from businesses to consumers than any other company in Canada. Together, Canada Post, Purolator and SCI Logistics offer market-leading end-to-end solutions for e-commerce shippers by leveraging the assets and expertise of the Canada Post Group of Companies. Innovapost Inc., another member of the Group of Companies, develops, maintains and operates the computer and information technology systems of Canada Post, Purolator and SCI.

Canada’s post office was created in 1851, 16 years before Confederation. In 1867, it became one of the first departments to be formed in the new federal government. From its earliest days, the post office facilitated communication among citizens. Until the 1950s, much of Canada Post’s business was delivering parcels for Eaton’s, Simpsons and other large mail-order companies. By the 1950s, credit cards had become popular and brought a new wave of bills into the mail system, with utility bills following suit. From 1947 to 1968, postal volumes doubled to five billion pieces per year. Over the same period, the number of addresses being served also doubled. Canada Post underwent a series of difficult transformations to keep up with growth. Starting in the early 1970s, the department recorded accumulated losses of $3.6 billion over 10 years. In 1981, Canada Post became a Crown corporation. Lettermail volumes continued to grow, peaking in 2006. However, with the growing use of e-mail, online billing and the introduction of the tablet, mail volumes began to decline and have been declining ever since, dropping 30 per cent per address between 2007 and 2013.

With 2013 revenues of $7.6 billion, the Group of Companies operates a fleet of more than 14,000 vehicles, has approximately 66,000 indeterminate employees and delivers 9.4 billion pieces of mail, parcels and messages each year in urban, rural and remote locations across Canada. Canada Post is the largest segment of the Group of Companies, with revenues of $5.9 billion that, after excluding intersegment revenue, represents 77.5 per cent of the Group of Companies’ 2013 consolidated revenue.

Pursuant to the Canada Post Corporation Act, Canada Post has a mandate to provide a standard of service that meets the needs of the people of Canada. The Corporation is to provide quality postal services to all Canadians, rural and urban, residents and businesses, in a secure and financially self-sustaining manner.

All Posts have traditionally financed their universal service obligation through a legislated exclusive privilege, or monopoly, over a portion of the postal market. Through its legislation, Canada Post is granted an exclusive privilege on letters up to 500 grams. The value of this exclusive privilege has fallen significantly in recent years with Lettermail volumes declining as Canadians and mailers move to digital forms of communication.

In response to the changing needs of Canadians, Canada Post announced an integrated Five-point Action Plan in December 2013. The plan forms the foundation
of a new postal system by reducing costs significantly and better positioning Canada Post for growth.

Among the company’s legislated and policy obligations are the following requirements:

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

### 2.2 Corporate Governance

An agent Crown corporation since 1981, Canada Post Corporation currently reports to Parliament through the Minister of Transport. It has a single shareholder, the Government of Canada. Although Canada Post operates at arm’s length from the Government, Government approval is needed for the company’s five-year corporate plan, capital budget, restricted transactions, borrowing activities, regulatory rate changes and certain other activities.

Canada Post’s Board of Directors is responsible for overseeing the Corporation on behalf of the Shareholder. All 11 members, including the President and CEO, are appointed by the Government. While its role is set out in the *Canada Post Corporation Act* and the *Financial Administration Act*, the Board is also governed by its by-laws, Statement of Board Values and Board Charter.

The Board of Directors holds management accountable for the Corporation’s business performance and for carrying out its objectives, and has established the following committees to help it fulfil its oversight responsibilities.

- The Audit Committee is responsible for reviewing financial information, overseeing the systems of corporate controls, the audit process and the risk management framework, as well as assessing the Corporation’s financial performance against its corporate plan.
- The Corporate Governance and Nominating Committee focuses on corporate governance, assesses corporate values and the elements that facilitate Board effectiveness and recommends candidates for Board membership.
- The Human Resources and Compensation Committee oversees issues related to health and safety, management succession, recruitment, compensation, development, retention and labour relations.
- The Pension Committee oversees the assets, policies, strategies and other matters pertaining to the Canada Post Pension Plan, including Canada Post’s responsibilities as pension plan administrator.
The Strategic Initiatives Oversight Committee has been established to assist with the development and implementation of significant strategic transformation initiatives, including structural change.

The Board has established a governance model for Canada Post’s subsidiaries to ensure that all companies in the Canada Post Group have consistent governance practices.
TRANSFORMATION AND GROWTH

3. STRATEGY AND PLANNING

3.1 Strategy and Vision

Canada Post is facing a monumental shift in its business, as digital platforms continue to replace paper as the medium of choice to communicate, pay bills, and advertise. Our revenues are declining due to this shift, but our cost base cannot be significantly reduced under the requirements of the current Canadian Postal Service Charter and uncompetitive collective agreements. As our revenues drop, the scope of our obligation to serve Canadians continues to increase with the addition of approximately 175,000 new addresses to the network each year.

As Canadians change how they use the postal service, Canada Post must change, too. We cannot simply continue to provide traditional services in the traditional manner. Instead, we must adapt to a new role as the trusted intermediary enabling critical communication and commerce for all, and offer the kinds of services our customers require—where and when they want them. In 2013, we engaged Canadians in a conversation on the future of Canada Post, fostered through 46 community meetings across Canada and by soliciting input by mail and online.

In developing this broad strategy, we have examined:

- the changing needs of customers and how they want their mail delivered, taking into consideration both convenience and speed
- options for the delivery of a different mix of products, as parcel volumes increase and letter volumes decline
- the competitive environment in which we operate
- the need to permanently adjust our cost structure
- ways in which to manage the growing costs associated with new addresses
- the volatility of our pension plan and its impact on cash.

Together, the initiatives we plan to undertake over the course of this Corporate Plan and beyond will enable us to meet the emerging postal needs of Canadians, while tackling the company’s financial challenges and significantly reducing the size of our workforce and the associated costs. These initiatives are an integral part of the strategic priorities that will guide our operations over the Corporate Plan period.

Our strategic priorities for 2015 to 2019 are focused on transformation of the business to enable future growth, and are based upon the following strategic imperatives:

1. Successfully implement the Five-point Action Plan. This forms the basis of the transformation of the business and provides a foundation for future growth.
2. Become an e-commerce enabler. Promote the growth of our parcels and logistics business and expand e-commerce activities.
3. Develop winning marketing solutions. Evolve direct mail to ensure relevance in the new digital and social media context.
4. Grow customer loyalty by managing digital and physical lifecycles. Develop a data-based, customer-centric view leveraging our online capabilities.
5. Create an empowered, agile workforce to address evolving customer needs.
6. Enhance the Canada Post brand and promote our role as the trusted intermediary.

To support our strategic imperatives and growth ambition within these competitive markets, we need to focus on operational excellence throughout our business.

3.2 International Developments

Posts around the world are being challenged by structural declines in mail volumes, large pension and post-retirement health costs, and sluggish economies. The exclusive privilege, which at one time financed the cost of the USO, has lost its value in a digital world. At the same time, many Posts are now operating in a competitive environment, without benefit of an exclusive privilege.

The dangers of not responding to this changing environment are exemplified by the United States Postal Service (USPS). The USPS has experienced a decline of more than 25 per cent in mail volume since 2006. It recorded a $5.0 billion net loss in fiscal year 2013 and expects to continue to record similar losses without significant structural change. The USPS continues to default on certain mandatory payments to the U.S. Treasury and anticipates becoming a permanent burden on the American taxpayer by 2017 without legislated change.

Other Posts have responded to their changing environment in a number of ways. Australia Post has introduced its Future Ready Strategy that focuses on creating a high quality parcels network with a global perspective, expanding the retail network of flagship superstores and developing a secure digital environment for all Australians. In spite of these changes, Australia Post still reported a loss in the first half of 2014 and is continuing to explore its options. It is expanding its logistics offerings through the acquisition of Star Track, a logistics provider, and has built a strong international presence through partnerships with other Posts. It has introduced flexible delivery options and 24/7 secure parcel lockers to address consumer convenience.

In addition to modernizing processing and delivery networks, international Posts have reduced their number of owned postal outlets as well as the size of their workforce. Posts are also enhancing their parcel services to take advantage of the growing e-commerce market. Posts are focusing on the opportunities presented by data analytics, particularly in the area of data-driven marketing. As well, some Posts now offer digital mail services to complement their physical mail products, while others, especially in Europe, have expanded regionally and into adjacent businesses. More recently, some Posts have sought changes to their USO to reflect changing customer needs, the evolution of communications and their financial situation. New Zealand Post has released a five year plan that includes reducing urban delivery to three days per week, beginning in 2015. Itella (Finland) will conduct testing of four-day delivery for large-volume business mail in fall 2014.

E-commerce

Posts are innovating to capture the opportunity of a growing global e-commerce market. Many are moving to increase the range and convenience of delivery options:

- More Postal administrations are establishing parcel lockers as a secure, convenient and cost-effective delivery alternative. Major installations are in
place in Europe, Central and South America and Australia. Canada Post was one of the first Postal administrations to offer a secure parcel compartment solution in its community mailbox delivery mode. Expansion of the community mailbox program under the Five-point Action Plan means that close to nine million Canadian addresses will have access to a secure locker solution by 2019.

- Posts are also enhancing delivery convenience. For example, bpost (Belgium) is testing a Shop and Deliver service that will consolidate all purchases from participating merchants into one pre-arranged delivery.

Others are developing digital support capabilities to expand the range of services they can offer:

- le Groupe la Poste (France) has launched a digital division, La Direction du Numerique, focused on expanding la Poste’s presence along the e-commerce value chain in areas such as e-logistics and web marketing; it also developing an e-wallet. La Poste is concentrating on providing a marketplace environment for small and medium-sized businesses in France.

Globally, cross-border e-commerce is expected to grow 10 per cent annually. Posts are seizing the opportunity to take a lead in facilitating international transactions, particularly for small and medium-sized businesses.

- Deutsche Post’s (Germany) Strategy 2020 document outlines its ambition to become the number one provider of cross-border e-commerce logistics while exporting its domestic e-commerce solutions to other countries.

Data-Driven Direct Marketing

While direct mail addressed volumes have been declining globally, some Posts are reporting growth in Unaddressed Admail. Also, despite significant loss of volume post-recession, the USPS in particular has reported growth in addressed volumes in three of the past four fiscal years. As well, the rise of data-driven marketing has opened up significant opportunities for Posts to use the location and preference data within the Postal business environment to grow their direct mail businesses. While privacy laws differ widely from country to country, many Posts have leveraged available data and resources to augment the value of direct mail products for their customers.

- Some Posts are already investing in individual-level consumer data (ILCD). A study commissioned by the Direct Marketing Association estimated that in 2012 U.S. companies spent US$156 billion on ILCD.
- Deutsche Post believes that addressed advertising mail will continue to play a significant role in the growth of dialogue marketing. It is leveraging its leading consumer behaviour database to produce targeted marketing solutions through its subsidiary NUGG.AD.
- PostNL (Netherlands) has developed a model, through its subsidiary CENDRIS, to monitor response cards, clicks and conversions to orders to analyse and report on Direct Mail campaign effectiveness for their customers. They are also considering a pricing model that incorporates a base set-up fee with a charge per response to the mailing.
• Correos (Spain) uses its delivery force to correct and validate customers’ mailing lists and to collect ground-level targeting information requested by clients.

Digital

The growth of digital communications represents both a threat and an opportunity for Posts. Most Posts recognize the need to develop and innovate in the digital environment, but remain cautious about the impact on their physical mail streams. A few Posts have embraced the digital world and attempted corporate-wide digital programs.

• Poste Italiane’s Postecom business unit is mandated to innovate and standardize digital opportunities across the Corporation. Initiatives are formulated under the umbrella categories of digital communications, e-commerce, cloud services and e-Government.

• Deutsche Post’s E-POST business unit is expanding on the success of its E-POSTBRIEF digital communications platform to grow business in e-payments, e-storage, authentication and e-bill generation for small and medium-sized enterprises.

• While many Posts saw a decrease in overall revenues, France’s le Groupe La Poste’s Digital Services business unit saw 2013 revenues remain stable at EUR 212 million. New digital services, including electronic signatures and data processing platforms, are driving enough growth to offset the decline of traditional activities.

Further work is warranted to explore the benefits of a business model change and the potential indirect benefits to the broader company. We can leverage epost™ to further engage consumers as part of a broader Virtual Post Office (VPO) strategy, which could yield significant benefits for data as well as for the core Direct Marketing and Parcels businesses.

3.3 Disruptive Innovation

The impact of disruptive innovations on physical mail has been accelerating for many years. Mail began breaking away from its long-term relationship with the economy in the late 1990s as consumers and businesses gained freer access to the internet. This trend has grown increasingly acute with the advent of more accessible and mobile digital communications platforms. As a consequence, Domestic Lettermail has eroded by more than an average of 150 million pieces annually since its peak in 2006.

We are not alone in facing technological disruptions to our business model. Disruptive innovation has had rapid and disastrous impacts across many established industries. Newspapers, music, photography, travel and publishing are all examples of industries that have undergone dramatic transformations with many corporate casualties along the way.

The print newspaper industry in Canada began to see the impact online competitors were having on advertising revenues as early as 2000. However, the initial drop in revenues was followed by several years of stabilized annual revenue growth of roughly one per cent, which reduced the sense of urgency. The cliff appeared suddenly in 2008, when competition from online advertising reached a critical mass.
just as the effects of the financial crisis hit advertising budgets. Since then, print dailies have experienced sharp average annual revenue drops of four per cent per year. This trend is expected to accelerate in coming years. Major Canadian dailies have tried to react and develop online editions, but digital advertising revenues are not sufficient to counter lost print revenues. They are now left to cover a large fixed cost base and pension obligations with shrinking revenues.

New business models are no less susceptible to disruptive innovation. Garmin, a leading manufacturer of personal navigation devices, saw sales of its products grow 300 per cent between 2005 and 2008. The introduction of Google’s mobile navigation app for smartphones in 2007 had only a small immediate impact on the industry, which enabled Garmin to downplay the risk. However, by 2009 installations of the Google app were more than double the size of Garmin’s user base. Sales of Garmin’s devices subsequently dropped by an average 12.4 per cent over the following three years.

Though both of these industries were able to foresee the advent of new competitive forces, neither could accurately predict the timing or severity of the disruption.

While some corporations have failed to respond, others are leveraging their foresight to rationalize their legacy businesses and invest in next generation opportunities before crisis hits. To count ourselves among the latter group we must actively pursue the Five-point Action Plan to prepare for the disruptive changes impacting our business.

Even with successful execution of the Five-point Action Plan we should expect that disruptive changes will continue to create large threats and opportunities across the entire business. Digital businesses and technology are continuing to generate risk by redefining the nature of communications, marketing, parcels and logistics. At the same time, market changes are affording us tremendous opportunities to take on high value intermediation roles across our physical and digital networks. With the capabilities of Canada Post, SCI and Purolator, we have the potential for a unique solution offering for the Canadian market. Leveraging these capabilities and evolving our culture to one that is increasingly customer-focused and innovative will be critical to navigating future disruptions.
4. **FIVE-POINT ACTION PLAN**

4.1 **Five-point Action Plan**

On December 11th, 2013, the Corporation announced its Five-point Action Plan to return the postal service to financial self-sufficiency. The announcement followed broad engagement with Canadians to identify how their needs and expectations were changing. The Action Plan was designed with extensive operational and financial analysis by Management and independent experts. It forms the foundation of a new postal system designed to serve Canadians’ evolving postal needs and help the Corporation succeed in the digital age. The Action Plan centres around five initiatives:

1. Community Mailboxes (CMBs)
2. A New Approach to Pricing
3. Franchise and Retail strategies
4. Streamlining Operations
5. Addressing the Cost of Labour

Increased revenue from the change in pricing has had an immediate impact, though one that will decrease over time with mail volume erosion. Cost savings have been realized by reducing retail hours to match consumer demand. Meaningful consultation with stakeholder groups, including individuals, municipalities and special interest groups, has allowed the first wave of CMB conversions to move forward.

Although significant steps have been taken, this first year sets the stage for the longer journey to come. While 2014 has seen improved results, they are affected by significant one-time events, such as the price increase, and by the massive swings in benefit costs that the Corporation is subject to. It remains clear that the underlying structural issues have to be addressed if Canada Post is to remain sustainable without becoming a burden on taxpayers. The implementation so far has validated that the Action Plan is the right one to address our operational issues. The Action Plan is expected to take five years to complete. Once fully implemented the combination of CMB, Pricing, Retail, and Streamlining Operations is expected to contribute an estimated $700 million to $900 million to the Corporation.

4.2 **Community Mailboxes**

As Canadians receive more parcels and fewer letters, the size and shape of the mail is changing. At the same time, our customers are leading busier lives. Community mailboxes (CMBs) address both issues, by offering a safe, secure and close-to-home solution for customers to pick up their mail and parcels, at their convenience.

The conversion to CMBs is the most visible part of the Five-point Action Plan. Delivery, from postal facility to final destination, accounts for over 40 per cent of our operating costs. Only one-third of Canadian addresses (approximately five million) receive door-to-door delivery today. While this is a significant change for our operations and for affected Canadians, it will not affect Canadians living in apartments, condos or retirement homes that already have centralized delivery to a lockbox panel; rural Canadians with lot-line delivery; most businesses located in designated business corridors; or the millions of Canadians that have already been
receiving delivery to CMBs. This conversion will help standardize the mode of delivery across the country.

The conversion also underpins our growth initiatives by providing secure points of delivery for Canadians. The units accommodate 80 per cent of the parcels and packets Canadians receive, while items requiring signatures and larger parcels that do not fit in the CMBs will continue to be delivered to the door. The standardized mail boxes and simplified delivery will also allow for more innovation in direct mail products, including samples.

**Engagement and Accommodation**

Canada Post recognizes that the transition to community mailboxes represents a significant change for Canadians, and that it affects many stakeholders. To smooth its implementation, Canada Post has engaged in a comprehensive communications and community outreach process.

Beginning months before any units are installed, Canada Post begins working with municipalities to address concerns and ease the planning process. We then reach out to transitioning residents, sending letters to each affected address. A survey and a more comprehensive online feedback tool helps us gather input from households so we can identify their concerns and preferences.

We review proposed locations with the municipality, and then knock on doors to speak directly with customers adjacent to these sites. We follow up when concerns are raised regarding the proposed locations. Already there have been several cases where we agreed that an alternate location proposed by a resident would better serve the needs of the neighbourhood, and as a result revised the location.

In recognition of the need to accommodate Canadians with mobility challenges, a robust process has been developed to ensure all customers have continued access to their mail and parcels. Our accommodation program reflects the input from various stakeholder groups representing persons with disabilities and seniors, and has been designed to consider needs on a case-by-case basis so that we can tailor solutions to individual circumstances.

Beginning in August and September, siting was completed and installation began for the 2014 round of CMB conversion. We continue to work with municipalities to establish sites for the new boxes and to prepare for the expansion of the program into new areas. In 2014, the first of the community mailbox conversions were implemented for approximately 100,000 addresses in 11 municipalities across the country. By the end of 2015, approximately one million households will have been converted from door-to-door delivery to community mailboxes. We will also continue to work with municipalities and gather input from residents to ensure we find locations that best serve the needs of the community.

**Future Conversions**

This initiative is crucial to the financial viability of Canada Post. CMB conversion will provide annual savings in the range of $400 million to $500 million per year once fully implemented. Most of the savings will result from reductions in the number of delivery employees. It is expected that the reduction will be achieved through attrition, as a large number of employees will be retiring in the coming years. We will manage this change in accordance with the respective collective agreements.
4.3 A New Approach to Pricing

As part of the Five-point Action Plan, Canada Post put into place a differentiated pricing structure for Domestic Lettermail on March 31, 2014. As opposed to one basic domestic letter rate for all regulated Lettermail weighing up to 30 grams, the price of a stamp moved from $0.63 to $0.85 each if purchased in a booklet or coil, or $1.00 for a single stamp. The price of Lettermail up to 30 grams paid via a postage meter or indicia mail used by business or organizations is no longer regulated and is now $0.75. The Incentive Lettermail rate, also unregulated and applied when large mailings are prepared and sorted by the customer, is now $0.70 per piece. The differentiated rate structure for stamps is meant to encourage the purchase of multiple stamps in a single transaction and recognize the loyalty of consumers and small businesses that purchase larger quantities.

Erosion Cliff

We know that erosion will not follow a straight and predictable path. Clear patterns in other digital disruptions, from film to digital cameras or from compact discs to downloads to streaming, show that volumes do not follow a smooth decline (see charts below). Erosion is often less than predicted in early years, only to hit an unpredictable tipping point followed by a dramatic cliff. We know we are headed for that cliff and are doing the work now to be ready for it.

The long-term assumptions for significant Lettermail erosion remain high as mailers seek to reduce costs and optimize digital technology. Canada Post is therefore vulnerable to any changes in the mailing behaviour of a small group of customers. The major banks, telecommunications companies, governments, and a handful of utilities form the core of our Lettermail business. Our 20 largest customers represent approximately half of our Lettermail volume and revenue. While the federal government has announced its intention to address the practice of charging individuals to receive paper bills, this large revenue base remains uncertain. As these large mailers continue to explore digital options for their physical mailing needs, the impact on Canada Post will be significant.

Future Rates

Given the significant price increase this year, Canada Post will forego regulated rate increases in 2015. Regular increases are planned for commercial Lettermail and other products. It is expected that regular rate increases will be implemented again starting in January 2016. Price adjustment decisions take into account the impact on customers, mail volume and revenue. Final decisions are made following a public
consultation process, with regulated rates submitted for approval to the Governor-in-Council.

4.4 Retail Post Offices

Canada Post has the most extensive retail network in Canada, with approximately 3,800 corporate post offices and 2,500 post offices operated by private dealers at the end of 2013. Though many day-to-day postal transactions, such as purchasing stamps, can be done online through canadapost.ca, post offices still serve an important role. However, while Canadians still value post offices, the way they use them has been changing, which means we need to adapt our retail network.

As Canadians’ daily schedules and shopping habits changed over the years, retail hours did not change to reflect these new customer traffic patterns. To optimize coverage for all Canadians, we need to better align our retail network with customer needs. 2014 has seen a good deal of progress in that area, as hours have been adjusted to reflect customer traffic. Dealer post offices – the “shop within a shop” – are popular with customers because they are located where people do their shopping and are open at more convenient times than many corporate outlets.

Dealer post offices offer customers a more convenient time and place for picking up parcels. In 2014, Canada Post is piloting our new FlexDelivery service. This offering will leverage our extensive network and allow customers to have parcels delivered to a post office that is convenient for them—close to home, the office, or anywhere else they choose. Having a retail network that is flexible and responsive to customer needs is an essential part of the strategy.

Because cost-containment is crucial to sustaining our business, we are continuing to adjust existing corporate offices, reducing hours to match customer traffic patterns. We will be adding new dealers to our retail network to ensure that our customers still enjoy convenient access to postal services. We are also investigating less expensive alternatives for serving customers who wish to perform standard parcel and stamp transactions, such as kiosks and a light version of our point of sale system for parcel pick-ups.

4.5 A Streamlined Operations Network

Lettermail volume has declined by over 1.3 billion pieces since 2006, while the number of parcels and packets continues to grow. As fewer individuals send and receive traditional Lettermail, and more of the items we deliver originate in retail warehouses in larger centres, the existing structure of the network is becoming less suitable to mail traffic flows. In order to adapt to this new reality, we are realigning our operations network to improve efficiency while focusing on parcel growth.

Our plan includes adjustments to benefit from economies of scale by consolidating Lettermail processing into major plants within the major urban centres. In 2014, for example, the Corporation has transferred some mail processing from the plant in Ottawa to Montreal and from the plant in Hamilton to Toronto. In addition some mail processing will also move from the smaller Saint John, N.B., plant to the larger Halifax plant. This will have the added benefit of allowing Saint John to act more as a parcel hub for the Atlantic provinces.
Efficiencies are also being gained throughout the network from the increased use of high-speed mail processing equipment. Work centres are being consolidated and added in 2014 and 2015 to support this increase. Some mail that would have been hand-sorted in the past is instead being relabelled so that it can be processed by machine. We are also expanding the amount of mail that is being automatically sequenced to the specific delivery route. There are 50 depots planned for this sequencing extension in 2014 and we will continue to seek additional opportunities in 2015 and beyond.

These processing changes will result in savings of approximately $100 million to $150 million per year. The new operating model will be combined with other elements of our transformation strategy, including the CMB conversion, review of delivery frequency and other processing improvements.

4.6 Labour Transformation

The future health of our business depends on our ability to be as cost-competitive and operationally flexible as possible. Our business has changed, and we now operate in the highly competitive parcel market, competing against global players with significantly different cost structures. The majority of cost savings expected from the changes to delivery, retail and network operations all rely on the reduction of FTEs. A labour structure that reduces costs and provides the required flexibility is therefore crucial for our future success. The necessary cost savings must be achieved through a combination of two elements: reducing the number of employees required to deliver our services, and reducing the costs associated with each employee.

Implementation of these changes to our service model, including converting to CMB delivery, reducing both the number and the hours of our corporate post offices, and streamlining operations will result in between 6,000 and 8,000 fewer positions. Canada Post has already reduced its management cadre by 19 per cent since 2008.

Canada Post’s objectives in all collective bargaining is to permanently address pension cost volatility, align our costs more closely with those of our competitors and improve operational flexibility. This transformation began in 2011 and will continue in all rounds going forward. New management hired after January 1, 2010, are covered by a Defined Contribution pension plan segment rather than the legacy Defined Benefit plan segment. We will continue to negotiate changes to the pension plan to put it in a more sustainable position.

On December 9, 2013, an Order-In-Council was issued under the newly amended sections 89.8 and 89.9 of the Financial Administration Act. The order requires that Canada Post obtain Treasury Board approval of any negotiating mandates with respect to collective agreements that expire in 2014 or later, as well as approval before we fix the terms and conditions of employment of non-unionized employees. In 2014, mandates for negotiations with the Association of Postal Officials of Canada (APOC) and the Canadian Postmasters and Assistants Association (CPAA) were submitted for approval. The mandate for the next round of negotiations with CUPW will be submitted for approval in 2015.
Collective Bargaining

Canadian Union of Postal Workers (CUPW)

Canada Post Corporation and the CUPW signed a new four-year collective agreement for urban employees in December 2012. In this round of negotiations, the company made significant progress in a number of areas. The new agreements—a four-year deal that will expire on January 31, 2015, and one additional year expiring on January 31, 2016—include:

- Lower starting wages for new hires
- No wage increase for 2015
- Changes to full pension eligibility for new employees (30 years of service and 60 years of age rather than 55)
- A higher employee premium for post-retirement health care benefits (from 75%-25% cost sharing to 65% - 35%)
- Elimination of the traditional sick leave program in favour of the same short-term disability program that has been in place for all other Canada Post employees for a number of years.

These changes came at a heavy cost. The negotiations were long and back-to-work legislation followed on the heels of a labour disruption. Future negotiations will no doubt also be challenging.

In December 2012, Canada Post also signed a new collective agreement with CUPW-RSMC, which represents the over 7,250 Rural and Suburban Mail Carriers (RSMCs) who deliver to almost 4.5 million points of delivery. The bargaining unit was formed in 2004, when this group moved from working as contractors to becoming Canada Post employees. The Corporation’s goal in the negotiations was to improve the working conditions of RSMCs within the context of the many challenges facing the company. The new four-year collective agreement, which expires on December 31, 2015, includes wage and benefit improvements that are more aligned to those of our competitors.

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

PSAC/UPCE represents almost 1,500 administrative and technical employees at Canada Post. Canada Post and the PSAC/UPCE had been negotiating since September 2012 for the renewal of the four-year collective agreement that expired on August 31, 2012. The parties reached a four-year collective agreement on May 12, 2014, which expires on August 31, 2016. This new collective agreement includes a different offering for new employees to ensure a viable future for the company by reducing costs. Details of these changes are:

- No wage increase for years 2014 or 2015
• A higher employee premium for post-retirement health care benefits (from 75%-25% cost sharing to 65% - 35%)
• Lower starting wage for new hires
• Defined Contribution Pension Plan for new hires
• Eliminating the seventh week of vacation and including a longer period of time required for the entitlement for new hires
• Eliminating pre-retirement leave for new hires.

**Association of Postal Officials of Canada (APOC)**

The five-year collective agreement with APOC, which represents supervisors and supervisory support groups such as trainers, route measurement officers and sales employees, expired on March 31, 2014. Canada Post and the Association of Postal Officials of Canada have been negotiating since March 2014. Canada Post presented the Association with a global offer on July 24, 2014, which will ensure a viable future for the company by reducing costs. Talks resumed on September 10, 2014, when APOC presented the Corporation with a response to the Corporation’s global offer of July 24, 2014.

The APOC collective agreement provides for final offer selection arbitration as a means of resolving outstanding issues when a negotiated settlement cannot be reached. The process is used in place of a strike or lockout.

**Canadian Postmasters and Assistants Association (CPAA)**

The Corporation is in its last year of a five-year collective agreement with the CPAA, which will expire on December 31, 2014. In spring 2014, The Association provided Canada Post with a notice to bargain, and by fall 2014 the bargaining process had begun. The CPAA represents rural post office postmasters and assistants. As with the APOC collective agreement, the CPAA agreement refers to the final offer selection process as a means of resolving outstanding issues.

**Workforce Overview**

Canada Post’s total full-time and part-time indeterminate workforce for all categories as of December 31, 2013, was 52,433. Of this, 50,049 employees are represented by unions, while the remaining 2,384 employees (or 4.5 per cent) are non-unionized.
5. CORE BUSINESS

In order to stay relevant and continue our role as an enabler of remote commerce in the Canadian economy, we have to adapt and grow. For that reason, Canada Post has developed a set of growth strategies that are aligned with our core strengths and with our 163-year-old mandate of allowing Canadian businesses and individuals to connect with confidence.

5.1 E-commerce

The e-commerce market has expanded rapidly in recent years, and growth is certain to continue. This expansion is creating significant opportunities for the Corporation to grow alongside it. While growth in parcels alone will not offset Lettermail erosion anytime soon, it is central to our future. Canada Post has made significant investments in recent years to develop our products, services and operations to ensure that we are well-positioned to benefit from e-commerce growth. Although we continue to operate in a highly competitive market with large global players, our continued focus on facilitating delivery from business to consumer (B2C) has resulted in our leadership position in the field. Our unparalleled market coverage, with some 6,300 post offices across the country, and the development of new services such as FlexDelivery will allow us to build on our leadership position moving forward.

Canada Post’s focus on innovation and convenience has allowed us to build a strong reputation with both retailers and shoppers. We have invested in marketing our e-commerce services, which allow us to cater to online shoppers’ specific needs by making their delivery experience more flexible and convenient. The red shopping cart from our Delivering the Online World™ campaign will be on screens and in print again in 2014. Our position in the Canadian e-commerce market is enhanced every year when we showcase and celebrate the best e-tailers of all sizes in Canada at our annual Canada Post E-commerce Innovation Awards™ in September.

E-commerce traffic continues to evolve, with volumes from overseas growing. As these volumes increase, the importance of establishing relationships with foreign posts and commercial entities increases. We continue to pursue bilateral agreements with essential foreign posts, and work with the Government to ensure that the interests of Canadian e-commerce businesses and consumers are well-served in our trade agreements. We have begun to establish meaningful relationships with large international consolidators and commercial shippers that will drive volume growth from overseas.

Online shoppers expect to have the ability to track their purchases throughout the shipping and delivery process. We continue to invest in our scanning and tracking capabilities, with recent enhancements such as Nesting allowing us to provide more detailed information. We will continue to engage directly with consumers to better understand their preferences so we can design solutions such as FlexDelivery that add value to their shopping and delivery experiences.

Going forward, Canada Post remains passionate about being the preferred shipping provider for B2C deliveries in Canada. We are working with e-commerce shippers to develop solutions that meet their unique needs and differentiate us from the competition in residential delivery, while effectively managing our operating costs. Strong growth is expected to continue in Parcels, making up a greater proportion of
the Corporation’s overall revenues each year. We shipped over four million more parcels in 2013 than the previous year.

5.2 Direct Marketing Solutions

The Canadian advertising market has been fundamentally changed by the rise of internet and mobile advertising. Print advertising, including direct mail, has lost market share and dollars as internet and mobile advertising have grown at double-digit rates. The internet first eclipsed direct mail’s share of media expenditures in 2009, when recession-driven marketing budget cuts prompted a migration of advertising spending to lower-cost advertising channels.

Recently however, marketers have become increasingly doubtful of digital advertising and its soft metrics. This “digital doubt,” coupled with two key market trends, is setting the stage for a direct mail comeback. The first trend, constant digital connectivity, has fundamentally changed how consumers manage life, consume content, shop and interact with brands. It has flattened the traditional path to purchase, and created an expectation of “know me” in the form of personalized and relevant messages and experiences. The second trend, convergence, is fusing offline and online channels into one seamless omni-channel shopping and buying interaction that is organized around a brand experience. Direct mail is at the crossroads of physical and digital convergence, making it a uniquely powerful channel for activation.

In this digitally mature marketplace, marketers are finding that while digital media is generating a lot of customer interaction, it’s under-delivering on action — the end game of all marketing. Direct mail, which encompasses both the digital and physical worlds, is uniquely qualified to deliver action and take a leadership position in the next generation of direct marketing for three key reasons:

1. It’s physical, and neuroscience has shown that physical media has a remarkable impact on memory, emotion and behaviour.

2. It’s targeted, allowing marketers to use data to personalize their messages ("know me") and reach consumers in the intimacy of their homes.

3. It puts the power of physical and digital convergence directly in consumers’ hands, enabling marketers to turn interaction into action through intelligent activation.

In 2015, and through the plan horizon, we will focus on reframing the direct mail value proposition for today’s competitive market; simplifying, innovating and extending our product set; and building awareness and consideration across the advertising market. We will also work to expand and optimize all the channels through which customers access direct mail, continue to focus on engaging market influencers (such as advertising agencies, printers and marketing associations), pursue untapped opportunities in the northbound and e-commerce markets, and re-launch our Direct Marketing offering in the small to mid-sized business segment with a new value proposition.
5.3 Lettermail

Canada Post’s Lettermail business has been under threat by electronic adoption since the 1990s. The threat finally overtook growth after 2006. That year, Canada Post delivered approximately 5 billion pieces of Domestic Lettermail, but it would be the last year of growth. As more bills followed personal communication online, mail volumes entered a historic decline. In 2013, Canada Post delivered 3.8 billion pieces of Domestic Lettermail. This coupled with the addition of 1.2 million new delivery points of call since 2006, means that average mail per household has dropped by 30 per cent since 2007, putting tremendous pressure on this key part of Canada Post’s business. The digital disruption experienced here in Canada is mirrored around the world. In fact, Canada’s Domestic Lettermail volumes declined by 4.8 per cent in 2013 while other International Post Corporation members experienced an average decline of 6.6 per cent.

It is clear that the Lettermail business is in a state of aggressive decline. However, evidence mail such as identification cards, credit cards, licences and proof of transactions sent by governments and large institutions is expected to grow as the registration for these items shifts from over-the-counter to online. We aim to enhance these products by introducing visibility features for businesses and consumers that provide greater control and peace-of-mind.

We know that Lettermail volumes will continue to decline as commercial customers and consumers increasingly move to a digital and web experiences. However, we are committed to leveraging product classification and maximizing the profitability of this product suite. We will pursue strategic investments to help increase the value and protect the segments that remain relevant to Canadians.
6. FOUNDATIONS OF SUCCESS

Our Plans call for us to successfully overhaul a complex organization with the largest transportation and retail networks in the country, one of the nation’s largest workforces and a history that is older than Canada. We have set the goals of not only surviving but thriving in the highly competitive e-commerce and marketing industries. We have identified these goals as essential for the sustainability of the Corporation. We are certain that we can succeed in all of this, but not without an unrelenting focus on the customer and the support of engaged employees and a carefully managed brand.

6.1 Customer Focus

Canada Post is one of the few organizations that can call all Canadians customers. How we engage with those customers has to change if our transformation and growth strategies are to succeed. At its core, this transition means moving from a culture of dictating to a captive audience to constantly working to earn the loyalty of customers with a wide range of choices. This will require a great deal of work on three levels. First, for this strategic imperative to be achieved, Canada Post needs to leverage its extensive set of customer information and new technology to carefully manage customer relationships and grow customer loyalty. Second, we have to align our operations to meet both current customer needs, and their needs next month, next year, and in years to come. And finally, we need to change the culture of the organization, so that every employee is customer focused.

In 2014, we completely overhauled how we manage the physical and digital life cycles of our customer relationships. By leveraging Canada Post’s online capabilities we are developing a data-based customer centric view. We intend to improve the access to our products by bringing more and more of our services online. This change will also reduce dependency on traditional brick and mortar outlets. Bringing together our existing digital services, and developing new ones, we are creating a Virtual Post Office that connects Canadians with Canada Post in a new way, allowing for a positive customer experience that is consistent across digital and mobile channels. We believe this level of online engagement will open a new path to better serve Canadians.

Canadians see Canada Post as a reliable organization, though not an innovative one. Creating a new channel for conducting business and connecting with us, linked to the Virtual Post Office, is a critical component of our goal of ensuring that we remain Canada’s trusted intermediary: connecting business to consumers and Canadians to each other. In 2014 and 2015, we will continue to simplify our products and services, making them customer friendly and easy to use. We are investing heavily in re-designing the look and feel of our website to make it more intuitive and easier to use. We will harmonize our platforms to ensure a consistent and reliable experience and to ensure our products and services are available 24 hours a day, seven days a week. We will create a seamless customer experience, with digital transactions tied to physical products. We will be re-building our digital tools, including the package tracking tool, to increase visibility into the delivery experience. These tools will tie into new customer services such as same-day delivery and FlexDelivery. Customers will be able to shape how they interact with us, both online and in the real world.
We will adapt to the changing needs of our commercial customers, regardless of size. Our focus in 2015 is to build a Small and Medium-sized Business channel with self-serve capabilities that will grow their marketing and e-commerce business with Canada Post. We will improve and create new e-commerce solutions that will integrate into enterprise solutions giving our larger commercial customers better access and more flexibility to our services which in turns creates more value for their customers (e.g. shipping, web tools, addressing tools, etc...). We will focus on enterprise-wide quality, going beyond targeting on-time delivery to targeting customer satisfaction with every stage of the process.

6.2 Employee Engagement

The changes underway at Canada Post represent a fundamental shift for our employees. For many letter carriers the day-to-day experience they have known for many years will change dramatically. We are demanding a new focus and setting new goals and objectives for employees at all levels of the company. We are asking our employees to support us through a complex transition, while at the same time looking for labour and other cost savings. We are asking that they maintain our excellent operational service levels, which requires rigour and standardization, while at the same time ensuring that our customers feel that they come first and are getting special service. We are asking them to innovate and lead in new ways. We are challenging them to succeed, and they are. Simply put, these essential initiatives cannot succeed without an actively engaged workforce.

Engaged employees are a critical element for any successful company and even more important when those companies are operating in highly competitive environments. Customers have choices and employees can influence the choices customers make. In order to meet the strategic imperative of developing an empowered and agile workforce able to address evolving customer needs, we are putting initiatives in place to create an environment that works differently. The goal is to allow employees the opportunity to use their experience and judgment to create solutions, to identify efficiency and opportunity, and to manage customer needs. While it is understood that this change will take place within the comprehensive structure needed for an organization our size, we will create an environment where empowerment, recognition and trust are ever-present.

Culture

Our own history and that of other successful companies clearly shows that culture matters. Over time Canada Post has made strides to evolve the corporate culture to one that is more open and customer-oriented. Approximately half of Canada Post’s current full-time employees are expected to leave the company in the next 10 years, mostly through retirement. We intend to continue efforts at improving the employee experience which in turn will positively impact the customer experience. Moving forward, we seek to nurture an environment that:

- enables values-based leadership and decision making,
- allows employees the opportunity to contribute to solutions,
- empowers employees to actively engage with customers,
- establishes targets and goals focused on customers,
• encourages genuine and sustained two-way communications,

• has positive coaching that seeks to correct and improve behaviours rather than penalize them,

• an environment where empowerment, recognition and trust are ever-present.

Efficiency

The long-term financial sustainability of Canada Post is dependent upon us getting our cost-structure in line with that of our competitors. Significant progress has been achieved in recent years and the momentum now is clearly on continuing to foster an environment that is capable of providing value to customers in a cost effective and sustainable manner. This will be achieved on several fronts:

• the successful implementation of the Five-point Action Plan will allow for the elimination of approximately 6,000 to 8,000 positions,

• Pension reform efforts are currently underway to make the plan more affordable and sustainable for the Corporation and plan members,

• current and future labour negotiations will continue to focus on providing greater operational flexibility, pension reform and addressing cost issues,

• we will leverage the use of IT systems in the management and delivery of human resource services.

6.3 The Canada Post Brand

Our brand is the sum of the experience we create and the value we deliver. Canada Post is one of the five most well-known companies in Canada along with Tim Hortons, Walmart, Canadian Tire and McDonalds. The strong foundation of trust that is central to our brand is both highly valuable and difficult to achieve. While the Canada Post brand is recognized for being trusted, providing quality service and value, it is in the midst of a significant and visible transformation.

Our objective is to ensure our customers continue to associate us with contributing positively to Canadian society and being strongly committed to serving the needs of Canadians. At the same time, to expand our e-commerce and digital offerings and move the business forward, we need to develop the brand to also be seen as an innovative, customer-centric and agile company.

Therefore the urgency of defining and implementing a clear and compelling brand has never been greater. The issue of changing perceptions is not about credibility, but rather the need to demonstrate leadership and new relevance. In 2013, we took ownership of the digital shopping cart icon and launched a new campaign line, Delivering the Online World. That campaign has already had a measurable impact on improving Canada Post’s image as a leader in parcel delivery and in making the online shopping experience better.
Initiatives are underway to ensure that we bring to life a new brand platform that will act as a compelling and consistent guiding principle for all of the brand’s actions and be a filter for decision making for the organization. A unified brand and customer experience approach is required to build an experience that will inspire Canadians to connect with confidence now and in the future.

Marketing

In 2015, and through the plan horizon, we will continue to raise awareness of Canada Post’s e-commerce leadership position through the Delivering the Online World campaign, and dial up our focus on consumer convenience and choice.

We will continue to focus on raising awareness and consideration for our Parcels and Direct Marketing solutions within our core shipping and marketing segments, and investing in high-quality lead generation. In the small to mid-sized business segment, we will be re-launching our offering with a new value proposition.
OPERATIONS AND INITIATIVES

7. OPERATIONAL EXCELLENCE AND COST REDUCTIONS

7.1 Focus on Excellence

Customer expectations change and, as they do, so must we. Our traditional areas of focus for excellence remain as important as ever – the customer expects that we will deliver on time, but that is no longer enough. The CPC brand conveys a trust and integrity that we must carry through in all we do, from front-line employee interactions all the way to the back-office work. We are no longer a provider of Exclusive Privilege services – we must compete for all of our business. We compete for communications and bills that are moving online, for the advertising dollars going to digital, and for parcels business that is sought after by a growing list of competitors.

We are investing in initiatives to improve first call resolution in call centres, and new online capabilities and user experience for doing business with Canada Post from the convenience of the home or office. In 2014, we started developing our FlexDelivery service, which provides customers the option to have their order delivered to a post office of their choice. For our commercial customers, we will be fully developing same day services in both Toronto and Vancouver and weekend delivery nationwide 2015.

We will invest in our letter carriers’ mobile devices to ensure that customers have improved visibility on parcels delivered anywhere across the country. To provide operators and our customers with better information about where their parcel is during its transit, we are rolling out Nesting. This project will allow us to identify each item in a container, and each container in a vehicle. Investment in our Quality and Service of the Mail program continues to produce results for us as we analyze the growing number of scans to identify and rectify network or capacity issues.

7.2 Postal Transformation

By the end of 2014, Canada Post will have successfully implemented the majority of its Postal Transformation initiatives. The Postal Transformation project was launched in 2008 to modernize outdated mail processing plants and equipment, to automate manual sorting processes and consolidate delivery, and to reduce costs while increasing productivity. The successful management of this complex set of initiatives is reassuring as we embark on the next stage of the Five-point Action Plan.

A total of $1.8 billion will have been invested by the end of 2014. This investment will have achieved just under $250 million in benefits. While admirable, these savings were quickly swallowed by rapidly declining mail volumes, demonstrating the need to constantly innovate and transform our business.

Overall, as a result of Postal Transformation, Canada Post operations have significantly improved. One-hundred and fifty-seven new, high-speed, ergonomic Multi-line Optical Character Readers have increased the overall accuracy, reliability and efficiency of our mail processing network. The new automated parcel sorting and container handling infrastructure introduced in all major centres has significantly improved parcel tracking and the customer experience.
New systems, supported by a centralized computer system, now provide the capability to automatically sort mail and parcels and sequence mail for an increased number of locations, and allow for standardized sorting strategies. As well, the new delivery model that focuses on automated sequencing of mail for Letter Carriers, motorization and consolidation of our delivery operations has been deployed across the network. The Vancouver sorting operations have been moved to the new Pacific Processing Centre close to the Vancouver airport where increasing international mail originates.

The project’s targeted savings have been achieved and we are now closing out this infrastructure-renewal/cost-reduction project, as we shift the focus to the next stage of Canada Post’s development.
8. GROUP OF COMPANIES

8.1 Synergies and Focus

As part of its transformation plan, Canada Post has brought what were loosely connected subsidiaries into a coherent, synergy driven Group of Companies. Each subsidiary has a mission that is closely linked to Canada Post’s overall corporate growth strategy.

Canada Post’s Group of Companies is now a complementary and synergistic group providing U.S. inbound and domestic delivery services and logistics management, with a unified IT backbone supporting a range of digital postal and shipping tools. Group of Companies synergies are increasingly being leveraged not just to realize cost savings, but also to take advantage of the Group’s complementary strengths and generate revenue.

2014 has seen an expansion in collaborative work between the member companies. Innovapost, now our IT shared services provider, has led a drive for efficiency with new solutions for the group’s data centre, application development and application management needs with targeted annual savings once fully implemented. Increased coordination of strategy planning and market intelligence efforts across the group of companies is reducing overlap and redundancy of efforts. This will also provide a deeper understanding of the businesses and identification of opportunities that can benefit from a Group of Companies approach.

Leveraging resources, Purolator and Canada Post have developed the PuroPost™ product line for U.S. shippers looking to bring products for Canadian consumers easily and efficiently. Domestically, Purolator’s business-to-business focus is a perfect complement to Canada Post’s role in connecting business to consumers. Efficiencies of scale in joint procurements, such as for our IT services and air network, create savings for the group. SCI Logistics is increasingly emerging as the glue for many of our group initiatives. Purolator Logistics is powered directly by SCI’s systems. In 2015, SCI’s multi-user warehousing services will be provided to more Canada Post customers, allowing for shorter delivery times for key products in more markets across Canada.

Canada Post has in place a consistent governance model for each of its majority owned subsidiaries. The model ensures that the activities of the Group of Companies members are co-ordinated to deliver the best possible performance from its assets to shareholders, and to ensure that our strategic interests are aligned. Over the planning horizon, we will be working to achieve further synergies in terms of both costs and revenues by integrating and coordinating activities where appropriate. We also continue to examine the possibility of generating additional savings for the Group by increasingly coordinating a number of large scale activities such as procurement and network management, within the appropriate framework. As majority shareholder of Group of Companies subsidiary members, Canada Post identifies and monitors any significant risk from the member companies.

On the revenue front, our priorities over the planning period will be to ensure that each company within the Group is focused on activities for which it enjoys a competitive advantage. For Canada Post, the focus will be on shipments from businesses to consumers and data-driven direct marketing, whereas Purolator will concentrate on shipments between businesses (B2B) and on consumer shipments.
that are premium-priced, or day-and-time specific. SCI will focus on e-commerce, reverse logistics for small electronics, and warehousing and distribution for certain market sectors, such as health care and technology. We will also seek targeted opportunities to work on collaborative efforts, such as enabling multi-user warehouses, that leverage the core competencies of each brand to create a value-add solution for the shipping and logistics market.

<table>
<thead>
<tr>
<th>Canada Post Main Subsidiary Holdings</th>
<th>Majority Holding</th>
<th>Minority Holding(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purolator Holdings Ltd.</td>
<td>Canada Post - 91.15 %</td>
<td>minority shareholder 7.01 %</td>
</tr>
<tr>
<td></td>
<td></td>
<td>employee share plan 1.84 %</td>
</tr>
<tr>
<td>SCI Group Inc.</td>
<td>Canada Post – 90 %</td>
<td>Purolator – 10%</td>
</tr>
<tr>
<td>Innovapost Inc.</td>
<td>Canada Post – 80 %</td>
<td>Purolator – 20%</td>
</tr>
</tbody>
</table>

### 8.2 Purolator

Purolator Inc. is Canada’s leading integrated freight, parcel and logistics solutions provider. Purolator uses Canada’s largest air express fleet and its own ground fleet of more than 3,600 vehicles. Operating in the highly competitive Canadian transportation landscape, Purolator brings courier and business-to-business expertise to the Group of Companies, as well as a foothold in the US market to drive inbound products.

In recent years, the evolution of the e-commerce market is driving increased demand for supply chain management services. The most obvious shift is from the requirement for express shipping to more cost-effective options, as free shipping has become an expectation of consumers. Hoping to save costs, retailers are looking to leverage automated processes – from order creation, to shipment delivery, to performance tracking, through to bill payment. This opens up opportunities for businesses to optimize supply chain performance through data visibility and analytics. As a result, business supply chain models become more dynamic and need to flex to meet business requirements and customer needs. In response to these rapid changes and evolving customer requirements, Purolator’s market, technology, operational and organizational capabilities require transformation and investments to enhance its market agility.

At the end of 2013, Purolator had a refreshed five-year plan and strategic direction, called PuroNext. The company’s strategic priorities focus on the following three pillars: building a sustainable operating model, protecting core markets and generating new profit streams. Purolator continues to evolve its long-term strategic roadmap for the next plan period. Canada Post Group of Companies’ strategy is an integral part of Purolator’s long-term strategic roadmap. Strategic initiatives span projects harnessing operational synergies, to programs creating integrated market offerings.
Purolator’s Operations Process Transformation strategy is a major enterprise undertaking aimed at ensuring a sustainable operating model. Transformation includes major investments in its data repository, workforce mobility technology and route optimization. These operational investments are foundational to support value-added freight, parcel and logistics services for customers, as well as enable overall customer experience improvement through data visibility and proactive response to critical shipments. Innovapost, the Group’s IT shared-service supplier, is a core partner in enabling this transformation through technology design and delivery, and ensuring our day-to-day IT infrastructure remains effective and efficient.

Purolator Logistics, a Group of Companies initiative leveraging the logistics knowledge and expertise of SCI, provides value-added service capabilities beyond just transportation. Looking ahead, Purolator continues to explore new revenue-generating opportunities.

Purolator’s financial outlook is expected to improve over the plan period as a result of the execution of strategic initiatives of the long-term plan.

8.3 SCI Group

SCI is acting on its strategy to become Canada’s leader of integrated forward and reverse supply chain solutions for high-value and high-growth segments in Canada. The key to SCI’s strategy will be to expand on proven capabilities in focused areas, such as e-commerce fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. Leveraging opportunities within the Canada Post Group of Companies to provide scale and reach will also enable SCI to increase overall market share within Canada.

The SCI Group offers its clients expertise in business to consumer and business to business logistics, providing innovation, intelligence and integration to supply chains. SCI allows the Canada Post Group of Companies to offer end-to-end supply chain services to Canadian businesses.

SCI Logistics is increasingly emerging as the glue for many of Group of Companies initiatives, providing point-of-sale repair support services for Canada Post’s vast retail network; forming the technology and logistics engine for Purolator’s logistics offerings; providing warehousing, pick and pack, delivery and consolidated returns services to both Canada Post and Purolator clients through its multi-client warehouse network; and managing the logistics and installation of the Community Mailboxes in Canada Post’s conversion initiative. In 2015, SCI’s multi-user warehousing services will be provided to more Canada Post customers, allowing for shorter delivery times for key products in more markets across Canada. This initiative will provide small and medium sized business, the e-commerce start-ups that Canada Post is working to support, access to the kind of logistics operations previously reserved for large scale competitors.

8.4 Innovapost

Innovapost is the shared IT services entity for the Group of Companies, and is 80 per cent owned by Canada Post and 20 per cent by Purolator. Its services currently include the strategic development, maintenance and operation of the computing and information systems required by the Group of Companies. Innovapost is an
important part of our strategy to strengthen synergies among the Group of Companies and increase our competitive advantage by building leading-edge business capabilities on common platforms wherever possible. This will help the Group keep pace with overall technological change, increase efficiencies and improve service delivery while reducing overall IT costs. Within the planning period Innovapost intends to expand the synergies across the group of companies.

The increase of synergies among the Group of Companies and the use of common platforms will reduce costs, drive efficiencies, and improve service offerings and delivery. In its second year of restructured operations, Innovapost has continued to deliver services more efficiently and reduce ongoing operating costs. It has also embarked on a multi-year transformation program by entering into market-based contracts to deliver its services.
9. PUBLIC POLICY PROGRAMS

In addition to its universal service obligation and core postal services, Canada Post delivers certain public policy programs on behalf of the Government of Canada. We receive an annual appropriation of $22.2 million from the Government for the delivery of parliamentary mail and materials for the blind. This amount has been in place for close to a decade and remains constant. It is not linked to changes in volume or cost.

9.1 Government (Parliamentary) Mail

Section 35 of the Canada Post Corporation Act (CPC Act) allows for mailing of letters free of charge between citizens and members of Parliament, the Speaker or Clerk of the Senate or House of Commons, the Governor General, the Parliamentary Librarian or the Associate Parliamentary Librarian, and the Conflict of Interest and Ethics Commissioner or Senates Ethics Officer. Members of the House of Commons (MPs) can also send up to four flyer mailings (through Canada Post’s Unaddressed Admail service) free of charge to their constituents in any calendar year. In 2013, MPs mailed and received six million letters and mailed 48.6 million pieces of Unaddressed Admail for free under the CPC Act. In addition to the four free flyer mailings, Canada Post has traditionally provided MPs with a deeply discounted postage rate for any further flyers sent out during the year. These Admail pieces are sometimes referred to as “ten percenters” and the current rate, set in 1995, is $0.82 per kilo or about half a cent per piece. In 2013 MPs mailed over 83 million pieces of Unaddressed Admail at the discounted rate. Canada Post has a set per-piece cost it pays directly to Letter Carriers for Unaddressed Admail. While we received under $400,000 in payment for these deliveries, the per-piece payment alone was $1.5 million.

9.2 Materials for the use of the Blind

The CPC Act through the Materials for the use of the Blind Regulations provides free mailing privileges for certain materials for the use of the blind, such as Braille material, talking books and DVDs. These services date back to the 19th century and are part of Canada’s obligations under the Universal Postal Union.

The program is used by a number of groups, with the Canadian National Institute for the Blind (CNIB) and La Bibliothèque Nationale du Québec the largest mailers of this material. This program has also been used by public libraries across Canada as well as a number of other businesses and organizations. The regulations and international agreements extend beyond domestic mail, and also cover materials sent internationally.

Canada Post receives an annual appropriation from the Government for the delivery of parliamentary mail and materials for the blind. The appropriation covers both programs and is not linked to changes in volume or cost.

9.3 Library Materials

Canada Post has historically offered a Library Book rate, providing for the movement of printed library books between libraries, and between libraries and library users, at
significantly reduced postage rates. Following the passage of Bill C-321, *An Act to amend the Canada Post Corporation Act (library materials)*, in June 2013, Canada Post has renamed the service Library Materials, as magazines, records, CDs, DVDs and other audiovisual materials, in addition to printed books, are now eligible to be mailed at reduced rates.

In 2013, approximately 735,000 shipments of library materials benefited from the Library Materials Rate, which generated revenue of $880,000 for Canada Post. The foregone revenue was estimated at just over $8 million. Canada Post receives no appropriation or compensation from the Government to offset the discounted postage. Since 2012, the Corporation has implemented a small annual increase to the library rates, by a weighted average of five per cent. These modest increases, which do not cover Canada Post’s operational costs, will continue over the life of this Corporate Plan.
10 ENTERPRISE RISK MANAGEMENT

10.1 Risk Management Framework

Under Canada Post’s Enterprise Risk Management (ERM) practice, risk updates are produced on a quarterly basis and provide an overview of strategic and operational risks as well as associated mitigation plans. Deeper risk identification activities occur on a semi-annual cycle. Risk owners at the senior management level are engaged to develop a comprehensive view of the top strategic and operational risks facing the Corporation and to comment on impact, likelihood and mitigating actions being undertaken for identified risks. The consolidated results, approved by the senior executive, are brought to the Board of Directors twice a year, in April and October. This timing aligns with the strategy setting and planning cycles of the company. The ERM framework helps in informing the Board’s direction for the development of the Corporate Plan.

Ongoing risk assessment occurs through external monitoring of our environment, internal reporting on key performance indicators and management oversight. Day-to-day management of risks resides with functional or subject-matter experts within the company. These risk owners, such as Health and Safety or Treasury, are responsible for employing appropriate management techniques to control the likelihood and impact of identified risks. Basic risk controls, including proper governance, performance management, decision-making policies and other internal controls, act as the foundation of risk management.

The current ERM was prepared during the summer of 2014. It reflects the critical nature of the Five-Point Action Plan in creating a stable platform for growth and long term financial sustainability of the Corporation.

10.2 Strategic and Operating Risks

It should be noted that the order in which the risks are presented does not represent a ranking in terms of either severity or likelihood. Canada Post feels that the risk assumptions made in this Corporate Plan are reasonable and are neither overly optimistic nor pessimistic. Nevertheless, it is possible that future performance will deviate materially from our stated projections.

The top strategic risks identified by the ERM framework are as follows.

1) Ability to achieve revenue growth
2) Successful implementation of the Five-point Action Plan
3) Acceleration of core revenue decline
4) Information systems and technology (IS&T) performance could hinder transformation and growth agendas
5) Key strategic procurement risks related to major suppliers’ transition
6) Achieving successful labour relations negotiations and workforce transformation
7) Costs associated with employee pension costs and post-retirement liabilities
8) Brand erosion could impact trust and ability to transform and grow the business
The top operational risks identified by the ERM framework are as follows.

1) Attrition and overall talent management
2) Privacy and security of mail, electronic information and enterprise assets
3) Achieving operational excellence and financial benefits from change initiatives
4) Business continuity
5) Working environment for employees
6) Service quality
7) Environmental concerns of customers and consumers
8) Legal risks
The global economy has rebounded from the slow first quarter in 2014, led by a resurgent U.S. economy. The U.S. gains are being driven by renewed business investment which is generating demand for imports, particularly in the energy sector. Growth levels remain tenuous as geo-political events in the Middle East and Eastern Europe threaten wider instability. As a result, global growth forecasts from Canadian banks for 2014 are pegged at 3.2 per cent to 3.4 per cent. Global growth of 3.6 per cent and 3.7 per cent is still expected for 2015 and 2016; however the continued slowdown in emerging economies, particularly in China, could have a dampening impact on global growth over the next two years at least.

Canada’s economy has also rebounded from a first quarter held down by severe weather. The recovery has been led by a strong export market, particularly in the energy sector, that has benefited from the U.S. recovery compounded by a Canadian dollar that remains in the low 90 cents U.S. range. Domestically, the indicators are not as encouraging. Consumers and governments have not increased spending, businesses have not increased investments and unemployment remains high. Each of these factors is expected to improve in 2015. Continued strengthening of the U.S. economy will be required if Canada is to achieve growth expectations of 2.3 per cent this year and 2.6 per cent in 2015. In the longer term, the major banks predict that the Canadian economy will continue to move towards full capacity, eventually settling at a 2.2 per cent annualized growth rate in 2018.

Inflation, as measured by the CPI, has returned to the 2 per cent level in 2014 largely as a result of increases in energy prices. Economists expect both core and total CPI to remain around the target level of 2 per cent through 2018. The major banks have pushed out their expectations for increasing long term bond yields. The 30-year rate is now expected to level off around 3.7 per cent by 2016. Continued low long-term rates would have the effect of maintaining pressure on Canada Post’s pension liability, possibly past the end of the period of relief from solvency deficit payments. Forecasters expect Canada’s dollar to remain at about 90 cents US in 2014 and 2015 providing a sustained boost to Canadian exporters that are expected to drive economic growth over the same period. Housing starts are expected to continue to add an average of 175,000 addresses to Canada Post’s network per year, increasing the cost pressure on delivery operations.

<table>
<thead>
<tr>
<th>Calendar Years</th>
<th>History</th>
<th>Economic Projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2012</td>
<td>2013</td>
</tr>
<tr>
<td>ECONOMIC (% change)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>1.8%</td>
<td>2.0%</td>
</tr>
<tr>
<td>Inflation (CPI)</td>
<td>1.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>Core Inflation</td>
<td>1.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>DEMOGRAPHIC (% change)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Population Growth</td>
<td>1.2%</td>
<td>1.2%</td>
</tr>
<tr>
<td>Total Points of Delivery</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

Sources: All projections are based on the July 2014 quarterly projections by the major banks, as well as the July 2014 Bank of Canada projections. Points of Delivery projections also take CMHC Q2 2014 housing starts projections into account.
12. CAPITAL BUDGET

In 2015, Canada Post will continue to invest in operational tools, equipment, processes and infrastructure to drive improvements in costs, service, and health and safety. Capital requirements for the Lines of Business will be focussed on growing e-commerce and building the Virtual Post Office.

<table>
<thead>
<tr>
<th>Area of Responsibility</th>
<th>2015 Capital Budget ($ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five-point Action Plan</td>
<td>Processing changes and standardizing the mode of delivery through CMBs. 194</td>
</tr>
<tr>
<td>Asset Maintenance and all other</td>
<td>Facilities, street furniture, vehicles, mail handling and processing equipment, containers, operations service and quality tools, and other capital projects. 192</td>
</tr>
<tr>
<td>Lines of Business</td>
<td>Investments to support growth in e-commerce and Direct Marketing and development of the Virtual Post Office. 34</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Technology infrastructure updates, Group of Company synergies and workstation modernization. 28</td>
</tr>
<tr>
<td>Canada Post segment</td>
<td>448</td>
</tr>
</tbody>
</table>
13. COMPENSATION AND PENSION

13.1 Compensation Philosophy and Framework

At Canada Post, we design our total compensation programs to attract, retain and motivate employees to deliver strong results that help us build a financially sustainable corporation. As a Crown corporation, we remain conscious of the need to ensure that our compensation framework allows us to achieve our talent management objectives in a cost-effective manner. Due consideration is given to balancing the program’s affordability with the recruitment and retention needed to meet our commercial mandate as an $8 billion business. We remain accountable to Canadian taxpayers for the services we offer in a highly competitive market.

Our compensation philosophy is composed of simple but strong fundamental principles of competitiveness, fairness, pay-for-performance and equity. This enables our employees to remain motivated to achieve business targets. The Board of Director’s Human Resources and Compensation Committee maintains its oversight to ensure that compensation is linked with performance while at the same time affordable and appropriate for the Corporation.

Canada Post designs compensation plans that represent an effective use of money through the study of payout risk management and market competitiveness, with a strong emphasis on pay-for-performance. They are consistent with our sustainability requirements and do not create undue funding pressures. The key objectives of our compensation programs are to:

- recruit, retain and reward qualified and experienced talent who will contribute to our transformation,
- develop a high performance culture with outcome driven rewards to motivate employees to meet annual and longer term corporate and individual performance objectives that are measured against challenging goals,
- be market competitive with Canada Post’s competitors and peers.

13.2 Pension Plan

Canada Post has the largest corporate single employer-sponsored pension plan in Canada, at $19 billion in assets at fair market value and a $24 billion obligation on a solvency basis at the end of December 2013.

As with all federally regulated pension plans, Canada Post is obliged to maintain sufficient funding of the pension assets to finance the pension plan in the event of a wind-up. With pension plan obligations calculated using rate assumptions over many years, the plan’s financial situation is highly sensitive to even small shifts in interest rates. The discount rate used to calculate plan liabilities is based on the guidance issued by the Canadian Institute of Actuaries and comprised a selection of bond market rates established by the Plan actuary. The discount rates and all other assumptions are included in the funding valuation document which is submitted to the Office of the Superintendent of Financial Institutions (OSFI). A drop of half a percentage point in that rate would increase the solvency obligations by approximately $2.2 billion. It is a significant challenge to plan for and deal with
pension funding given its size and volatility relative to the earnings and cash flow generated by Canada Post. Without structural change to address the volatility, swings in pension plan solvency could lead to required payments that would easily overwhelm any increase in corporate earnings or cost savings and threaten the sustainability of the Corporation and the pension plan.

In recent years, the Corporation has taken steps where possible to strengthen the pension plan's sustainability, including implementing a 50/50 employee/employer cost-sharing model following legislative changes; increasing the pensionable age for new employees represented by CUPW; pursuing investments in real estate, infrastructure and private equity to increase returns; and closing the Defined Benefit plan in favour of a Defined Contribution plan for new management employees (since 2010) and new PSAC employees (since 2014). But much more work is needed to address the pension challenges.

As at December 31, 2013, the valuation showed that the pension plan has a going-concern deficit of $296 million and a solvency deficit of $5.0 billion on a market value basis. The solvency deficit to be funded is $6.3 billion, based on the prescribed three-year average solvency ratio method. Based on the projections included in the Corporate Plan, the solvency deficit to be funded is estimated to be $7.1 billion at the end of 2014. As the plan sponsor, Canada Post is responsible for funding the plan deficits.

Volatility in year-over-year changes in discount rates and investment returns are major drivers in the determination of the financial position of the pension plan. Both the discount rates and the investment returns cannot be predicted with certainty. In the current environment, volatility may be higher than that experienced in the past. Current long term projections are based on assumptions developed by plan actuaries showing a gradual increase in interest rates. The actuarial valuation also includes the impact of updated mortality tables, as required by the Canadian Institute of Actuaries to reflect improvements in longevity.

A steady increase in rates, along with consistent positive returns on assets, could create the false appearance of a manageable plan. However given the long time horizon the plan operates on, it is reasonable to assume that interest rates and market returns will both undergo periods of growth and retraction. It is these changes that create risk for the plan, and Canada Post as the plan sponsor, making it unsustainable in the long term without real reform.

Since April 2011, the Corporation has been able to reduce solvency payments in accordance with the Pension Benefits Standards Regulations, 1985. These regulations applicable to all federally-regulated pension plans specify that the aggregate amount of the relief is limited to 15 per cent of plan assets. Canada Post was expected to reach that limit in early 2014, putting unmanageable pressure on its cash resources. In February 2014, the Government of Canada introduced the Canada Post Corporation Pension Plan Funding Regulations that provide temporary relief to Canada Post from the need to make special payments into the registered pension plan from 2014 to 2017. This temporary measure recognizes the serious operational challenges encountered by Canada Post, but it is not a solution to the problem. It gives a brief period of time for Canada Post to transform and strengthen its business, and to work with stakeholders to restructure the pension plan and make it affordable and sustainable for all plan members and the Corporation. Without any relief, the Corporation would have had to make $1.3 billion in cash payments for 2014 alone.
During this period, Canada Post will work with its unions and other representatives of pension plan members to evaluate all options, including changes to plan design and investment strategies. Any discussions about changes to the pension plan will continue to occur under the oversight of the pension regulator.
14. BORROWING, DIVIDENDS AND FINANCIAL FRAMEWORK

14.1 Financing and Borrowing Plan

Financing Strategy

Consistent with the previous Corporate Plan, the 2015 to 2019 Corporate Plan includes savings from our transformation initiatives; relief from pension plan solvency payments through 2017, now confirmed in the Canada Post Corporation Pension Plan Funding Regulations; as well as the use of pension relief provided by section 9.16 of the Pension Benefits Standards Act, 1985 and section 9.2 of the Pension Benefits Standards Regulations, 1985 to the extent possible to reduce pension solvency payments. These combined will allow the Corporation to return to financial sustainability with sufficient free cash flow to repay all of its borrowings. No new long term borrowing will be required in this plan mainly due to a higher opening cash balance, higher profitability and lower employee future benefit payments. However, if the assumptions in this Plan were to change significantly, Canada Post might need to return to the Shareholder to address its liquidity requirements and financing strategy.

Short-Term Borrowing Approval for 2015

This corporate plan does not require any new borrowing and contains sufficient liquidity to manage expected short-term fluctuations in the cash balance. Short term borrowing at the $100 million level would be adequate to ensure that we have sufficient operating resources for this duration of this Corporate Plan.

Borrowing Plan and Five-Year Overview

The Canada Post segment’s debt levels for the 2015 to 2019 planning period are summarized below:

<table>
<thead>
<tr>
<th>Forecasted Debt Summary</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening balance</td>
<td>1,055</td>
<td>1,059</td>
<td>1,002</td>
<td>1,002</td>
<td>1,006</td>
</tr>
<tr>
<td>Net borrowings/(repayments)</td>
<td>(3)</td>
<td>(58)</td>
<td>(3)</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Other changes</td>
<td>6</td>
<td>2</td>
<td>2</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Ending balance</td>
<td>1,059</td>
<td>1,002</td>
<td>1,002</td>
<td>1,006</td>
<td>1,005</td>
</tr>
</tbody>
</table>

The above debt levels reflect year-end balances of long-term debt, short-term debt and capital lease debt. Actual intra-year peak debt levels could be slightly higher due to seasonal effects.

14.2 Dividend Policy

This Corporate Plan is projecting a small profit for Canada Post in 2015 during a year when increased investment for the Five-point Action Plan is taking place. Therefore, pursuant to section 130.1 of the Financial Administration Act, Canada Post is proposing that no dividend payment be made on profits generated in 2015.
14.3 Financial Framework

The five-year Financial Framework was put in place in December 2009 following the Strategic Review of the Corporation and covered the period from 2010 to 2014. A revised Financial Framework, covering the same period but updated for International Financial Reporting Standards (IFRS), was approved by the Government as part of the 2012 to 2016 Corporate Plan.

The table below presents the Corporation’s anticipated performance over the five-year planning period against the targets set out in the 2010 to 2014 Financial Framework.

Canada Post Corporation
Consolidated Financial Ratios

<table>
<thead>
<tr>
<th>Ratio Definitions</th>
<th>Financial Framework</th>
<th>Actuals*</th>
<th>Five Year Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>EBITDA margin</td>
<td>5.0% - 7.5%</td>
<td>7.9%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Return on adjusted book equity</td>
<td>0% - 5%</td>
<td>10.3%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Leverage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total debt to EBITDAR</td>
<td>2.5x - 4.0x</td>
<td>2.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Total debt to adjusted book capital</td>
<td>45% - 65%</td>
<td>51.8%</td>
<td>53.8%</td>
</tr>
<tr>
<td>Liquidity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(EBITDAR - capex)/interest</td>
<td>1.0x - 2.5x</td>
<td>5.7</td>
<td>2.5</td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dividend payout ratio</td>
<td>0% - 20%**</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>15%-20%***</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* The 2014 figures have been updated to reflect the actual results reported in the Annual Report. The five year plan was developed based on the forecasted results for 2014 and has not been updated to reflect the actual performance of 2014.

** Dividend payout ratio is 0%-20% until 2012, then 15%-20%.

*** The 0% dividend payout projection is based on the assumption that any available funds would be used to manage the Corporation’s Operations.

Ratio Definitions

1. Earnings before interest, taxes, depreciation and amortization ÷ revenue
2. Net profit (loss) + ((adjusted equity of Canada beginning of year + adjusted equity of Canada end of year) ÷ 2)
3. (Total debt + long-term financial obligations) ÷ (earnings before interest, taxes, depreciation and amortization with adjustment for operating leases)
4. (Total debt + long-term financial obligations) ÷ (total debt + long-term financial obligations + adjusted equity of Canada)
5. (Earnings before interest, taxes, depreciation and amortization with adjustment for operating leases ÷ capex) ÷ interest
6. Dividends paid ÷ prior year net profit (loss)

Notes

(A) Long term financial obligations include asset retirement obligations, obligation to repurchase shares (Purolator) and capitalization of operating leases.
(B) Operating leases are removed from earnings and capitalized using a factor of 7.0x.
(C) Capex refers to maintenance capital. In this plan, maintenance capital includes all capital purchases and capital leases but excludes approximately $400 million of capital purchases for Postal Transformation.
(D) Interest includes imputed interest on capitalized operating leases (calculated as 1/3 of lease expense).
(E) Adjusted equity is reported equity with the impact of other comprehensive income (loss) non-reclassifying items removed.
## ANNEX A: FINANCIAL TABLES

### Canada Post Corporation

**Pro Forma Consolidated Statement of Financial Position**

As at December 31

<table>
<thead>
<tr>
<th></th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>Corporate Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>2015</td>
</tr>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>468</td>
<td>677</td>
<td>1,200</td>
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<tr>
<td>Marketable securities</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>Trade and other receivables</td>
<td>779</td>
<td>795</td>
<td>824</td>
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<tr>
<td>Income tax receivable</td>
<td>6</td>
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<tr>
<td>Other assets</td>
<td>92</td>
<td>98</td>
<td>92</td>
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<tr>
<td><strong>Total current assets</strong></td>
<td>1,915</td>
<td>2,260</td>
<td>2,117</td>
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<tr>
<td><strong>Non-current assets</strong></td>
<td></td>
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<td></td>
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<tr>
<td>Property, plant and equipment</td>
<td>2,707</td>
<td>2,676</td>
<td>2,921</td>
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<td>Intangible assets</td>
<td>129</td>
<td>117</td>
<td>132</td>
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<tr>
<td>Segregated securities</td>
<td>510</td>
<td>551</td>
<td>509</td>
</tr>
<tr>
<td>Pension benefit assets</td>
<td>177</td>
<td>141</td>
<td>142</td>
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<tr>
<td>Deferred tax assets</td>
<td>1,093</td>
<td>1,706</td>
<td>1,622</td>
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<tr>
<td>Goodwill</td>
<td>130</td>
<td>130</td>
<td>130</td>
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<tr>
<td>Other assets</td>
<td>6</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>4,752</td>
<td>5,324</td>
<td>5,463</td>
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<tr>
<td><strong>Total assets</strong></td>
<td>6,667</td>
<td>7,584</td>
<td>7,580</td>
</tr>
<tr>
<td><strong>Liabilities and equity</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>620</td>
<td>583</td>
<td>561</td>
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<tr>
<td>Salaries and benefits payable and related provisions</td>
<td>580</td>
<td>487</td>
<td>349</td>
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<tr>
<td>Provisions</td>
<td>81</td>
<td>71</td>
<td>96</td>
</tr>
<tr>
<td>Income tax payable</td>
<td>1</td>
<td>52</td>
<td>57</td>
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<tr>
<td>Deferred revenue</td>
<td>145</td>
<td>133</td>
<td>131</td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>23</td>
<td>22</td>
<td>24</td>
</tr>
<tr>
<td>Other long-term benefit liabilities</td>
<td>71</td>
<td>65</td>
<td>70</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>1,521</td>
<td>1,413</td>
<td>1,289</td>
</tr>
<tr>
<td><strong>Non-current liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and borrowings</td>
<td>1,108</td>
<td>1,112</td>
<td>1,121</td>
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<tr>
<td>Pension, other post-employment and other long-term benefit liabilities</td>
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<td>7,037</td>
<td>6,697</td>
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<td>Deferred tax liabilities</td>
<td>3</td>
<td>2</td>
<td>3</td>
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<tr>
<td>Provisions</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>16</td>
<td>29</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total non-current liabilities</strong></td>
<td>5,511</td>
<td>8,182</td>
<td>7,835</td>
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<tr>
<td><strong>Total liabilities</strong></td>
<td>7,032</td>
<td>9,595</td>
<td>9,124</td>
</tr>
<tr>
<td><strong>Equity</strong></td>
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</tr>
<tr>
<td>Contributed Capital</td>
<td>1,155</td>
<td>1,155</td>
<td>1,155</td>
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<tr>
<td>Accumulated other comprehensive income</td>
<td>18</td>
<td>54</td>
<td>24</td>
</tr>
<tr>
<td>Accumulated deficit</td>
<td>(1,564)</td>
<td>(3,244)</td>
<td>(2,752)</td>
</tr>
<tr>
<td>Equity of Canada</td>
<td>(391)</td>
<td>(2,035)</td>
<td>(1,573)</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>26</td>
<td>24</td>
<td>29</td>
</tr>
<tr>
<td><strong>Total equity</strong></td>
<td>(365)</td>
<td>(2,011)</td>
<td>(1,544)</td>
</tr>
<tr>
<td><strong>Total liabilities and equity</strong></td>
<td>6,667</td>
<td>7,584</td>
<td>7,580</td>
</tr>
</tbody>
</table>

Numbers may not add due to rounding.

The 2014 figures have been updated to reflect the actual results reported in the Annual Report.

The five year plan was developed based on the forecasted results for 2014 and has not been updated to reflect the actual performance of 2014.
# Canada Post Corporation

## Pro Forma Consolidated Statement of Comprehensive Income

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue from operations</strong></td>
<td>7,563</td>
<td>7,982</td>
<td>8,108</td>
<td>8,166</td>
<td>8,204</td>
<td>8,377</td>
<td>8,455</td>
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<tr>
<td><strong>Cost of operations</strong></td>
<td>7,756</td>
<td>7,683</td>
<td>8,047</td>
<td>8,163</td>
<td>8,220</td>
<td>8,347</td>
<td>8,207</td>
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<tr>
<td><strong>Profit (loss) from operations</strong></td>
<td>(193)</td>
<td>299</td>
<td>61</td>
<td>3</td>
<td>(16)</td>
<td>30</td>
<td>248</td>
</tr>
<tr>
<td><strong>Investing and financing income (expense)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment and other income</td>
<td>182</td>
<td>23</td>
<td>21</td>
<td>32</td>
<td>30</td>
<td>25</td>
<td>19</td>
</tr>
<tr>
<td>Financing costs and other expense</td>
<td>(47)</td>
<td>(53)</td>
<td>(52)</td>
<td>(48)</td>
<td>(47)</td>
<td>(51)</td>
<td>(56)</td>
</tr>
<tr>
<td><strong>Investing and financing income (expense), net</strong></td>
<td>135</td>
<td>(30)</td>
<td>(31)</td>
<td>(16)</td>
<td>(17)</td>
<td>(26)</td>
<td>(38)</td>
</tr>
<tr>
<td><strong>Profit (loss) before tax</strong></td>
<td>(58)</td>
<td>269</td>
<td>30</td>
<td>(13)</td>
<td>(33)</td>
<td>4</td>
<td>211</td>
</tr>
<tr>
<td><strong>Tax expense (income)</strong></td>
<td>(29)</td>
<td>71</td>
<td>12</td>
<td>7</td>
<td>4</td>
<td>15</td>
<td>68</td>
</tr>
<tr>
<td><strong>Net profit (loss)</strong></td>
<td>(29)</td>
<td>198</td>
<td>18</td>
<td>(20)</td>
<td>(37)</td>
<td>(12)</td>
<td>143</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to net profit (loss), net of tax</td>
<td>2,313</td>
<td>(1,879)</td>
<td>320</td>
<td>335</td>
<td>348</td>
<td>362</td>
<td>382</td>
</tr>
<tr>
<td>Items that may be reclassified subsequently to net profit (loss), net of tax</td>
<td>(34)</td>
<td>36</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Other comprehensive income (loss)</strong></td>
<td>2,279</td>
<td>(1,843)</td>
<td>320</td>
<td>335</td>
<td>348</td>
<td>362</td>
<td>382</td>
</tr>
<tr>
<td><strong>Comprehensive income (loss)</strong></td>
<td>2,250</td>
<td>(1,645)</td>
<td>338</td>
<td>315</td>
<td>312</td>
<td>351</td>
<td>525</td>
</tr>
<tr>
<td><strong>Net profit (loss) attributable to</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>3</td>
<td>4</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Net profit (loss) attributable to</strong></td>
<td>(29)</td>
<td>198</td>
<td>18</td>
<td>(20)</td>
<td>(37)</td>
<td>(12)</td>
<td>143</td>
</tr>
<tr>
<td>Government of Canada</td>
<td>2,242</td>
<td>(1,644)</td>
<td>334</td>
<td>309</td>
<td>306</td>
<td>344</td>
<td>517</td>
</tr>
<tr>
<td>Non-controlling interests</td>
<td>8</td>
<td>(1)</td>
<td>5</td>
<td>6</td>
<td>6</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td><strong>Comprehensive income (loss) attributable to</strong></td>
<td>2,250</td>
<td>(1,645)</td>
<td>338</td>
<td>315</td>
<td>312</td>
<td>351</td>
<td>525</td>
</tr>
</tbody>
</table>

Numbers may not add due to rounding.

The 2014 figures have been updated to reflect the actual results reported in the Annual Report.

The five year plan was developed based on the forecasted results for 2014 and has not been updated to reflect the actual performance of 2014.
## Canada Post Corporation
### Pro Forma Consolidated Statement of Cash Flows

<table>
<thead>
<tr>
<th>For the year ended December 31</th>
<th>2013 Actual</th>
<th>2014 Actual</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>(in millions of Canadian dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net profit (loss)</td>
<td>(29)</td>
<td>198</td>
<td>18</td>
<td>(20)</td>
<td>(37)</td>
<td>(12)</td>
<td>143</td>
</tr>
<tr>
<td>Adjustments to reconcile net profit (loss) to cash provided by (used in) operating activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>315</td>
<td>328</td>
<td>343</td>
<td>360</td>
<td>372</td>
<td>378</td>
<td>377</td>
</tr>
<tr>
<td>Pension, other post-employment and other long-term benefit expense</td>
<td>900</td>
<td>701</td>
<td>901</td>
<td>886</td>
<td>867</td>
<td>843</td>
<td>809</td>
</tr>
<tr>
<td>Pension, other post-employment and other long-term benefit payments</td>
<td>(535)</td>
<td>(524)</td>
<td>(491)</td>
<td>(483)</td>
<td>(489)</td>
<td>(608)</td>
<td>(1,262)</td>
</tr>
<tr>
<td>Gain on sale of capital assets and assets held for sale</td>
<td>(168)</td>
<td>(9)</td>
<td>(5)</td>
<td>(15)</td>
<td>(9)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Tax expense (income)</td>
<td>(29)</td>
<td>71</td>
<td>12</td>
<td>7</td>
<td>4</td>
<td>15</td>
<td>68</td>
</tr>
<tr>
<td>Net interest expense</td>
<td>30</td>
<td>35</td>
<td>35</td>
<td>30</td>
<td>25</td>
<td>21</td>
<td>28</td>
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<tr>
<td>Change in non-cash operating working capital:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Increase) decrease in trade and other receivables</td>
<td>(72)</td>
<td>(14)</td>
<td>(1)</td>
<td>(12)</td>
<td>(17)</td>
<td>(20)</td>
<td>(9)</td>
</tr>
<tr>
<td>Increase (decrease) in trade and other payables</td>
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<td>(38)</td>
<td>(1)</td>
<td>(20)</td>
<td>4</td>
<td>3</td>
<td>(5)</td>
</tr>
<tr>
<td>Increase (decrease) in salaries and benefits payable and related provisions</td>
<td>(119)</td>
<td>(93)</td>
<td>(154)</td>
<td>7</td>
<td>8</td>
<td>21</td>
<td>1</td>
</tr>
<tr>
<td>Increase (decrease) in provisions</td>
<td>(10)</td>
<td>(9)</td>
<td>(4)</td>
<td>(1)</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Net (increase) decrease in other non-cash operating working capital</td>
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<td>(18)</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Other income not affecting cash, net</td>
<td>(27)</td>
<td>(7)</td>
<td>(20)</td>
<td>(20)</td>
<td>(19)</td>
<td>(18)</td>
<td></td>
</tr>
<tr>
<td>Cash provided by (used in) operations before interest and taxes</td>
<td>349</td>
<td>621</td>
<td>633</td>
<td>722</td>
<td>711</td>
<td>624</td>
<td>132</td>
</tr>
<tr>
<td>Interest received</td>
<td>34</td>
<td>35</td>
<td>36</td>
<td>38</td>
<td>41</td>
<td>45</td>
<td>38</td>
</tr>
<tr>
<td>Interest paid</td>
<td>(51)</td>
<td>(51)</td>
<td>(52)</td>
<td>(47)</td>
<td>(44)</td>
<td>(46)</td>
<td>(46)</td>
</tr>
<tr>
<td>Tax received (paid)</td>
<td>(6)</td>
<td>(13)</td>
<td>(79)</td>
<td>(145)</td>
<td>(99)</td>
<td>(87)</td>
<td>(44)</td>
</tr>
<tr>
<td>Cash provided by (used in) operating activities</td>
<td>326</td>
<td>592</td>
<td>539</td>
<td>567</td>
<td>607</td>
<td>536</td>
<td>80</td>
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<td><strong>Cash flows from investing activities</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net cash inflow (outflow) of securities</td>
<td>4</td>
<td>(112)</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Acquisition of capital assets</td>
<td>(575)</td>
<td>(264)</td>
<td>(501)</td>
<td>(579)</td>
<td>(589)</td>
<td>(565)</td>
<td>(368)</td>
</tr>
<tr>
<td>Proceeds from sale of capital assets</td>
<td>219</td>
<td>17</td>
<td>10</td>
<td>16</td>
<td>12</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Cash provided by (used in) investing activities</td>
<td>(134)</td>
<td>(359)</td>
<td>(485)</td>
<td>(556)</td>
<td>(567)</td>
<td>(552)</td>
<td>(354)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payments on finance lease obligations</td>
<td>(21)</td>
<td>(23)</td>
<td>(23)</td>
<td>(24)</td>
<td>(25)</td>
<td>(24)</td>
<td>(24)</td>
</tr>
<tr>
<td>Net cash inflow (outflow) of loans and borrowings</td>
<td>0</td>
<td>-</td>
<td>-</td>
<td>(55)</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Dividend paid</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(1)</td>
<td>(2)</td>
<td>(2)</td>
</tr>
<tr>
<td>Other financing activities, net</td>
<td>(0)</td>
<td>-</td>
<td>(1)</td>
<td>(1)</td>
<td>(2)</td>
<td>(1)</td>
<td>(2)</td>
</tr>
<tr>
<td>Cash provided by (used in) financing activities</td>
<td>(22)</td>
<td>(24)</td>
<td>(25)</td>
<td>(82)</td>
<td>(28)</td>
<td>(27)</td>
<td>(28)</td>
</tr>
<tr>
<td><strong>Net increase (decrease) in cash and cash equivalents</strong></td>
<td>170</td>
<td>209</td>
<td>29</td>
<td>(70)</td>
<td>13</td>
<td>(43)</td>
<td>(302)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, beginning of year</strong></td>
<td>298</td>
<td>468</td>
<td>1,171</td>
<td>1,200</td>
<td>1,129</td>
<td>1,142</td>
<td>1,099</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, end of year</strong></td>
<td>468</td>
<td>677</td>
<td>1,200</td>
<td>1,129</td>
<td>1,142</td>
<td>1,099</td>
<td>797</td>
</tr>
</tbody>
</table>

Numbers may not add due to rounding.
The 2014 figures have been updated to reflect the actual results reported in the Annual Report.
The five year plan was developed based on the forecasted results for 2014 and has not been updated to reflect the actual performance of 2014.
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