FINANCIAL SECTION

2019

ANNUAL REPORT

Canada Post Corporation

For the period ended December 31, 2019

CANADA POST POSTES CANADA

Financial Performance

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) of the financial condition and results of operations is prepared for the year ended December 31, 2019, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI or Logistics) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Segments are based on the legal entities, Canada Post, Purolator, SCI and Innovapost.

This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise indicated, all financial information in this report was prepared using International Financial Reporting Standards (IFRS). As required by IFRS, we adopted IFRS 16 "Leases" effective January 1, 2019, and chose to follow the full retrospective approach. This represents a significant accounting policy change that required a restatement of previously published results for the comparative period. Amounts are presented in Canadian dollars, rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand.

Management is responsible for the information presented in the Annual Report. All references to *our* or *we* mean, as the context may require, either Canada Post or, collectively, Canada Post and its subsidiaries. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements March 27, 2020.

Forward-looking statements

This Annual Report, including the MD&A, contains forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as *plans, anticipates, expects, believes, estimates, intends* and other similar expressions. These statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 8 – Risks and Risk Management of this MD&A (risks).

To the extent the Group of Companies provides future-oriented financial information or a financial outlook, such as future growth and financial performance, the Group of Companies is providing this information for the purposes of describing its future expectations. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks.

Readers are urged to consider these factors carefully when evaluating these forward-looking statements. In light of these assumptions and risks, the events predicted in these forward-looking statements may not occur. The Group of Companies cannot assure that projected results or events will be achieved. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

Coronavirus disease (COVID-19)

The coronavirus disease (COVID-19), declared a pandemic in March 2020, did not have a material impact on our 2019 financial performance. However, it has the potential to significantly impact the Canadian and global economy and therefore our business in 2020 and, possibly, going forward. Canadian businesses and consumers may choose to use Canada Post differently, and our suppliers and partners will experience their own impacts. Our operations will depend on recommendations by the World Health Organization and the Public Health Agency of Canada, the Government of Canada's lead for the COVID-19 pandemic.

1 Executive Summary

An overview of the Canada Post Group of Companies and summary of 2019 financial results

The Group of Companies is one of Canada's largest employers with almost 68,000 people. During 2019, employees delivered almost 7.9 billion pieces of mail, parcels and messages to 16.5 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with approximately 6,100 retail post offices across the country. Canada Post is a federal Crown corporation, reporting to Parliament through the Minister of Public Services and Procurement.

Under the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians in a secure and financially self-sustaining manner. Canada Post's universal service obligation (USO) is set out in the *Canadian Postal Service Charter* established by the Government of Canada in 2009, which states the following:

- Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will 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 has an obligation to charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.

In addition to its core postal services and USO, the Corporation also delivers certain public-policy programs on behalf of the Government of Canada. In accordance with the *Canada Post Corporation Act*, members of Parliament and certain senior government officials are allowed to send mail free of charge. The Act also provides for free mailing of materials for persons who are blind. Public and academic libraries can move books and other materials between libraries and library users at reduced postage rates.

Canada Post is part of the global postal industry comprising foreign postal administrations (posts). All posts have traditionally financed their USO through a legislated exclusive privilege, or monopoly over a portion of the postal market. However, the value of the exclusive privilege has diminished. With more people shifting to the internet and smart mobile devices to communicate and transact, posts continue to experience a structural decline in mail volumes as customers shift to digital alternatives.

Ongoing consumer migration to digital alternatives has resulted in Canadian households and businesses reducing their use of Lettermail™ services. Our traditional mail business continues to be challenged. In 2019, we delivered 2.8 billion pieces of mail, 2.5 billion pieces (or 48%) less than we did in the peak year of 2006.

Digital technology has disrupted many industries and Canada Post's business. We are proud to deliver three out of every five parcels to Canadians and we continue to be the country's no. 1 parcel delivery company for online purchases. For the first time in history, revenue from the Parcels line of business has surpassed revenue from Transaction Mail. The explosive growth in e-commerce has created a highly competitive parcel delivery landscape. Competition has heightened among traditional delivery companies and innovative start-ups, whose reach is expanding into fulfillment and self-delivery. Since 2011, the year it chose to focus on growing its Parcels business, the Canada Post segment has more than doubled its annual Parcels revenue, which has increased by over $1.5 billion, to $2.7 billion. Canada Post has achieved its market-leading position in e-commerce by pivoting its operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience. Though parcels represent an opportunity for Canada Post, its growth alone is not expected to entirely offset the financial impact of the decline in the core Lettermail business.

Our strategy in 2019 was to remain focused on growing our Parcels line of business by supporting Canadians' changing postal needs, ensuring we meet our service commitments to provide a superior customer experience while keeping our employees safe.

Financial and business highlights

For the second consecutive year, the Canada Post Group of Companies posted in 2019 a loss before tax, which amounted to $23 million compared to a loss before tax of $118 million in 2018. The 2019 results are attributable to a loss in the Canada Post segment partially offset by profit in the Purolator sector.

Despite a growth in revenue of $128 million, the Canada Post segment had recurring challenges in 2019, including continued erosion of Transaction Mail and Direct Marketing, Parcels growth that underperformed compared to prior years and general e-commerce trends, and a labour intensive and high fixed-cost structure. We reported a loss before tax of $153 million, an improvement of $123 million compared to a loss before tax of $276 million in 2018, largely due to one-time costs (related to prior years) resulting from the pay equity ruling for members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC), as well as the labour disruption in the fourth quarter that had a negative impact on volumes and revenue.

The Purolator segment recorded a profit before tax of $152 million in 2019, compared to a profit before tax of $161 million[1] in 2018, a decrease of $9 million or 5.2%.

Financial results for 2019 were affected by the following factors, in the Canada Post segment.

Parcels growth

In 2019, we experienced another year of growth in our Parcels line of business, which exceeded $2.7 billion in revenue. This trend demonstrates the continued success of our strategy to be a leader in the business-to-consumer e-commerce delivery market. During the 2019 peak holiday season, we broke several records, such as delivering more than two million parcels in a single day, which we did three times, and 1.1 million parcels on a single weekend, while maintaining a strong focus on safety. Parcels growth, however, has underperformed compared to 2017 and 2018 and is not keeping pace with general e-commerce trends in this highly competitive Canadian e-commerce delivery market. Customers can now choose from a variety of carriers offering competitive services. The decline in growth rates traces back to the 2018 labour disruption, which caused some customers to resort to alternative delivery service providers, as well as the impact of a softer economy in the first half of 2019. Domestic Parcels revenue, the largest product category, increased over 2018 by $204 million or 11.0%, while volumes increased by 26 million pieces or 13.2%. However, these growth rates are overstated, because the volume in the 2018 base was lower as a result of the 2018 labour disruption.

Commitment to service

Our vast retail network of post offices and dealer outlets across the country provides convenient locations and service, with many of them offering evening and weekend hours to meet the changing needs of Canadians.

To enhance service, again in 2019, we installed approximately 4,000 additional parcel lockers in apartment buildings and condominiums across Canada. With a base that now exceeds 9,300 parcel lockers across the country, we are enabling safe and secure delivery to residents even when they are not at home to receive their parcels.

Ongoing decline in Transaction Mail volumes

Total 2019 Transaction Mail revenue decreased by $69 million or 2.5% compared to 2018, and volumes declined by 192 million pieces or 6.4% compared to 2018, as consumers and mailers continued to migrate to digital alternatives. Canadian points of delivery have also increased by approximately 168,000 in 2019, contributing to higher costs due to the obligation to provide delivery service to more addresses. In 2019, the mail volume decline per address was 7.3%.

Capital investment

To ensure adequate network capacity in sustaining e-commerce growth and building a greener Canada Post, we invested $457 million in 2019. For example, we added capacity in the Greater Toronto Area and other urban centres, and began to deploy new hybrid vehicles in our network. In 2020, we'll make more network capacity investments as we continue to pursue investments in greening the network and consumer-facing technology.

Labour matters

Labour negotiations

Canada Post has been in arbitration through 2019 to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). The arbitrator's mandate will expire on June 30, 2020, however, under back-to-work legislation the mediation-arbitration process can continue for any period that the federal Minister of Labour allows.

Canada Post and the Canadian Postmasters and Assistants Association (CPAA) reached a five-year agreement to replace the previous collective agreement, which expired December 31, 2018. The new agreement is retroactive to January 1, 2019.

Pay equity settlements

Payments were processed in 2019 for CUPW-RSMC employees under the 2018 pay equity ruling, while other changes to pay, post-retirement benefits, and other benefits, leaves and allowances were implemented. These costs were recorded in prior years.

The CPAA and Canada Post reached an agreement in May 2019 regarding the CPAA's complaint under the *Canadian Human Rights Act* alleging gender-based pay discrimination for the period 1992-97. Implementation of the settlement is under way.

Health and safety

Canada Post aims for zero harm. We believe that injuries, illnesses and incidents in all facets of our operation can be prevented. Creating a safe and healthy workplace for our employees was a top priority in 2019 and we achieved progress in this area, but we still have a lot more to do. Compared to 2018, our total injury frequency rate and lost-time injury rate improved 10% and 12%, respectively. We want to be recognized as an industry leader in safety and are committed to making further improvements in this area in 2020.

The coronavirus (COVID-19) pandemic will impact all Canadians in some way, including our employees, customers and suppliers. We activated our corporate pandemic plan in January 2020, and are taking appropriate measures to ensure the health and safety of our employees. As of March 2020, our initiatives include communicating with employees daily, issuing new protocols around delivery, cleaning, quarantine and childcare leave, banning international travel and deferring all but essential domestic travel. We will continue to monitor and report on COVID-19 impacts going forward.

Size and volatility of pension, other post-employment and other long-term benefits

Significant obligations of the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits continued to be a concern for the Corporation. The large size and volatility of these obligations compared to our cash position and profit can put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one quarter to the next is caused by fluctuations in discount rates, investment returns and other actuarial assumptions, resulting in sizeable financial and long-term liquidity risks to the Corporation.

At the end of 2019, remeasurement gains of $99 million, net of tax, were recorded in other comprehensive income on the Group of Companies' defined benefit plans, improving the Group of Companies' equity balance to negative $72 million as at December 31, 2019. The gains were mostly the result of gains on investments and updated demographic assumptions partially offset by a decrease in discount rates. The solvency deficit to be funded for the RPP improved slightly during the year and was estimated at $5.6 billion (using the three-year average solvency ratio basis) as at December 31, 2019.

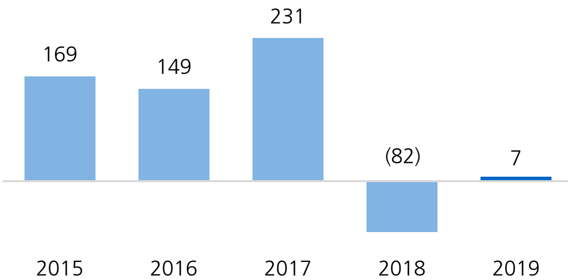
The market volatility of market-driven discount rates and returns on pension plan assets related to the COVID-19 pandemic have the potential for a significant negative effect on our pension plan deficit in 2020 and solvency payments for 2021 and thereafter, which could be significantly higher than expected. The Corporation will be monitoring and reporting these impacts going forward.

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2019, but it is expected to make some in 2020. Payments will be based on the 2019 funding valuation that will be filed by June 2020, but they are estimated to be $366 million. Securing temporary relief from making these payments is the Corporation's preferred short-term solution, and Canada Post is working with all stakeholders, including its only shareholder, the Government of Canada, to explore short-term options.

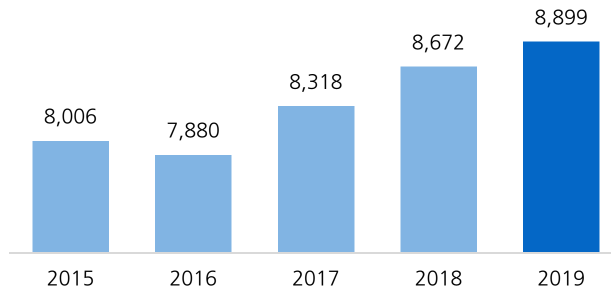
Canada Post Group of Companies – 2019

The charts below present a summary of the 2019 consolidated results for the Canada Post Group of Companies.

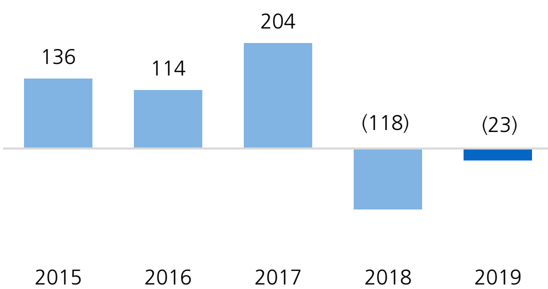
Consolidated profit (loss) from operations[1]
(in millions of dollars)



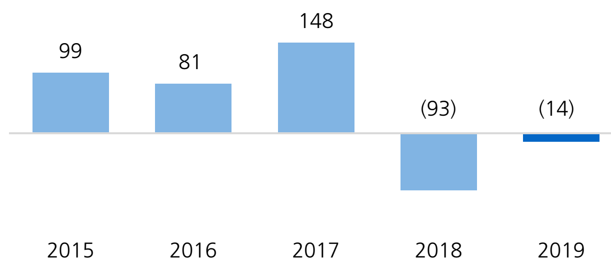
Consolidated revenue from operations[1]
(in millions of dollars)



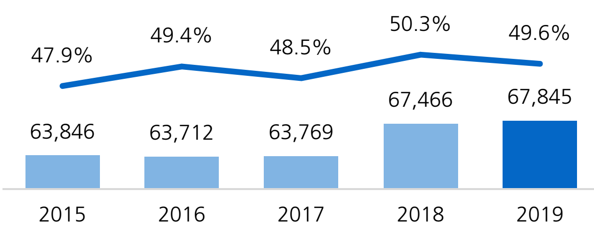
Consolidated profit (loss) before tax[1]
(in millions of dollars)



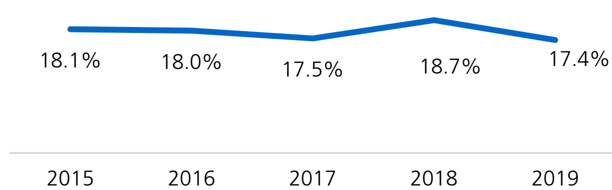
Consolidated net profit (loss)[1]
(in millions of dollars)



Labour as a percentage of revenue from operations combined with number of employees[1,*]



Employee benefits as a percentage of revenue from operations[1,*]



* Includes paid full-time and part-time employees and excludes temporary, casual and term employees. Labour as a percentage of revenue from operations excludes employee benefits.

The following table presents the Group of Companies consolidated performance for the 2019 fiscal year compared to 2018.

(in millions of dollars)	Year ended December 31				
	2019	2018[1]	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 5 Discussion of Operations.
Revenue from operations	8,899	8,672	227	2.6	Growth in the Purolator and Logistics segments, and Parcels growth in the Canada Post segment, offset by declines due to continued erosion of Transaction Mail and Direct Marketing in the Canada Post segment.
Cost of operations	8,892	8,754	138	1.6	Higher expenses in the Purolator and Logistics segments due to volume growth, mostly offset by one-time costs in the Canada Post segment recorded in 2018 for the CUPW-RSMC pay equity ruling.
Profit (loss) from operations	7	(82)	89	109.1	Mainly due to results in the Canada Post segment.
Loss before tax	(23)	(118)	95	80.3	
Tax recovery	(9)	(25)	16	64.7	Mainly due to a lower loss before tax in the Group of Companies.
Net loss	(14)	(93)	79	84.7	
Comprehensive income (loss)	106	304	(198)	(65.6)	Mainly due to remeasurement losses on pension and other post-employment plans from a decrease in discount rates offset by remeasurement gains related to positive investment returns and updated demographic assumptions.
Consolidated statement of cash flows					Highlights, as discussed in Section 6 Liquidity and Capital Resources.
Cash provided by operating activities	529	1,066	(537)	(50.3)	Primarily driven by changes in non-cash working capital, partially offset by lower income taxes paid.
Cash used in investing activities	(360)	(1,045)	685	65.6	Mainly due to increased proceeds from sales of securities in the Canada Post segment, partially offset by higher acquisitions of capital assets in the Canada Post and Purolator segments.
Cash used in financing activities	(113)	(107)	(6)	(7.2)	No material change

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

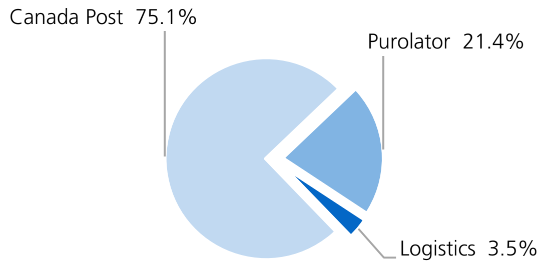
2.1 Our business

The Canada Post Group of Companies is a leader in providing innovative e-commerce, marketing and logistics solutions. Its unrivalled networks and capabilities enable remote communications and commerce across Canada and between Canada and the world. Proud to serve individual Canadians and every address, it also works with Canadian businesses, large and small, to help them compete and succeed. Its activities strengthen Canadian enterprises, local communities and the economy.

The Canada Post Group of Companies provides a full range of delivery, logistics and fulfillment services to customers and, combined, has annual revenue of almost $8.9 billion. Demand for services is highest during the holiday, or peak, season in the fourth quarter. Volumes typically decline over the following quarters, reaching their lowest level in the third quarter. Significant fixed costs do not vary in the short term. The Group of Companies has the largest retail network in Canada with close to 6,800 retail locations, operates a fleet of over 18,000 vehicles and employs almost 68,000 people.

In 2019, our employees delivered almost 7.9 billion pieces of mail, parcels and messages to 16.5 million addresses in urban, rural and remote locations across Canada.

Revenue by segment - 2019



Canada Post is the largest segment of the Group of Companies, with revenue of over $6.7 billion in 2019. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, direct marketing products and periodicals.

Revenue by segment	**2019**	2018	2017
Canada Post	75.1%	75.7%	77.7%
Purolator	21.4%	21.1%	19.4%
Logistics	3.5%	3.2%	2.9%

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider whose revenue exceeded $1.9 billion in 2019.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2019 revenue was $346 million.

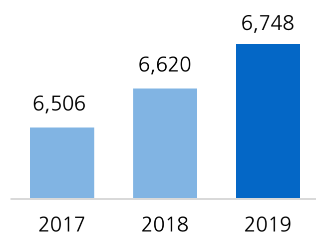
Innovapost Inc., 100% owned by the Group of Companies, is a shared services organization, providing company-specific information systems and information technology services exclusively to the Canada Post Group of Companies.

To ensure oversight of the subsidiaries, Canada Post executives sit on their boards and committees.

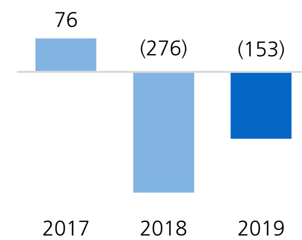
Canada Post segment

Canada Post operates Canada's largest retail network with almost 6,100 retail post offices and a fleet of over 13,000 vehicles that delivered over 7.7 billion pieces of mail and parcels in 2019. With over 53,000 employees, Canada Post provides service to 16.5 million addresses. The Canada Post segment generated revenue of $6.7 billion, which, after excluding intersegment revenue, represented 75.1% of the Group of Companies' 2019 consolidated revenue of $8.9 billion.

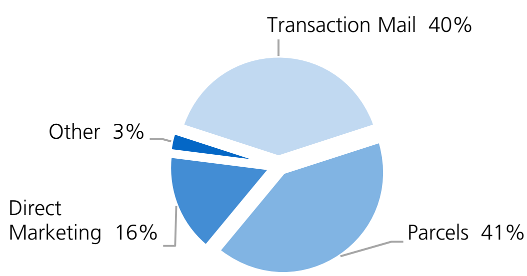
Revenue
(in millions of dollars)



Profit (loss) before tax[1]
(in millions of dollars)



Revenue by line of business – 2019



Revenue by line of business	**2019**	2018	2017
Transaction Mail	40%	42%	45%
Parcels	41%	38%	34%
Direct Marketing	16%	17%	17%
Other	3%	3%	4%

Transaction Mail

Transaction Mail is our portfolio of services for the delivery and response to letters, bills, statements, invoices and other forms of communications. It includes three product categories, Domestic Lettermail, Outbound Letter-post and Inbound Letter-post with revenue derived from traditional physical mail delivery services. Volumes are declining rapidly as Canadians are adopting digital alternatives, having a profound effect on a business model founded on paper-based communications. Customers include private consumers, but most are businesses in the financial, telecommunications, government and utilities sectors.

Parcels

The Parcels line of business offers Canadians a wide range of delivery services to every domestic address in Canada and international destinations through other posts and collaborative efforts with global integrators. Services are differentiated by the delivery destination and speed, ranging from urgent-next-day to non-urgent delivery, where transit time is determined by the transportation mode of ground, air or both. We are relying on our processing, delivery and retail network in our effort to compete in a fierce market. Customers include private consumers, businesses, retailers, governments, posts and other delivery companies and consolidators.

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary services. The Canada Post Personalized Mail™ service allows customers to personalize mailings and promotional messages to specific consumers or prospects. With the Canada Post Neighbourhood Mail™ service, customers can reach specific neighbourhoods or regions across Canada. Together, these services make up the Canada Post Smartmail Marketing™ solution. Publications Mail™ includes the distribution of periodicals, such as newspapers, magazines and newsletters. Growth in this competitive sector is challenging due to experimentation in the marketing industry as businesses have allocated more of their marketing budget to less costly but potentially less effective digital alternatives. Customers include businesses of all sizes and governments. Canada Post also works with marketers, influencers and partners to provide Direct Marketing products and services.

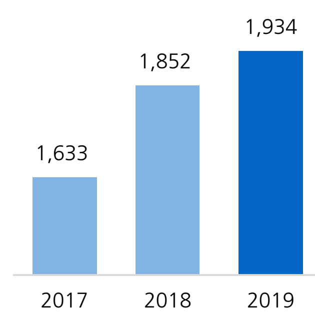
Other

The Other line of business consists of a broad array of products and services, including mail redirection, data products, commemorative stamps, gifts and coins, and the epost™ service that allows users to receive, pay and manage bills in one place online. Customers include businesses, governments and private consumers.

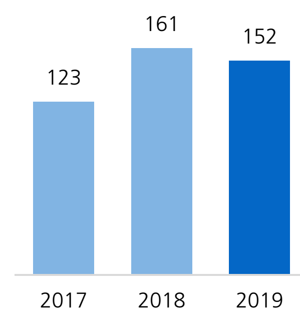
Purolator segment

Purolator is Canada's leading express courier company. It is a highly recognized North American brand, leading Canada's premium market by delivering best-in-class speed and services to business customers and the growing e-commerce market. Approaching 60 years of service, Purolator has more than 170 operations facilities and more than 5,300 vehicles, offers shipping from more than 700 locations, and employs more than 11,000 people. The company has experienced tremendous growth over the past few years with a balanced approach across volume growth and yield optimization, supported by investments across its national network. Purolator's international business has a prominent presence in the U.S. transportation and logistics space, in addition to actively sourcing opportunities to coordinate the movement of parcels to and from Canada.

Revenue
(in millions of dollars)

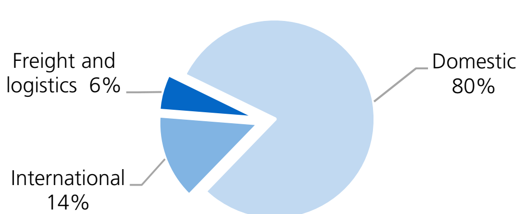


Profit before tax[1]
(in millions of dollars)



In 2019, Purolator generated revenue of over $1.9 billion, which, after excluding intersegment revenue, represented 21.4% of the 2019 Group of Companies' consolidated revenue.

Revenue by line of business – 2019



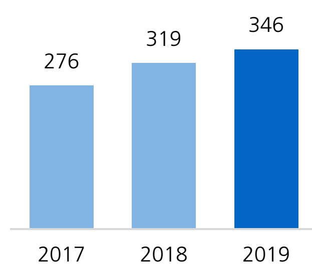
Revenue by market	2019	2018	2017
Domestic	80%	81%	80%
International	14%	13%	14%
Freight and logistics	6%	6%	6%

Logistics segment

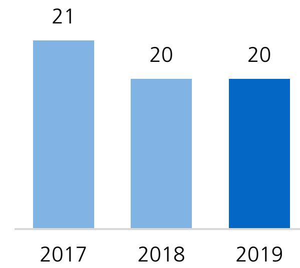
Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI-White Glove Services), SCI helps companies reduce costs and improve services with the design, implementation and operation of efficient supply chain solutions, and allows the Group of Companies to offer end-to-end supply chain services to Canadian businesses in the retail, technology and health care industries.

With over 2,200 employees, SCI manages over $1 billion in inventory every day, offering its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada.

Revenue[1]
(in millions of dollars)



Profit before tax[1]
(in millions of dollars)



In 2019, SCI generated revenue of $346 million, which, after excluding intersegment revenue, represented 3.5% of the 2019 Group of Companies' consolidated revenue.

Innovapost segment

Innovapost's revenue of $277 million was generated from services provided to the other segments in the Group of Companies. All intercompany revenue and corresponding costs were eliminated on consolidation.

2.2 Our business environment

Global trends

A weakening of global economic growth occurred in 2019. Business investments and industrial production have slowed, trade tensions remain, and many markets have produced lower than expected growth. Elevated geopolitical conflicts, policy uncertainty and trade tensions all pose risks to stable economic growth. Canadian economic growth was expected to strengthen in 2020, however, the increasing spread of coronavirus disease (COVID-19) and the Canadian rail blockades pose risks to economic growth.

The Canada-United States-Mexico Agreement received Royal Assent on March 13, 2020. This agreement could be beneficial for investment and exports, although potential emerging trade risks between the United States (U.S.) and other countries, including China, could have significant impacts on the global economy. Economic growth may be tempered by continued low oil prices and reduced household spending, though the housing market activity outlook remains strong.

Globally, mail erosion is increasing. A number of developed countries (of varying geographic types) continue to show double digit declines. More accessible and mobile digital applications and communication technologies such as 5G have had a significant impact on traditional posts or foreign postal administrations. The International Post Corporation reported in 2019 that, based on 2018 results, its most recent data, non-mail business segments now account for two thirds of industry revenue on aggregate, with domestic transactional mail volumes falling faster than any other mail volume segment. Apart from mail, the three main sources of industry revenue are parcel and express delivery, financial services, and logistics and freight.

The postal industry is reliant on parcel business growth. Double-digit e-commerce growth, globally and in Canada, is expected to continue. While posts are well suited to servicing this market, competition is fierce and dynamic. Traditional global integrators, such as UPS and FedEx, are investing to compete for residential deliveries in urban areas, including weekend deliveries. Major e-retailers like Amazon are expanding their size, influence and reach, and controlling the delivery experience through the expansion of their in-house final-mile delivery. As consumer expectations for faster and more flexible delivery options continue to rapidly evolve, technology-focused delivery companies are developing fast, flexible on-demand delivery models for local deliveries. Retailers are increasingly adopting novel delivery solutions to compete for market share. New and innovative technologies are being developed to automate the fulfillment process, and place inventory closer to the end consumer, with the aim of increasing speed and reducing cost. To compete in the growing e-commerce delivery market, posts are rolling out solutions aimed at improving the customer experience through improvement of their IT infrastructure, and expanding capacity for e-commerce deliveries.

The Universal Postal Union (UPU), with 192 member countries, is the primary forum for cooperation between postal sector players. In September 2019, the UPU held an extraordinary congress on the terminal dues remuneration system. Countries voted in favour of global remuneration reform. Changes to the UPU Convention will accelerate rate increases of terminal dues for small packets (packages under 2 kg containing goods), phasing in some self-declared rates in 2020 and applying full self-declared rates by January 2026. Under the agreed solution, member countries, such as the U.S., that meet certain requirements will be able to self-declare their rates starting July 1, 2020.

Canada

Although we have had success in growing our Parcels business, we are operating in a very dynamic, competitive, disruptive and unpredictable commercial market. Our traditional delivery competitors are joined by agile new players, all vying for market share. Amazon's large-scale in-house last mile delivery in the U.S. demonstrates that the growth in e-commerce will propel our biggest Canadian customers to expand their own delivery solutions, in direct competition with us. Self-managed deliveries with regional couriers such as Dynamex and Intelcom Express allow Amazon to offer its own seven-days-a-week and same-day deliveries in many Canadian cities, the list of which is growing as local facilities become operational.

Without traditional labour structures and costs, the crowdsourcing model (or the gig economy) applied to delivery has resulted in the birth of a number of companies that offer flexible same-day, evening and weekend deliveries, directly from a merchant's facilities to consumers' homes, at a very low cost. Our inflexible and high-cost structure threatens our ability to effectively compete with modern economy players. Our structural challenges can be solved, however, the Corporation must continue to work on solutions in partnership with key stakeholders to adapt, meet challenges and take advantage of opportunities created by new technologies and the evolving expectations of customers and Canadians.

Since 2006, declining mail volumes have resulted in a reduction of 55% in the annual number of pieces of mail delivered per address. It is impossible to predict when the steady rate of decline in mail volumes might suddenly accelerate, which has occurred in other developed economies. Declines in volume and increases in the number of addresses in 2019 and the preceding four years are as follows:

Transaction Mail (excluding outbound)	**2019**	2018	2017	2016	2015
Delivered volume percentage change	(6.3)%	(6.1)%*	(5.4)%*	(7.7)%	(5.9)%
Delivery address percentage change	1.0 %	1.2%	1.1 %	1.2 %	0.9 %
Mail volume percentage decline per address	(7.3)%	(7.2)%*	(6.5)%*	(8.8)%	(6.8)%

* Adjusted for trading days.

2.3 Our strategy and strategic priorities

Canada Post segment

Our core strategy is to support, strengthen and maximize the role we play in this digital and e-commerce era, while supporting our physical delivery and mail services that our customers rely on. That role is to be a powerful, driving force that connects Canadians and Canadian businesses, delivering a stronger Canada. Our strategic initiatives focus on engaging our employees, delighting our customers, reinventing our retail model and leveraging our superior network, while addressing our environmental impact as we deliver customers' items.

These initiatives are interconnected. Between our retail and network strategies, our presence means no Canadian is left disconnected from the rest of the country. As well, our strategy incorporates a commitment to do business the right way by adopting a safety-first culture and embracing environmental, social and governance (ESG) principles, which are increasingly becoming important to Canadians.

Engaging our people

This strategic priority focuses on inspiring a trusted, reliable and safe workforce valued by the communities it serves. Building on improved safety results in 2019, we intend to further embed health and safety into our culture and improve compliance with safety rules. We also intend to build alignment with our unions through collaboration and consultation. Our 2019 employee engagement survey gave us a baseline from which to build action plans to build stronger engagement and commitment from employees. We also have a number of initiatives around attracting, growing and retaining talent; implementing a diversity and inclusion strategy; improving recognition and enhancing training.

Delighting our customers

Our strategy is to remain the preferred choice of Canadians. To do so, we must create a delivery experience marked by unsurpassed security, convenience and flexibility. Strategic initiatives will test new concepts and innovations around parcel lockers and delivery preferences, among other things. We are promoting the value and relevance of Smartmail Marketing and of Lettermail.

Reinventing our retail model

Our retail network is Canada's largest. Our strategy is to enhance its role as an effective and secure community presence that gives Canadians access to important products and services. Our initiatives include modernizing point-of-sale technology, reducing transaction times, testing new post office formats, providing environmentally improved products and assessing new financial services and options for public-facing services in rural post offices.

Leveraging our superior network

Canadians' growing demands for delivery are best met by a Canada Post network that has expanded capacity, improved efficiency and flexibility that can be leveraged to meet customers' needs. Our strategy is to invest in greater capacity, to build an IT platform for the future, green our network and pursue innovation to improve productivity and safety. We also intend to develop new routing and delivery models in collaboration with our unions.

On August 30, 2019, Canada Post and its four bargaining agents released a joint statement that affirmed the importance of reducing Canada Post's environmental impact. This reflects how sustainability is an integral aspect of our network strategy. The initial focus will be on our top environmental impacts, including greenhouse gas emissions, operational waste and single-use disposable plastics.

Purolator segment

Purolator's strategy is to win with service excellence, leveraging its premium, expansive Canadian network and customer-first mindset. Purolator remains focused on being the market leader in the Canadian courier space across business-to-business and business-to-consumer parcel delivery, with a broad coverage across industry verticals. By offering domestic express courier (i.e. day and time definite), international inbound and outbound, and global logistics solutions, Purolator can effectively satisfy customer needs on parcels moving to, from and within Canada.

Purolator competes on a differentiation strategy that leverages its network infrastructure, which is the most expansive premium network in Canada and is supported by strategic consolidation points in the United States. Strong customer service ratings are indicative of a customer-first mindset across the organization and a consistent record of strong on-time performance. In addition to the above, Purolator maintains a strong focus on employee health & safety, sustainability, and the strengthening of an exceptional corporate culture.

In 2019, Purolator launched a five-year $1-billion investment program, which will accelerate the company's growth and drive the execution of the strategy by strengthening its network and fleet, enhancing employee safety and culture, accelerating product and technology innovation, and capturing the growth potential in high-margin cross border and international opportunities.

Logistics segment

SCI focuses on making its customers' businesses even better, offering integrated and customized supply chain solutions from coast to coast in the retail, health care and technology verticals. With operational excellence in omni-channel fulfillment, reverse logistics, product life cycle solutions and specialized transportation services, SCI delivers enhanced value in tailored supply chain and logistics services for its clients. SCI continues to broaden its service offering to become Canada's leader of integrated forward and reverse supply chain solutions.

3 Key Performance Drivers

In 2019, we conducted a review of our corporate strategy and developed key initiatives, goals and targets. Our strategic initiatives focus on engaging our people, delighting our customers, reinventing our retail model and leveraging our superior network. We incorporated sustainability considerations into our strategy as we implement these initiatives. The Canada Post segment uses performance scorecards to monitor progress against strategic priorities. Regular reporting gives management a comprehensive view of the segment's performance.

Here is a summary of Canada Post's progress and achievements in 2019, and plans for 2020.

Engaging our people

Become the employer that inspires a trusted, safe and reliable workforce which is valued by the communities it proudly serves.

2019 results	2020 plans
Deployed a new mental health and wellness program, *Keep wellness in mind*.	Conduct independent safety leadership assessments and integrate results into performance scorecards.
Achieved year-over-year reductions in total injury frequency and lost-time injury frequency of 10% and 12%, respectively.	Continue to reduce total injury frequency and lost-time injury frequency over 2019.
Resolved 24% more grievances compared to 2018, while the number of filed grievances decreased by 2% over the same period.	Resolve collective agreements with Canadian Union of Postal Workers – Urban Postal Operations and Rural and Suburban Mail Carriers, and Public Service Alliance of Canada / Union of Postal Communications Employees.
Reached agreement with the CPAA for a collective agreement retroactive to January 1, 2019.	Launch further initiatives to improve employee engagement.
Conducted an employee engagement survey to establish engagement index baseline.	Establish a diversity strategy and baseline of retention and hiring metrics
Increased employment by 8% for Indigenous peoples and 8% for persons with disabilities.	

Delighting our customers

Create a delivery experience that provides unsurpassed security, convenience and flexibility to respond to growing and changing needs of Canadians, a delivery experience that is their preferred choice.

2019 results	2020 plans
Deployed an additional 4,000 indoor parcel lockers in high-density residential units.	Continue to expand and explore opportunities for parcel locker delivery.
Launched predictive parcel delivery windows pilot providing receivers with estimated parcel delivery time frame.	Expand predictive parcel delivery windows to additional postal codes.
Launched ability for consumers to prepay duties and taxes before their packages are delivered.	Pilot additional customer delivery preferences.
Implemented package redirection for all commercial customers, which allows changes to destination while packages are in transit. Top applications include addressing errors or changes, and fraud prevention.	Launch a program to encourage engagement and connections through Lettermail™.
Launched new and enhanced Canada Post Smartmail Marketing™ tools: Enhanced Precision Targeter™ by adding repeat campaign functionality, enabling marketing mailing planning using interactive maps and demographic data. Launched the beta version of Campaign Manager, which is a self-serve tool giving marketers the ability to create mailings.	Continue to invest in self-serve tools for our business customers for key Smartmail Marketing™ products. Engage industry stakeholders to influence and introduce best practices in sustainable mail. Test the feasibility of reusable packaging solutions.

Reinventing our retail model

Strengthen the retail network to maintain an effective community presence, providing all Canadians with access to important products and services, a secure place to receive their items, and a hub for local businesses to reach their customers.

2019 results	2020 plans
Launched a flat rate fee remittance service through MoneyGram, reducing fees for Canadians who send money within Canada and around the world.	Explore new partnerships for financial, government and community services to offer additional services in post offices.
Began modernization project for retail point of sale hardware and software.	Continue the retail technology modernization project for retail point of sale hardware and software.
Completed national launch of flat rate parcel boxes.	Test new post office formats.
	Research and implement environmentally improved products.

Leveraging our superior network

Leverage and create flexibility in the unrivalled national postal delivery network to best serve the growing delivery demands of all Canadians.

2019 results	2020 plans
Added parcel capacity in Hamilton to support growth in southwestern Ontario, and purchased land in the Greater Toronto Area with intention to build a new sorting facility.	Expand parcel capacity in Moncton and Montréal to support growth in Eastern Canada. Pursue innovations to improve productivity and safety, evolve dynamic routing, and improve space capacity at depots.
In collaboration with our bargaining agents, rolled out induction options within the network allowing customers greater flexibility.	Modernize international exchange offices within our plants to improve the security and speed of international inbound items. Research and pilot drones, robotics, automated guided vehicles and other new technologies for future applications.
Greening Canada Post's Network	***Greening Canada Post's Network***
Engaged and consulted with stakeholders, including the four bargaining agents, to inform the development of the 2020-22 Environmental Action Plan (EAP), highlighting our commitment to the environment and concrete actions to reduce greenhouse gas (GHG) emissions, reduce waste (including single-use plastics), offer sustainable delivery solutions to our customers, and engage our people to build an environmentally conscious workplace culture.	Develop and publish a three-year EAP for greening Canada Post's network as a joint effort with our bargaining agents. Investments have been committed for implementation in 2020 and beyond. An environmental social governance (ESG) committee of the Board of Directors will be updated regularly on the advancement of environmental strategies. Progress will be tracked and communicated in the annual Corporate Responsibility Report.
Deployed 374 new hybrid light delivery vehicles across the country to help reduce last-mile delivery GHG emissions of our national fleet. Purchased plug-in hybrid electric vehicles for administrative needs.	Add over 500 hybrid light delivery vehicles to our fleet. Pilot newly available models of fully electric light delivery vehicles.
Became a member of Electric Mobility Canada to help accelerate the transition to electric fleets across the country.	Continue to develop a long-term plan to reach carbon neutrality across our real estate managed portfolio. For example, a new processing plant in Toronto is being designed to meet the Canada Green Building Council's Zero Carbon Building Standard.
Invested in energy conservation measures for our buildings to reduce GHG emissions and save energy.	

4 Capabilities

A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

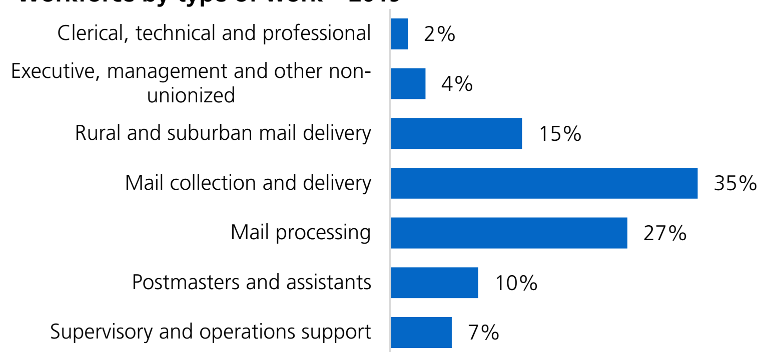
The Canada Post Group of Companies is one of Canada's largest workforces with almost 68,000 people, the majority of them employed by Canada Post. Our workforce is diverse and is found in every urban, rural and remote community across Canada.

Talent management, learning and development

Canada Post segment

Canada Post hired over 4,500 employees in 2019 as part of the annual peak recruitment campaign. To attract talent, hiring halls were conducted in Toronto, Montréal and Vancouver, which resulted in over 3,000 candidates experiencing an expedited recruitment process. Canada Post's ability to target and hire quality candidates was strengthened through partnerships with major online advertisers. New features were released to recruiters in our centralized applicant tracking system to improve reporting insights, candidate experience and overall efficiencies in the end-to-end hiring process.

Workforce by type of work – 2019



Again in 2019, Canada Post focused its efforts on equity and diversity by establishing partnerships with the Canadian Centre for Diversity and Inclusion, the Canadian Council on Rehabilitation and Work, the Employment Accessibility Resource Network, the David C. Onley Initiative and other agencies. We continued to expand talent searches to under-represented groups and in 2019 saw improvements in the number of Indigenous peoples and persons with disabilities working at Canada Post, which increased by 7.6% and 8.3%, respectively. In 2020, we will keep partnering with our bargaining groups to maintain focus in this area.

Once hired, our talent management processes are focused on ensuring the right people are working in the right roles, safely and productively. We are increasing our focus on talent development as a key differentiator to other employers in a tight labour market and believe in growing our people to grow the business.

Our management leadership development program, LEAD, continued in 2019 with over 230 participants, bringing the total participation to date to almost 600 middle managers. Members of senior management sponsored action learning projects that were assigned to these upcoming leaders. Participants worked in cross-functional teams to research and present recommendations to a panel of executives. These projects were related to actual business issues for the Corporation. In 2020, the Corporation expects to invest in the development of 240 managers in the LEAD program.

In 2019, our employees received almost 940,000 hours of training. Digital learning has the benefit of a tracking system and is frequently used to provide access to quality training, regardless of an employee's location.

Health and safety training was a focus again in 2019, with over 120,000 hours of training delivered on programs that are critical to our focus on safety, such as "Respect in the Workplace – Violence Prevention", "Motorized Material Handling Equipment" and "First Aid." Resources for our *Make it safe, make it home* program, were updated with over 50 new training videos, guides and job aids added to the website. Other health and safety training was completed by over 4,600 employees for conveyor safety and by over 5,700 letter carriers for the Workplace Hazardous Materials Information System. Safety Leadership Training was completed by nearly 1,500 team leaders.

Investment in learning for sales employees continued in 2019. Aside from ongoing investments in individual technical sales skills, Canada Post made a significant investment in training for holistic marketing needs assessments training. This training is designed to enable sales representatives to take more of a consultative selling approach and to properly position and defend Canada Post solutions in a crowded media landscape.

For the first time since 2011, the Corporation conducted an employee engagement survey to measure its employees' level of engagement. The survey was managed by an independent organization, and was conducted on an anonymous and voluntary basis with all active employees across the organization. Overall, 18% of active employees responded, which is low compared to similar surveys in Canada, however, the results are statistically valid. While some survey results confirm our strengths, our overall engagement score of 64 tells us that we have to do better in a number of areas. Action plans are being developed based on results and a second survey will be deployed in 2020 to measure progress.

We built on previous investments made in our talent management and succession tools. In 2019, we used these tools to analyze the progress of development plans of employees identified with the potential to advance. As part of our broader focus on engagement, these tools allow employees to manage their careers more effectively. Career management and development will be an important focus going forward. Virtual career fairs and other creative solutions will continue to be deployed, helping employees achieve their career aspirations, while allowing the Corporation to manage succession risk, especially in middle management (at director and manager levels).

Purolator segment

An onboarding program was designed and launched in 2019, with a focus on safety awareness for new employees. Also in 2019, 140 managers successfully graduated from our Evolve – Manager Development Program, and a future leader development program was deployed to prepare future successors for critical and executive level roles.

This past year over 90% of our employee base participated in a survey designed to measure employee engagement. Based on 2019 results, Purolator as an organization received an overall engagement score of 74%, which compares favourably against the IBM world benchmark of 71%.

Health and safety

Canada Post segment

Canada Post believes that all occupational injuries, illnesses and incidents are preventable and it aims for zero harm. Employee safety is our highest priority. We remain committed to identifying, preventing and controlling hazards. A number of health and safety programs were launched in 2019, including our new mental health program, *Keep wellness in mind*, the first winter safety orientation training and road safety analysis. Other programs such as our national campaign, *Make it safe, make it home*, safety support and tools, safety design in new equipment and facilities, safety audits, snowflake-rated boot campaign, peak readiness safety plan and the high-injury sites were enhanced.

In 2019, Canada Post achieved a 10% year-over-year improvement in the total injury frequency rate. The lost-time injury frequency rate improved 12% over 2018. Despite our achievements in 2019, we strive to reduce our injury rates even further in 2020.

Reducing slips, trips and falls (STF), the primary cause of injury, was a major focus in 2019. The snowflake-rated boot campaign continued to grow momentum and adoption, and a specific safety awareness program targeting employees who are delivering during the winter for the first time, contributed to an overall reduction in STF of 10% compared to 2018. Manual material handling (MMH) injuries continue to be the second-highest cause of injury. Various programs throughout the year, including musculoskeletal injury prevention studies and awareness sessions, as well as increased training at high MMH injury sites (Calgary Mail Processing Plant and South Centre Letter Processing Plant), contributed to a reduction in these injuries of 7% over 2018.

In January 2020, the new Health and Safety Leadership Team was introduced, whose primary mandate is to reduce injuries and help Canada Post achieve world-class performance in health and safety. To do so, independent safety leadership assessments will be conducted in 2020 with results integrated into our performance scorecards to validate and measure the effectiveness of our safety leadership communication and methodologies. Reinforcement of our safety rules and compliance monitoring of associated safety behaviours are planned for 2020. We will continue to focus on life safety, basic safety and safety leadership to be recognized as an industry leader in safety.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
CUPW-UPO[b]	35,236	January 31, 2018
CUPW-RSMC[c]	8,414	December 31, 2017
CPAA[d]	5,219	December 31, 2023
APOC[e]	3,765	March 31, 2021
PSAC/UPCE[f]	1,224	August 31, 2020
Total	**53,858**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2019; excludes temporary, casual and term employees.
b. CUPW-UPO: Canadian Union of Postal Workers – Urban Postal Operations, which represents plant and retail employees as well as letter carriers and mail service couriers.
c. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.
d. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.
e. APOC: Association of Postal Officials of Canada, which represents supervisors as well as supervisory support groups, such as trainers, route measurement officers and sales employees.
f. PSAC/UPCE: Public Service Alliance of Canada / Union of Postal Communications Employees, which represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting, as well as technical employees in areas such as finance and engineering.

Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC)

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. Following months of negotiations, assisted by mediation and conciliation, and rotating strikes that began October 22, 2018, back-to-work legislation (Bill C-89) for the resumption and continuation of postal services came into effect on November 27, 2018, and placed outstanding issues into a binding arbitration process. After a period of mediation, the arbitration continued throughout 2019, with the union completing the presentation of its case in July and Canada Post beginning the presentation of its case in August. The union has the right to reply with more evidence when the Canada Post completes its case. The arbitrator's mandate will expire on June 30, 2020, however, under back-to-work legislation the mediation-arbitration process can continue for any period that the federal Minister of Labour allows.

In 2019, Canada Post processed payments for CUPW-RSMC employees under the 2018 pay equity ruling. Other changes to pay, post-retirement benefits, and other benefits, leaves and allowances were implemented. The costs were recorded in prior years and included wage adjustments, increases in pensionable pay received for personal contact items and lock changes, vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances.

Canadian Postmasters and Assistants Association (CPAA)

The collective agreement with the CPAA expired December 31, 2018. Following collaborative discussions that started more than a year prior to the expiry, a tentative five-year collective agreement was reached in December 2019. Members ratified the new collective agreement in January 2020. The agreement is retroactive to January 1, 2019. The CPAA represents rural post office postmasters and assistants.

On May 12, 2019, the Canadian Postmasters and Assistants Association (CPAA) and Canada Post reached an agreement regarding the CPAA's complaint under the *Canadian Human Rights Act* alleging gender-based pay discrimination for the period 1992-97. The agreement was subsequently approved by the Canadian Human Rights Commission. An implementation committee with representatives from Canada Post and the CPAA has been formed and implementation of the settlement is under way.

Association of Postal Officials of Canada (APOC)

The current collective agreement with APOC expires March 31, 2021. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

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

The current collective agreement with PSAC/UPCE expires August 31, 2020. Canada Post and PSAC/UPCE began labour negotiations in January 2020 by way of expedited talks, in an effort to reach a new collective agreement prior to the current agreement's expiry date. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering.

Non-binding mediation continued in October between PSAC and Canada Post regarding PSAC's application to the Canada Industrial Relations Board (CIRB) seeking a determination that certain jobs should have been included within its bargaining unit. The Association of Postal Officials of Canada is participating under intervenor status granted by the CIRB. The parties reached a settlement in mediation, whereby they agreed to a process for the evaluation of jobs, followed by binding arbitration if consensus cannot be achieved. PSAC has withdrawn its application to the CIRB. This process will continue into 2020.

Canada Labour Code – Amendments to Part III

On September 1, 2019, changes to the *Canada Labour Code* that reflect the realities of a modern workforce came into effect. Canada Post has updated its employment policies to fully comply with the amendments under Bill C-63 and Bill C-86. These amendments include flexible working arrangements, personal and other leaves and rights to refuse overtime. Other amendments will come into force in 2020 or later.

Purolator segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Teamsters[b]	8,918	December 31, 2021
Teamsters[c]	564	December 31, 2022
PSAC[d]	140	December 31, 2022
Unifor[e]	157	December 31, 2022
Total	**9,779**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2019; excludes temporary, casual and term employees.
b. Teamsters represent employees in operations.
c. Teamsters represent clerical and administrative employees.
d. Public Service Alliance of Canada, in British Columbia the Union of Postal Communication Employees, represents clerical and administrative employees.
e. Unifor represents clerical and administrative employees.

Logistics segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[a]	Expiry date of the collective agreement
Unifor – Toronto	335	December 31, 2019
Unifor – Laval	26	November 30, 2021
Total	**361**	

a. All full-time and part-time employees including those on unpaid leave, as at December 31, 2019; excludes temporary, casual and term employees.

Negotiations to renew the collective agreement with Unifor Toronto commenced prior to the expiration of the agreement at the end of 2019. At the request of Unifor, a conciliation officer was appointed and the conciliation process began in March 2020.

4.2 Our network and infrastructure

Canada Post segment

The Canada Post segment delivers to 16.5 million addresses and its vast operating network requires significant investment and coordination between collection activities, mail processing plants, transportation links and delivery agents. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. In 2019, over 7.7 billion pieces of mail and parcels were processed in our plants, which represents on average 31 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network included the following:

21
processing plants

477
letter carrier depots

1.7 million
post office boxes
(including general delivery)

6,084
post offices, corporately owned or managed by authorized dealers

13,113 letter carrier routes
1,228 mail service carrier routes
7,772 rural and suburban mail carrier routes
16.5 million points of delivery

9,304
parcel lockers

209,538
community mailbox sites

23,750
street letter boxes

The logistics of e-commerce within Canada continue to evolve. Merchants continue to decentralize their inventory by opening multiple distribution centres across the country as well as shipping goods from stores to be closer to their customers, leading to faster delivery and lower shipping costs. Canada Post is looking to take advantage of this reality by improving capacity in key nodes across the network, while also enabling new solutions to connect merchants and customers closer to the last mile of delivery.

Plans for a number of parcel capacity projects across our network continue to progress. In 2019, we added capacity in Hamilton to support growth in southwestern Ontario. Capacity expansion projects in Moncton and Montréal are on track to be completed in 2020 to support expected growth in Eastern Canada. We also purchased land in the Greater Toronto Area with the intent of building a new sorting facility as part of a long-term capacity plan. Projects are also in development in major nodes such as Vancouver and Calgary. Once completed these projects will improve our capability from coast to coast through our integrated network.

Our delivery infrastructure continued to evolve with the growing demands for space in our network. We opened three facilities in the Greater Toronto Area as well as several others across the country. Plans for new custom-built right hand-drive mail delivery vehicles, new ways of designing routes, and the upgrade of equipment we use in operations are all in progress and will continue to evolve in the next few years. In urban markets, we expanded the option of early morning induction of parcels directly at the delivery facility, providing more options for our customers.

We installed approximately 4,000 additional parcel lockers in residential apartment buildings and condominiums across Canada to bring the total to more than 9,300. People who are not at home at the time of delivery have easy access to their parcels and no longer have to travel to the nearest post office to collect them.

Canada Post became an accredited member of Kahala Posts Group (KPG) during 2019. KPG is an international alliance of the postal administrations of Australia, Canada, China, France, Hong Kong, Japan, Korea, Spain, Thailand, the United Kingdom and the United States. Through collaboration with these posts, KPG seeks to promote customer choice and improve service options for postal express and package services, particularly by raising service performance of their package services, addressing current and future needs of customers, and relying on collective action and joint capabilities to expand business.

Canada Post and the Canada Border Services Agency continue to work together to improve the inbound customs clearance process. In 2019, foreign posts provided postal customs data to assist with the targeting and removal of illicit goods and prohibited items from the mail stream.

Capital investments

Capital asset expenditures in the Canada Post segment of $457 million in 2019 focused on implementing solutions that address operational capacity challenges to sustain e-commerce growth, replenishing its aging vehicle fleet and street furniture, exploring clean energy alternatives and expanding the accessible delivery program. The year-over-year increase of $155 million was largely driven by additional capital expenditures required to address our infrastructure capacity challenges due to parcel growth and by investments in modernizing our retail network. For example:

- Increased network capacity by opening five new letter carrier depots in Quebec and Ontario, which reduced health and safety risks by addressing depot congestion.
- Enabled the future relocation of letter carrier depots into new or expanded depots, freeing additional processing capacity in the Kitchener, Regina and Calgary processing plants.
- Purchased land in the Greater Toronto Area, which will accommodate a new parcel processing facility.
- Started to implement changes to increase the automation of package sortation in Moncton and Montréal and improved parcel sort efficiency, capacity and mail flow in Hamilton.
- Continued to modernize the retail network to support Canada Post's growing parcel business and meet changing business and consumer needs.
- Deployed 4,000 parcel lockers and in five years' time hope to serve over four million Canadians using this delivery method. We're striving to be the most convenient, secure and environmentally conscious carrier for Canadians to receive their e-commerce purchases.
- Purchased and brought 374 hybrid light delivery vehicles into our fleet, an important step toward reducing greenhouse gas emissions from our owned vehicles. We also further invested in energy-saving measures for our buildings to reduce operating costs and greenhouse gas emissions.

In 2020, we will continue investing to ensure infrastructure capacity is adequate to meet long-term parcel growth projections, while exploring environmentally sound practices. Additional investments are planned to create a modern retail network that delivers relevant services to all Canadians, in technology to promote consumer delivery flexibility and in health and safety to reduce workplace injuries.

Purolator segment

In 2019, Purolator continued to deliver on its network and infrastructure priorities focusing on the following areas:

- Executed its network evolution strategy that included the opening of four facilities in Ontario, Prince Edward Island and New Brunswick. This led to numerous benefits, including new capacity to support business growth, rebalancing of capacity in neighbouring terminals and an improved customer experience through closer proximity to customers and improved ease of access for shipment induction and pickup.
- Continued to innovate with final-mile delivery and customer-access solutions to tackle logistics in major city centres across Canada. With population growth and congestion increasing in core downtown markets, e-bikes were introduced as a pilot project in Montréal, allowing for easier delivery access in a sustainable manner. In addition, Purolator expanded operating hours to include weekends in some areas and strengthened customer convenience with an expansion of customer access points, such as the introduction of parcel lockers and self-service kiosks.
- Progressed on expanding future network capacity and best-in-class automation by beginning the construction of a new Ontario hub. The hub's scalable design, automated sorting and integrated process management solutions are intended to support long-term sustained growth with capabilities that will meet the needs of an evolving marketplace.

4.3 Sales channels

Canada Post segment

For most Canadians, retail is the primary point of contact with our company and we consider customer experience to be a high priority. We continually strive to reduce our transaction times, expand our services, and provide more pickup points for our customers, particularly during peak season. We aim to provide convenient access to all Canadians through our extensive retail network, with approximately 6,100 post offices, of which close to 3,700 are corporately owned and over 2,400 are operated by private dealers. In addition, we sell products and services through thousands of private establishments known as stamp shops. To serve our rural clients across Canada, our retail network includes almost 3,400 locations in diverse and remote areas across Canada. When the operation of a post office in one of those communities is affected by an unforeseen event, such as resignation or retirement, we ensure that local mail delivery is maintained by using a community outreach process. This process includes open communication and consultation with the public, the municipality, elected officials and other relevant stakeholders. We seek practical and sustainable solutions that satisfy the needs of the affected community as we make decisions on how best to retain postal service on a case-by-case basis.

Post offices models

We have developed new post office models over the last few years as we continue to focus on meeting the evolving needs of Canadians. Our three concept stores focus on customer convenience with self-serve technology, a 24/7 service area, a fitting room to try online purchases, and in two of these locations, a drive-thru for picking up parcels. Six other self-serve locations offer devices to allow customers to do their own shipping. Our parcel pickup sites serve a dual purpose: improving convenience for our customers and adding flexibility within our network. Some sites are permanent, while others are temporary, allowing us to expand our retail network when required to handle periods of increased parcel volume, particularly during peak season. At the end of 2019, we had over 250 parcel pickup locations operating in the market. During the year, we also completed close to 170 backroom optimization initiatives, continuing the implementation of a new shelving and storage methodology, increasing backroom capacity by 30-40%.

Accessibility

Canada Post aims to provide convenient access to all Canadians, which includes increased accessibility considerations in our retail facilities. Bill C-81 received royal assent as the *Accessible Canada Act* in June 2019, to ensure a progressively barrier-free Canada. This new legislation ensures that facilities in Canada are accessible to persons with a range of physical, sensory or cognitive disabilities. To ensure our facilities adhere to these new standards, the network design process has been updated to include accessibility consideration, and we have started proactively conducting site audits to identify universal accessibility gaps in our network.

Retail technology and products

We are modernizing the retail technology point-of-sale systems to enable our evolving retail business. A large project is under way to replace the point-of-sale hardware and software in all our approximately 5,700 automated sites. The rollout of these new devices will begin in 2020 and be completed by the end of 2021. This technology will allow us to streamline our business process, reduce transaction times, ensure the security and reliability of key retail technology, and better adapt to change. The ability to improve our employee experience and meet our customers' evolving needs cannot be achieved without the foundation of modernized technology.

To further improve the in-store experience, we introduced pre-staging for many of our transactions. Pre-staging allows customers to begin heavy data entry transactions online, then quickly complete them in-store with a simple barcode scan, significantly reducing lineups. Parcel and Mail Redirection transactions have long had pre-staging options. We've added similar options for customs declarations and remittance services.

We've increased the availability of our flat rate shipping boxes. Similar to prepaid envelopes, flat rate boxes are purchased in advance by the customer, packaged and inducted at the customer's convenience. These products remove weighing and measuring from the parcel transaction – anything under 5 kg that fits into the box can be shipped. After a successful pilot in 2018, flat rate boxes are now available in all post offices across our network.

Remittance services

We've increased the accessibility of remittance services to Canadians by introducing a flat rate. As of May 2019, our post offices allow anyone in Canada to send up to $500 anywhere in the world for $10. Late in 2019, we also introduced a foreign cash ordering service through a partnership with CIBC. Post office customers can order foreign currency at very competitive exchange rates, and then either pick up the currency in one of our stores or have it delivered to their homes.

Online services

Customers are able to reach Canada Post in person, by telephone, on paper or online through its website or mobile app, to find information, conduct business transactions, manage orders and interact. Our information tools are used to find a postal code, a post office, a rate or track a package. Commercial customers have access to order entry systems such as Electronic Shipping Tools, Canada Post Snap Ship™, and Express Order Entry as well as business solutions for pickup and return services, AddressComplete™, epost™ or direct marketing tools including Precision Targeter™.

We continue to improve and heighten the digital channel by simplifying the user experience online, developing and releasing improvements, reducing customer irritants and introducing new tools and services to ensure that our digital properties are a source of sustainable competitive advantage.

4.4 Internal controls and procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Corporation's President and Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure for the Group of Companies.

The President and CEO and the CFO have evaluated the effectiveness of the Group of Companies' disclosure controls and procedures related to the preparation of the Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2019.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS).

The President and CEO and the CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2019, in accordance with the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the President and CEO and the CFO have determined that the Group of Companies' internal control over financial reporting was effective as at December 31, 2019. This process follows the best-practice requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA). As a Crown corporation, Canada Post voluntarily complies with certain rules and regulations of the CSA.

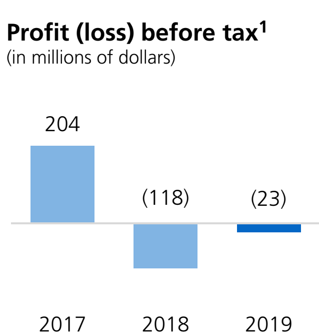
Changes in internal control over financial reporting

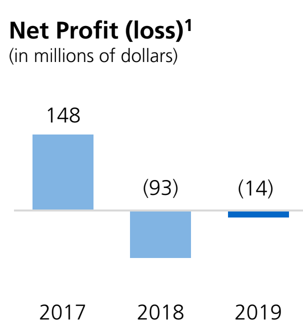
There were no changes in internal control over financial reporting during the year ended December 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5 Discussion of Operations

A detailed discussion of our financial performance in 2019

5.1 Consolidated trends





5.2 Consolidated results from operations

Consolidated results

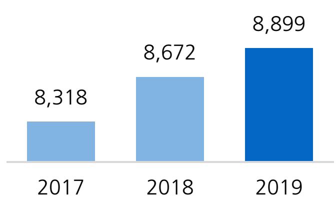
(in millions of dollars)	2019	2018[1]	Change	%
Revenue from operations	8,899	8,672	227	2.6
Cost of operations	8,892	8,754	138	1.6
Profit (loss) from operations	**7**	**(82)**	**89**	**109.1**
Investing and financing income (expense), net	(30)	(36)	6	16.4
Loss before tax	**(23)**	**(118)**	**95**	**80.3**
Tax recovery	(9)	(25)	16	64.7
Net loss	**(14)**	**(93)**	**79**	**84.7**
Other comprehensive income	120	397	(277)	(70.1)
Comprehensive income	**106**	**304**	**(198)**	**(65.6)**

The Canada Post Group of Companies' 2019 loss before tax of $23 million was an improvement of $95 million compared to the loss before tax in 2018. A detailed discussion by segment is provided in sections 5.4 to 5.6.

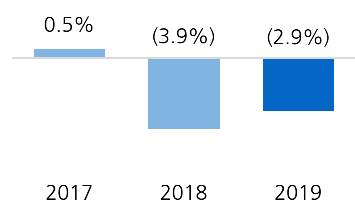
Additional business days result in increased revenue, while additional paid days result in an increase in the cost of operations. In 2019, there was no difference in business or paid days compared to 2018.

Consolidated revenue from operations

Consolidated revenue from operations[1]
(in millions of dollars)



Total volume increase (decline)



Revenue from operations was $8,899 million in 2019, an increase year over year of $227 million compared to 2018. The increase was due to growth in Parcels revenue in the Canada Post and Purolator segments, as well as revenue growth in the Logistics segment, partially offset by ongoing Transaction Mail volume erosion and the continuing impact of the 2018 labour disruption in the Canada Post segment.

Consolidated cost of operations

The cost of operations increased by $138 million in 2019 compared to 2018, mostly the result of cost increases in labour and transportation related to growth in the Canada Post, Purolator and Logistics segments, offset by costs in 2018 related to the ruling on pay equity for members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) in the Canada Post segment.

Consolidated investing and financing income (expense), net

Net investing and financing expenses decreased by $6 million in 2019. The change was primarily due to increased interest income and insurance proceeds, partially offset by solvency payment reduction fees related to the Canada Post Corporation Registered Pension Plan (RPP).

Consolidated tax expense (recovery)

The consolidated tax recovery for 2019 decreased by $16 million compared to 2018, primarily driven by a lower loss in the Group of Companies.

Consolidated other comprehensive income

The consolidated other comprehensive income of $120 million was mainly due to remeasurement gains on pension and other post-employment plans, primarily due to gains on investments and updated demographic assumptions partially offset by a decrease in discount rates. Volatility, caused by fluctuations in the various factors and assumptions used to remeasure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income throughout 2019.

5.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	**2019**	2018[1]	2017	2016	2015
Canada Post	(187)	(281)	84	63	92
Purolator	164	177	127	69	57
Logistics	23	22	21	20	20
Other	7	–	(1)	(3)	–
Canada Post Group of Companies	**7**	**(82)**	**231**	**149**	**169**

Segmented results – Profit (loss) before tax

(in millions of dollars)	**2019**	2018[1]	2017	2016	2015
Canada Post	(153)	(276)	76	55	63
Purolator	152	161	123	67	56
Logistics	20	20	21	20	20
Other	(42)	(23)	(16)	(28)	(3)
Canada Post Group of Companies	**(23)**	**(118)**	**204**	**114**	**136**

5.4 Canada Post segment

The Canada Post segment's loss before tax of $153 million in 2019 was an improvement of $123 million compared to the loss before tax in 2018. The improvement was mostly due to higher non-recurring costs in 2018 for the pay equity ruling for members of the CUPW-RSMC (including costs related to prior years), as well as growth in Parcels revenue in 2019. Consecutive year-over-year losses are also directly attributed to the 2018 labour disruption, which caused some customers to resort to alternative delivery service providers. Factors contributing to the segment's 2019 financial performance are recurring. Erosion in our Transaction Mail and Direct Marketing lines of business will continue due to digital substitution. Parcels growth in a highly competitive market is slowing compared to prior years and general e-commerce trends. Our overall costs are increasing due to the shift in our business from mail to parcels, and the 2018 labour disruption continues to affect how our customers are choosing to do business with us.

Summary of results

(in millions of dollars)	**2019**	2018[1]	Change	%
Revenue from operations	6,748	6,620	128	1.9
Cost of operations	6,935	6,901	34	0.5
Loss from operations	**(187)**	**(281)**	**94**	**33.3**
Investing and financing income (expense), net	34	5	29	622.7
Loss before tax	**(153)**	**(276)**	**123**	**44.5**

Revenue from operations

For the first time in history, Parcels revenue exceeded Transaction Mail revenue, with growth that more than offset the combined impact of ongoing volume erosion in Transaction Mail and declines in Direct Marketing volumes. In 2019, total revenue from operations increased by $128 million compared to 2018. However, the labour disruption in the last quarter of 2018 continued to impact all lines of businesses in 2019.

Revenue and volumes by line of business

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	2019	2018[1]	Change	%	**2019**	2018	Change	%
Transaction Mail								
Domestic Lettermail	2,540	2,601	(61)	(2.3)	2,683	2,863	(180)	(6.3)
Outbound Letter-post	96	99	(3)	(3.7)	45	49	(4)	(7.6)
Inbound Letter-post	78	83	(5)	(5.3)	98	106	(8)	(7.8)
Total Transaction Mail	**2,714**	**2,783**	**(69)**	**(2.5)**	**2,826**	**3,018**	**(192)**	**(6.4)**
Parcels								
Domestic Parcels	2,068	1,864	204	11.0	222	196	26	13.2
Outbound Parcels	243	242	1	0.1	10	10	–	0.9
Inbound Parcels	401	367	34	9.3	88	90	(2)	(1.5)
Other	23	30	(7)	(23.0)	–	–	–	–
Total Parcels	**2,735**	**2,503**	**232**	**9.3**	**320**	**296**	**24**	**8.3**
Smartmail Marketing™								
Personalized Mail™	485	501	(16)	(3.2)	886	918	(32)	(3.5)
Neighbourhood Mail™	401	408	(7)	(1.7)	3,461	3,486	(25)	(0.7)
Total Smartmail Marketing™	**886**	**909**	**(23)**	**(2.5)**	**4,347**	**4,404**	**(57)**	**(1.3)**
Publications Mail™	146	153	(7)	(5.2)	215	231	(16)	(6.9)
Business Reply Mail™ and Other Mail	20	22	(2)	(8.3)	16	18	(2)	(13.4)
Other	14	14	–	0.3	–	–	–	–
Total Direct Marketing	**1,066**	**1,098**	**(32)**	**(3.0)**	**4,578**	**4,653**	**(75)**	**(1.6)**
Other Revenue	233	236	(3)	(0.9)	–	–	–	–
Total	**6,748**	**6,620**	**128**	**1.9**	**7,724**	**7,967**	**(243)**	**(3.1)**

Transaction Mail

Transaction Mail revenue decreased by $69 million compared to 2018, primarily due to ongoing volume erosion. Details by product category are as follows:

- Domestic Lettermail revenue and volume decreases continued as households and businesses chose to use digital methods rather than Lettermail. In addition, Canada Post was affected by the ongoing implementation of pay-for-paper initiatives by some of its largest customers, and accelerated retail Lettermail erosion. The revenue impact due to Lettermail erosion would have been far greater, had it not been for additional volumes from the federal election in the fourth quarter, as well as the regulated rate increase in January 2019 for Domestic Lettermail items, international Letter-post items and special services and fees.
- Outbound and Inbound Letter-post revenue and volume declines were mostly due to increased use of digital alternatives. Outbound Letter-post revenue is collected from domestic customers for mail destined to other postal administrations and Inbound Letter-post revenue is collected by other postal administrations and shared with Canada Post for delivering mail in Canada.

Parcels

Parcels revenue increased by $232 million compared to 2018. Details by product category are as follows:

- Domestic Parcels revenue and volume increases were driven by e-commerce growth in the Canadian delivery market. Canada Post's share of domestic e-commerce delivery faces pressure due to the instability of labour and increasing competition. To help our major customers successfully compete and build their online business, we collaborated with them using our market-leading network, delivery assets and e-commerce solutions. In 2020, we will continue our close collaboration with our customers as we invest in the infrastructure and technology needed to meet their growing needs and maintain our leading position in this highly competitive market.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) and volume were mostly flat compared to 2018.

- Inbound Parcels revenue (fees paid to Canada Post by other postal administrations for delivering mail originating outside of Canada) increased despite volume declines due to growth in products that have a higher revenue rate per piece.
- Other Parcels revenue, which mostly comprises fees from the Customs Postal Program, declined due to fewer inbound postal items of value to be rated for duties and taxes.

Direct Marketing

Direct Marketing revenue decreased by $32 million compared to 2018. Details by product category are as follows:

- Personalized Mail revenue and volume declines resulted from softer performance in the mid-market, as well as reduced spending by customers in the financial, retail and telecommunications segments. This was partially offset by the Federal Elections one-time mailings.
- Neighbourhood Mail revenue and volume decreased as a result of lost or reduced business from large and mid-market customers, continuing impacts of the 2018 labour disruption, one-time mailings in the 2018 provincial elections, as well as a reduction in our average revenue per piece. Revenue and volume declines were partially offset by one-time mailings in the 2019 federal elections.
- Publications Mail revenue and volume declines were due to a decline in paper subscriptions as digital subscriptions are increasingly becoming the preferred method of delivery.
- Business Reply Mail and Other Mail and Other products continued their decline, and the year-over-year performance was also affected by a 2018 non-repeated event where Business Reply Mail product was used to manage replies for a referendum.

Other Revenue

Other Revenue declined mainly due to a decrease in digital and consumer products and services, partially offset by a gain in foreign exchange.

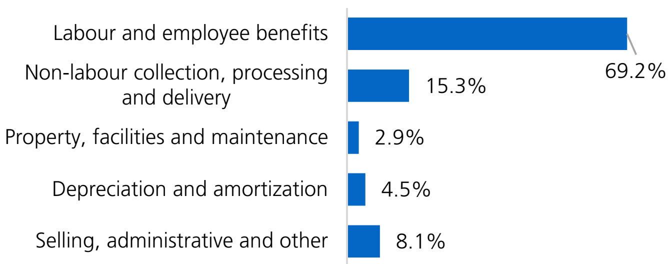
Cost of operations

In 2019, the Canada Post segment's cost of operations increased by $34 million compared to 2018.

					Cost as % of revenue from operations	
(in millions of dollars)	**2019**	2018[1]	Change	%	**2019**	2018[1]
Labour	3,453	3,462	(9)	(0.2)	51.2	52.3
Employee benefits	1,345	1,420	(75)	(5.3)	19.9	21.5
Total labour and employee benefits	**4,798**	**4,882**	**(84)**	**(1.7)**	**71.1**	**73.8**
Non-labour collection, processing and delivery	1,062	1,025	37	3.6	15.7	15.5
Property, facilities and maintenance	202	193	9	4.3	3.0	2.9
Selling, administrative and other	564	500	64	12.8	8.4	7.5
Total other operating costs	**1,828**	**1,718**	**110**	**6.4**	**27.1**	**25.9**
Depreciation and amortization	309	301	8	3.1	4.6	4.5
Total	**6,935**	**6,901**	**34**	**0.5**	**102.8**	**104.2**

The chart and table below show the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 69.2% of the total cost of operations in 2019, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2019



Cost of operations	2019	2018	2017
Labour and employee benefits	69.2%	70.7%	69.8%
Non-labour collection, processing and delivery	15.3%	14.8%	15.2%
Property, facilities and maintenance	2.9%	2.8%	3.9%
Depreciation and amortization	4.5%	4.4%	3.9%
Selling, administrative and other	8.1%	7.3%	7.2%

Labour

Labour costs decreased by $9 million compared to 2018, mostly as a result of higher costs in 2018 related to the pay equity ruling for members of CUPW-RSMC, mostly offset by wage increases and the impact of parcels volume growth in 2019.

Employee benefits

(in millions of dollars)	2019	2018	Change	%
Pension expense	603	776	(173)	(22.3)
Post-employment health benefits	156	153	3	2.4
Other post-employment and other long-term benefits	125	80	45	53.8
Interest on segregated assets	(23)	(18)	(5)	26.4
Total post-employment and other long-term benefits	**861**	**991**	**(130)**	**(13.2)**
Active employee benefits and other	484	429	55	13.0
Employee benefits	**1,345**	**1,420**	**(75)**	**(5.3)**

Employee benefits decreased by $75 million compared to 2018, as detailed below:

- The non-cash pension expense decreased by $173 million in 2019 mainly due to a 2018 net non-recurring loss for plan amendments and an increase in the discount rate.
- The non-cash other post-employment and other long-term benefits expense increased by $45 million mainly due to a 2018 actuarial assumption gain, partially offset by 2018 non-recurring losses for plan amendments.
- The benefits expense for active employees and other increased by $55 million mainly due to an increase in claim costs related to the vision care coverage cycle and increased drug and dental costs, cost of benefits related to CUPW-RSMC pay equity, the introduction of a health tax in British Columbia, and increased statutory deductions.

Other operating costs, and depreciation and amortization

Changes in these costs in 2019 were as follows:

- Contracted collection, processing and delivery costs increased by $37 million in 2019 compared to 2018, mainly due to higher transportation automotive services, and maintenance and repairs resulting from increased parcel volumes.
- The cost of facilities increased by $9 million for 2019 when compared to 2018, mainly due to new facilities and an increase operating costs.
- Selling, administrative and other expenses increased by $64 million for 2019 compared to 2018, mainly due to increased information technology and non-capital investments.
- The depreciation and amortization expense increased by $8 million in 2019 compared to 2018 as a result of higher investment in capital assets.

5.5 Purolator segment

The Purolator segment's profit before tax decreased by $9 million compared to 2018. Revenue from operations increased by $82 million in 2019 compared to 2018, mainly due to increased volumes from new and existing business primarily in the domestic and cross border business-to-business market. Annual salary increases and business growth caused labour costs to increase by $55 million in 2019 over 2018. Non-labour cost increases of $40 million in 2019, compared to 2018, were driven primarily by business growth.

Summary of results

(in millions of dollars)	**2019**	2018[1]	Change	%
Revenue from operations	1,934	1,852	82	4.4
Cost of operations	1,770	1,675	95	5.6
Profit from operations	**164**	**177**	**(13)**	**(7.0)**
Investing and financing income (expense), net	(12)	(16)	4	24.9
Profit before tax	**152**	**161**	**(9)**	**(5.2)**

5.6 Logistics segment

In 2019, SCI's financial performance was consistent with the prior year, with profit before tax of $20 million. Revenue and cost from operations increased over 2018 by $27 million and $26 million, respectively, primarily due to growth in volumes and new business.

Summary of results

(in millions of dollars)	**2019**	2018[1]	Change	%
Revenue from operations	346	319	27	8.2
Cost of operations	323	297	26	8.4
Profit from operations	**23**	**22**	**1**	**6.5**
Investing and financing income (expense), net	(3)	(2)	(1)	(100.8)
Profit before tax	**20**	**20**	**–**	**(0.7)**

5.7 Consolidated results to plan

(in millions of dollars)	**2019 results**	2019 plan	Change	%
Revenue from operations	8,899	8,981	(82)	(0.9)
Cost of operations	8,892	8,806	86	1.0
Profit from operations	**7**	**175**	**(168)**	**(95.8)**
Investing and financing income (expense), net	(30)	(48)	18	36.2
Profit (loss) before tax	**(23)**	**127**	**(150)**	**–**

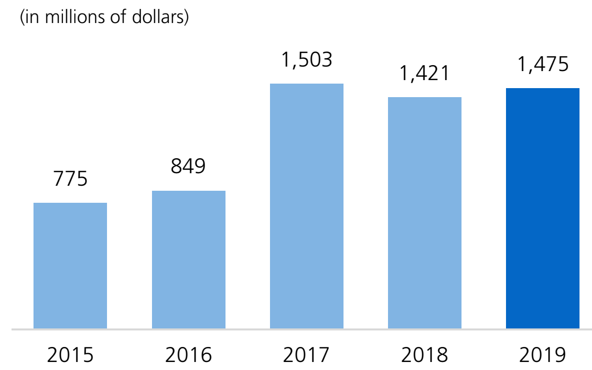
The Canada Post Group of Companies' loss before tax of $23 million in 2019 was $150 million below plan. The shortfall against plan was driven by softer revenue performance in the Canada Post segment due to the continuing impact of the 2018 labour disruption. Revenue from operations was $82 million less than planned mainly due to the Canada Post segment, partially offset by larger parcel growth in the Purolator segment. Cost of operations was $86 million higher than planned, mainly attributed to larger parcel growth in the Purolator segment, partially offset by some reductions in the Canada Post segment due to lower than planned volumes.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents

Cash and cash equivalents held by the Group of Companies at December 31, 2019, was $1,475 million. The increase of $54 million compared to December 31, 2018, was due to cash provided by operating activities, mainly from pension expenses exceeding payments, partially offset by cash acquisitions of capital assets and repayment of lease liabilities. Pension payments were lower than expenses in part because of the special payment relief afforded to the Canada Post Corporation Registered Pension Plan (RPP) under the *Pension Benefits Standards Act, 1985*.



6.2 Operating activities

(in millions of dollars)	**2019**	2018[1]	Change
Cash provided by operating activities	529	1,066	(537)

Cash generated from operating activities decreased by $537 million compared to 2018, mainly due to changes in non-cash operating working capital, including the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) pay equity payments made in 2019, as well as lower pension, other post-employment and other long-term benefit expense adjustments, partially offset by lower tax payments.

6.3 Investing activities

(in millions of dollars)	**2019**	2018	Change
Cash used in investing activities	(360)	(1,045)	685

Cash used in investing activities decreased by $685 million in 2019 compared to 2018, primarily due to higher net proceeds from the sale of securities, partially offset by higher acquisitions of capital assets.

Capital expenditures

(in millions of dollars)	**2019**	2018	Change
Canada Post	457	288	169
Purolator	106	45	61
Logistics	24	35	(11)
Innovapost and intersegment	2	5	(3)
Canada Post Group of Companies	589	373	216

Capital expenditures for the Group of Companies increased by $216 million in 2019, when compared to 2018. The increase was mainly due to increased spending in the Canada Post and Purolator segments.

6.4 Financing activities

(in millions of dollars)	**2019**	2018[1]	Change
Cash used in financing activities	(113)	(107)	(6)

Cash used in financing activities increased by $6 million in 2019, mainly due to higher lease repayments in the Canada Post and Logistics segments.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of $27.7 billion as at December 31, 2019, making it one of the largest single-employer sponsored pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) to establish its funded status on a going-concern basis and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act*, *1985,* (the Act) requires Canada Post, as plan sponsor, to make special payments to the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which the Act requires the plan sponsor to make special payments to the RPP to eliminate the shortfall over five years.

As a result of these regulations, Canada Post did not have to make special solvency payments in 2019, which would have totalled $1.2 billion (including special payments made to cover transfer deficiencies) without this relief. For 2020, Canada Post has notified and received no objections from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce special solvency contributions but the Corporation expects to make estimated payments of $366 million as the solvency relief of 15% will be fully utilized during the year. The market volatility of market-driven discount rates and returns on pension plan assets related to the COVID-19 pandemic have the potential for a negative effect on our pension plan deficit in 2020 and solvency payments for 2021 and thereafter, which could be significantly higher than expected. The Corporation will be monitoring and reporting these impacts going forward. Beyond the relief level of 15% in the regulations, the Corporation will require incremental borrowing or additional pension relief as these payments pose a risk to its cash flows in coming years. Securing temporary relief from making these payments is the Corporation's preferred short-term solution, and Canada Post is working with all stakeholders including its single shareholder, the Government of Canada, to explore short-term options.

The actuarial valuation for the RPP as at December 31, 2018, filed in June 2019, disclosed a going-concern surplus of $3.4 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $5.7 billion (using the three-year average solvency ratio basis), or $5.1 billion (using market value of plan assets).

The current estimate of the financial position of the RPP as at December 31, 2019, is a going-concern surplus of approximately $3.8 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $5.6 billion (using the three-year average solvency ratio basis), or $4.9 billion (using market value of plan assets). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2019, will be filed by the end of June 2020, and results may differ significantly from these estimates.

The going-concern funded status improved during the year, mainly due to updated demographic assumptions from an experience study conducted in 2019 and recognition of investment gains from previous years as well as the 2019 return on investments of 14.7% (gross of administrative and management fees) in the smoothed value of assets, partially offset by a decrease in the discount rate. The solvency deficit improved slightly during the year mainly due to investment gains and updated demographic assumptions, partially offset by a decrease in the discount rate.

In 2019, the employer's current service contributions and special payments to the defined benefit pension plan amounted to $284 million and $43 million (including retroactive contributions of $25 million and solvency payments of $11 million related to the CUPW-RSMC pay equity ruling) compared to $248 million and $30 million, respectively, in 2018. The employer's current service contributions for 2020 are estimated at $339 million, which is an increase over the prior year expectation primarily due to a decrease in discount rates.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2019, remeasurement gains, net of tax, for the RPP amounted to $282 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which it defines as loans and borrowings, other liabilities (non-current) and equity of Canada. This view of capital is used by management and may not be comparable to definitions used by other postal organizations or public companies. The Corporation's objectives in managing capital include maintaining sufficient liquidity to support financial obligations as well as operating and strategic plans, and maintaining financial capacity and access to credit facilities to support future development of the business.

The *Canada Post Corporation Act* and the *Financial Administration Act* and directives issued pursuant to the Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, as it maintains basic postal service and carries out objectives, the Corporation must have regard for the need to conduct operations on a self-sustaining financial basis, while providing a standard of service that meets the needs of the people of Canada.

Liquidity

As at December 31, 2019, and during 2019, the liquidity required by the Canada Post Group of Companies to support financial obligations, fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $2,249 million of unrestricted liquid investments on hand as at December 31, 2019, and $100 million in lines of credit established under a short-term borrowing authority approved by the Minister of Finance.

Under regulations of the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2019. However, payments estimated at $366 million will be required in 2020, unless temporary relief is granted. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $302 million of unrestricted cash on hand and undrawn credit facilities of $119 million as at December 31, 2019, ensuring sufficient liquidity to support operations for at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4, 2009-10*, which received royal assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Any additional borrowings must be within the limits of the approved borrowing plan, and their terms and conditions require approval from the Minister of Finance. The Corporation believes that these arrangements provide it with sufficient and timely access to capital markets.

With $997 million of borrowings as at December 31, 2019, the Canada Post segment had $1,503 million of its $2.5 billion external borrowing limit that had not been used. The Corporation funded itself primarily through the use of cash on hand, funds generated from operations during 2019 and the pension plan funding relief permitted by legislation.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out the activities of the business, as summarized in the following table.

(in millions of dollars)	Fair value through OCI	Fair value through profit or loss	Measured at amortized cost[a]	Total
Cash and cash equivalents	175	–	1,300	1,475
Marketable securities	1,248	–	–	1,248
Trade, other receivables and contract assets	–	–	1,011	1,011
Segregated securities	514	–	–	514
Risk management financial assets	–	2	–	2
Total financial assets	**1,937**	**2**	**2,311**	**4,250**
Non-interest bearing[b]	–	–	1,159	1,159
Loans and borrowings	–	–	997	997
Total financial liabilities	**–**	**–**	**2,156**	**2,156**

a. The effective interest method is used to determine the amortized cost of these financial assets and liabilities.
b. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Financial assets are held for liquidity purposes or for longer terms in accordance with the investment policies of the Group of Companies. Financial liabilities consist mostly of trade payables (non-interest bearing) and bonds.

Market risk

Interest rate risk

The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities, and are classified as fair value through other comprehensive income (OCI).

Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment obligations to which they are externally restricted. The average duration of the segregated security portfolio was 12 years as at December 31, 2019 (2018 – 12 years).

Based on a sensitivity analysis of interest rate risk, it is expected that an increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities by $61 million (2018 – $63 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2019, and on other comprehensive income or loss.

Loans and borrowings of $997 million (2018 – $997 million[1]) include fixed-rate debt with prepayment options.

Foreign currency risk

Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro, British pound, Japanese yen and Chinese renminbi, whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs.

Commodity risk

The Group of Companies is inherently exposed to fuel-price increases but does not currently hold any financial instruments that change in value due to the prices of commodities. Using an industry-accepted practice, it partially mitigates this risk through the use of a fuel-price surcharge on some of its products.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables.

The Group of Companies does not believe that it is subject to any significant concentration of credit risk. The Corporation uses a low credit risk approach where the investment policy is restricted to investment grade debt securities. Additionally, despite continued weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with the prior year, reducing credit risk.

Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors. For further details on liquidity and risk associated with financial instruments, see Note 20 to the consolidated financial statements and Section 6.6 Liquidity and capital resources.

6.8 Contractual obligations and commitments

(in millions of dollars)	Total	Less than 1 year	1-5 years	More than 5 years
Bonds	1,000	–	–	1,000
Interest on bonds	580	42	169	369
Lease liabilities	1,741	156	512	1,073

This table represents the Group of Companies' total contractual obligations and commitments to make future payments, excluding non-interest-bearing liabilities. Amounts presented for lease liabilities are the contractual undiscounted cash flows.

The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $352 million. These contractual arrangements extend to 2024. The Canada Post Corporation Registered Pension Plan special going-concern and solvency contributions are discussed in Section 6.5 Canada Post Corporation Registered Pension Plan.

6.9 Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expenses for key management personnel were $14 million for the year ended December 31, 2019 (2018 – $12 million), which included compensation related to short-term benefits and post-employment benefits. See Note 26 (b) to the consolidated financial statements for additional details.

6.10 Contingent liabilities

In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees. These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities. Refer to Note 16 to the consolidated financial statements for additional details on other contingent liabilities.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between December 31, 2019, and December 31, 2018

(in millions of dollars)

ASSETS	2019	2018[1]	Change	%	Explanation of change
Cash and cash equivalents	1,475	1,421	54	3.8	Refer to Section 6 Liquidity and Capital Resources.
Marketable securities	1,077	1,338	(261)	(19.5)	Due to maturity of corporate bonds.
Trade and other receivables	1,011	979	32	3.3	Mainly due to higher international trade settlement receivables in the Canada Post segment, partially offset by lower receivables in the Purolator and Logistics segments.
Other assets	171	103	68	65.2	Mainly due to higher income tax receivable balances, as well as higher prepaid expenses, in the Canada Post and Purolator segments.
Total current assets	**3,734**	**3,841**	**(107)**	**(2.8)**	
Marketable securities	171	132	39	29.4	Due to maturity of corporate bonds.
Property, plant and equipment	2,942	2,687	255	9.5	Mainly due to acquisitions in excess of depreciation.
Intangible assets	124	106	18	17.4	Mainly due to acquisitions in the Logistics and Other segments.
Right-of-use assets	1,113	982	131	13.3	Mainly due to acquisitions (new leases and lease renewals) exceeding depreciation in the Canada Post, Purolator and Logistics segments.
Segregated securities	514	495	19	3.9	Mainly due to unrealized gains in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	75	95	(20)	(20.4)	Mainly due to remeasurement losses resulting from a decrease in discount rates partially offset by gains on investments and updated demographic assumptions.
Deferred tax assets	1,659	1,680	(21)	(1.3)	Mainly due to the decrease of temporary differences for salaries and benefits payable and related provisions in the Canada Post segment.
Goodwill	130	130	–	–	No change.
Other assets	65	63	2	3.5	No material change.
Total non-current assets	**6,793**	**6,370**	**423**	**6.7**	
Total assets	**10,527**	**10,211**	**316**	**3.1**	

(in millions of dollars)

LIABILITIES	2019	2018[1]	Change	%	Explanation of change
Trade and other payables	676	648	28	4.4	Mainly due to higher trade and other payables in the Canada Post, Purolator and Logistics segments due to higher expenses and timing.
Salaries and benefits payable and related provisions	839	988	(149)	(15.2)	Mainly due to the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) pay equity payments made in 2019, in the Canada Post segment.
Provisions	55	61	(6)	(7.7)	No material change.
Income tax payable	–	8	(8)	(100.0)	Primarily due to the payment of a tax liability for the Purolator segment.
Deferred revenue	152	153	(1)	(1.5)	No material change.
Lease liabilities	116	109	7	5.9	No material change.
Other long-term benefit liabilities	63	68	(5)	(8.0)	No material change.
Total current liabilities	**1,901**	**2,035**	**(134)**	**(6.6)**	
Lease liabilities	1,183	1,054	129	12.2	Mainly due to acquisitions (new leases and lease renewals) in the Canada Post, Purolator and Logistics segments net of lease payments.
Loans and borrowings	997	997	–	–	No change.
Pension, other post-employment and other long-term benefit liabilities	6,498	6,277	221	3.5	Mainly due to remeasurement gains resulting from gains on investments and updated demographic assumptions partially offset by a decrease in discount rates.
Other liabilities	20	22	(2)	0.2	No material change.
Total non-current liabilities	**8,698**	**8,350**	**348**	**4.2**	
Total liabilities	**10,599**	**10,385**	**214**	**2.1**	
EQUITY					
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	64	43	21	50.4	Mainly due to unrealized gains on segregated securities for dental, term life and death benefit plans in the Canada Post segment.
Accumulated deficit	(1,326)	(1,408)	82	5.7	Mainly driven by remeasurement gains in the Canada Post segment.
Equity of Canada	**(107)**	**(210)**	**103**	**48.7**	
Non-controlling interests	35	36	(1)	(3.0)	
Total equity	**(72)**	**(174)**	**102**	**58.2**	
Total liabilities and equity	**10,527**	**10,211**	**316**	**3.1**	

8 Risks and Risk Management

A discussion of the key risks and uncertainties inherent in our business and our approach to managing these risks

Canada Post has an enterprise risk management (ERM) framework that considers risks and opportunities at all levels of decision-making. The ERM framework helps Canada Post understand and manage the most significant risks to the business and to the brand as domestic and global postal industries continue to experience fundamental structural changes. An enterprise risk and control assessment is conducted each year and is reported to senior management, the Audit Committee of the Board of Directors and the Board of Directors on a semi-annual basis. Significant changes to risks are also highlighted in the quarterly financial reports.

8.1 Definition of risk

Canada Post defines risk as any event or condition that could have an unplanned effect (positive or negative) on the Corporation's ability to achieve its key strategic, financial and operational goals. The following is a summary of the principal sources of risk and uncertainty facing the Corporation, along with associated mitigation strategies.

8.2 Principal risks

Financial self-sustainability

Canada Post has a mandate from the Government of Canada to fund its operations with revenue from the sale of products and services, rather than with taxpayer funding, and to conduct its operations on a financially self-sustaining basis. There are inherent risks in our business model. Rapidly declining Lettermail™ volumes, financial commitments, which include funding the pension obligation, investing in the delivery network and maintaining success in a highly competitive parcel industry have put the Corporation's long-term financial self-sustainability at risk.

Risk mitigation

Canada Post is investing to support innovation and grow its Parcels, Transaction Mail and Direct Marketing lines of business. The Corporation is also pursuing improved efficiency, productivity and cost competitiveness in its operations.

In January 2018, the Government of Canada announced its vision for the renewal of Canada Post. The vision contains five concrete actions and emphasizes service to Canadians, while acknowledging that Canada Post must be efficient and financially sustainable for the long term. The Canada Post Board of Directors is overseeing the implementation of the government's vision. Canada Post is developing strategic plans to implement the actions identified in the vision and is working with stakeholders to determine the best path forward. Active collaboration and engagement with its sole shareholder and stakeholders, including unions, will be imperative for success.

Government directives

As a federal Crown corporation whose sole shareholder is the Government of Canada, Canada Post is responsible for implementing the vision that the government has set for the Corporation. A change in vision or direction may lead to a sudden shift in the Corporation's priorities and strategic direction. Such a shift could lead to revenue loss, stranded assets from incomplete initiatives, or uncertainty for Canada Post, its employees and its customers.

Risk mitigation

Canada Post regularly meets with its shareholder to discuss strategic planning and financial results and to assess opportunities and challenges for the Corporation. The company has also taken concrete measures to put in place the government's vision introduced in 2018, which remains aligned with current government priorities. Ongoing dialogue with the shareholder, especially as Canada Post starts to implement its new corporate strategy and examines new ways to become financially self-sustaining, should prevent sudden and unexpected directional changes. Moreover, Canada Post's decision to adopt environmental, social and governance (ESG) principles will help to reconcile its commercial and social mandates, which could further reassure the shareholder of the Corporation's commitment to key issues such as the protection of the environment, labour harmony and good governance.

Significant core volume declines

Canada Post is experiencing significant competitive pressures across its mail lines of business – an experience shared by postal administrations (posts) around the world.

Lettermail experienced its 13th consecutive year of volume decline in 2019. This decline is a result of digital transformations, regulatory changes, and changing behaviour of mailers and consumers. Additionally, an increased focus on cost reduction has made low-cost alternatives, such as email, more attractive forms of communication for many businesses. Current indicators suggest Canada Post will be no exception to the trend experienced by posts in most other developed countries where, after peak volume was reached, volume erosion has continued uninterrupted each following year.

Canada Post Smartmail Marketing™ continues to face strong competitive pressure from digital advertising, as well as private companies that distribute flyers and other print material to households at a much lower cost. Also, research suggests that many businesses are unsure of which media is most effective for their objectives, which leaves them in a state of flux when it comes to choosing the appropriate marketing media.

Risk mitigation

In 2020, Canada Post will launch a new consumer program to promote and increase the use of Lettermail. Canada Post will also continue to evaluate and implement new solutions to add value to Lettermail. Solutions being explored include tracked Lettermail for consumers and small businesses and a mail manager and mail visibility solution to provide consumers with a digital notification, which identifies items that have been delivered to their mailbox.

Smartmail Marketing™ remains a highly effective driver of marketing results for businesses of all sizes. Canada Post is innovating and extending the marketing solution suite to enhance competitiveness and increase value, including implementing a multi-year transformational data roadmap to enable the market, enrich intelligence and provide the highest value to customers. Also, Canada Post continues to promote the relevance of Smartmail Marketing™ in the marketplace and is exploring ways to amplify the value of direct mail by integrating it into other digital channels or media. In 2020, Canada Post will work with Partners to support customer marketing campaigns that use multiple media, including mail.

Canada Post continues to educate and encourage environmental responsibility among customers, partners, and consumers, while seeking ways to integrate these practices into products and services.

Pension deficits

The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer sponsored pension plans in Canada with assets of approximately $27.7 billion in market value at December 31, 2019. The scale of the RPP – given its size relative to the Corporation's revenue and earnings, and its funding volatility – pose an ongoing financial risk to the Corporation. The RPP has two primary risk factors: low or declining long-term interest rates, which increase the pension obligation; and lower than expected returns or losses on assets due to a severe market correction, creating a shortfall in assets available to meet benefit payments. These risk factors could lead to significant going-concern or solvency deficits, which could require special pension funding contributions, posing a risk to the Corporation's cash flow and its ability to fund needed investments in modernization and growth.

As of December 31, 2019, the going-concern surplus was estimated at $3.8 billion, and the solvency deficit to be funded was estimated at $5.6 billion. The final actuarial valuations for the RPP will be filed by the end of June 2020, and results may differ significantly. Canada Post, as the RPP sponsor, is responsible for funding shortfalls in the RPP. Further information is provided in Section 6.5 Canada Post Corporation Registered Pension Plan.

Risk mitigation

The Corporation continues to evaluate the pension solvency position and has implemented a pension risk management framework to identify and quantify risks. In addition, all investment decisions are made in accordance with the Canada Post Registered Pension Plan Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed annually by the Pension Committee of the Board of Directors. An investment strategy is in place to help lower investment volatility and minimize liability shortfall.

Under the Pension *Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2019 but expects to make special payments in 2020. The Corporation will require incremental borrowing or additional pension relief.

Revenue growth and diversification strategy

To offset declining volumes in the core Lettermail business, Canada Post is focused on growing its parcels business in the e-commerce market. This sector presents challenges as rising parcel volumes could exceed Canada Post's sorting and delivery capacity, hindering its ability to fully capitalize on the growth opportunity. From a delivery perspective, traditional global competitors, which offer seamless cross-border capabilities and benefit from much lower labour costs, are enhancing integration along the logistics supply chain and are intensifying the deployment of new cost-effective residential delivery models. There has been an increase in asset-light business and delivery models, which can rapidly adapt to meet evolving consumer expectations on delivery speed, experience, preferences and visibility. Major retailers are increasingly focusing on fulfillment strategies that use existing assets to minimize delivery costs and bypass traditional delivery carriers. These retailers have been actively shaping consumer expectations for low-cost and speedy delivery, particularly in major urban centres. Internally, the design of Canada Post's operational network has traditionally been focused on Lettermail rather than parcels, which places its operations at a disadvantage relative to parcel-centric competitors.

Risk mitigation

Canada Post has undertaken significant planning activities to enhance decision-making and remain competitive in the marketplace. The Corporation continues to strengthen its value proposition for the e-commerce sector through initiatives such as Canada Post Solutions for Small Business™, the FlexDelivery™ service, apartment parcel lockers and other efforts to provide industry-leading responsiveness and convenience for online shoppers. The Corporation has strengthened its pickup offering to better serve small and medium-sized businesses and continues to invest in consumer delivery preferences and parcel returns enhancements. To support parcel volume growth, Canada Post is shifting its network design strategy to become more parcel-centric and has been investing to increase parcel capacity in physical delivery, including investments in real estate, parcel sortation systems, equipment, automation, vehicles and process changes.

Labour agreements

Over 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex collective agreements continue to constrain Canada Post's ability to compete in the marketplace and implement changes to its business model, including employee benefit plans, wages and leaves that are above what competitors offer. With collective agreements expiring almost every year, Canada Post finds itself continuously in negotiation with one or more of its unions.

The issues facing the Corporation, with declining mail volumes, a growing pension obligation, and a significant increase in parcel volumes, are complex. The impact or threat of labour disruption or arbitration (in the event that collective agreements are not reached) could accelerate Lettermail erosion and lead to loss of revenue from businesses that switch to competitors for their mail and parcel delivery needs.

Risk mitigation

Canada Post's objective during any collective bargaining process is to build a framework for growth, while protecting its financial self-sustainability, in a manner that provides fair and reasonable working conditions to its employees and service to Canadians. Canada Post is developing a new approach to collaboration, including a long-term labour strategy to guide successive rounds of negotiations. Proactive relationship management and communication with bargaining agents and employees is imperative to reaching collective agreements and avoiding labour disruption. The approach with all bargaining agents is to work with them and ensure a shared understanding of the structural challenges and opportunities that the Corporation faces.

Collective agreements with the Canadian Postmasters and Assistants Association (CPAA) and the Association of Postal Officials of Canada (APOC) have binding arbitration in the form of a final offer selection process instead of a strike or lockout. This process has helped mitigate risk.

Information systems and information technology

Canada Post's information technology (IT) and systems continue to face internal and external risks. As Canada becomes more digitally connected, Canada Post requires even greater technological agility and responsiveness to meet customer needs and remain competitive. Technology is a strong enabler of operations and a key success factor in service delivery quality. The performance and scalability of infrastructure and applications that support the business, such as shipping systems and tracking, can have an impact on the Corporation's financial statements, customer loyalty and reputation. There is an ongoing risk that IT may be challenged to support the growing business given increasing demands and requirements. Externally, the threat of cyber-attacks and occurrences of data breaches due to malicious acts being reported worldwide are taken very seriously by the Corporation. A significant cyber-attack or data breach could expose the Corporation to financial and reputation risks, including the inability to maintain and secure customer relationships. It may also expose the Corporation to legal action in the event of a data breach.

Risk mitigation

Canada Post's IT subsidiary, Innovapost, is changing its operating model and restructuring the organization to deliver benefits of the change. The new operating model, which includes improved processes, agility, automation and monitoring, will change the approach to delivery and systems operations to reduce risk and accelerate delivery. Innovapost continues to track and monitor rates of major incidents affecting critical business functions to ensure stability of the infrastructure. Additionally, a number of key technology investments are being made to support an agile growth strategy. As part of the information security framework, industry standard detection, prevention and control measures are in place to reduce the threat of cyber-attacks and ensure remediation of known attacks. Business continuity plans are in place in the event of a critical systems failure or disruptive events. Evaluation of disaster recovery procedures is ongoing to identify opportunities to improve recovery times. Investments in information security are also being made, including a new artificial intelligence solution to identify malicious activity and an upgrade to email security. Additionally, exercises have been conducted to help identify gaps in our security posture against a motivated attacker. Employee training and education are also provided to reduce the risk of data breaches and cyber-attacks. Increased efforts on quarterly testing of our employees' ability to identify, detect and respond to phishing attacks are showing signs of effectiveness. These repeated tests are helping to shift the organization toward a more security-aware culture.

Procurement risks related to major suppliers' transition

Failure to effectively execute the procurement process and successfully make the transition when a new provider is selected could have significant impacts on Canada Post's finances, reputation and operations. A supplier's ability to fulfill its contractual obligations will also have a significant impact on Canada Post's ability to serve its customers.

Risk mitigation

The Corporation is addressing this risk through robust procurement methodologies including, as required, guidance from a fairness commissioner, the hiring of third-party and industry experts, overlapping of contracts during ramp-up periods and extended windows for transition periods. Special attention is paid to where a supplier's execution or failure of contractual obligations presents a material impact on the Corporation's ability to serve its customers at a national level. As well, a procurement strategy is prepared for each major initiative and approved by the Board of Directors. Each procurement strategy includes a contract management and risk mitigation strategy to support active oversight for the duration of the contract. In 2020, Canada Post will begin targeted training and implementation of contract management best practices through a centre of excellence.

Brand

Canada Post is a leader in parcel delivery and an e-commerce enabler in Canada. Preserving a strong Canada Post brand is essential to ensure business viability and growth. In order to maintain strong brand equity, Canada Post must continue to evolve, innovate, and remain agile. Brand equity could be negatively affected by failing to provide reliable and accessible service, to deliver on brand promises, to launch timely initiatives that improve customer experience, to align brand strategy with changing market conditions, and to anticipate customer consumer expectations. Such impacts may be caused, or worsened, by the threat of a labour disruption.

Risk mitigation

Canada Post is evolving its brand strategy to reflect market developments and the government vision for Canada Post, announced in 2018. Canada Post is improving the customer experience by better communicating its value proposition and promoting the reliability of its services. Brand equity is monitored every year to measure company performance against its corporate strategies. These mitigation strategies will help ensure that Canada Post maintains its role as a delivery leader for all Canadians.

Talent management

Canada Post continues to face a high rate of employee departures. It is anticipated that approximately 15,000 employees will leave Canada Post over the next five years, largely due to retirement. Failure to attract, engage, develop and retain key talent could have an impact on Canada Post's ability to fulfill its core mandate as well as compete, grow and innovate in the marketplace. Ineffective management of critical and vulnerable roles may lead to the loss of specialized knowledge and poor knowledge transfer, potentially affecting business continuity. Similarly, ineffective succession planning may lead to operational impacts, delays, and a failure to meet business objectives.

Risk mitigation

To manage recruitment risk, Canada Post is using social media and integrating technology into its recruiting efforts. In addition, realistic job previews have been created to enhance the employee onboarding process. To better foster employee development, a performance management framework that is anchored on coaching and development has been implemented for middle management employees. This framework aims to evolve culture through a more agile and development-oriented process. To manage retention risk, Canada Post conducts annual salary and benefit reviews and is evolving employment policies to enhance the employee value proposition. Canada Post is placing greater emphasis on succession planning, with strategies to mitigate areas of risk and to prepare employees for critical roles. The focus that has been placed on development planning is allowing for a better understanding of employee career goals and driving more effective growth conversations between employees and their team leaders. Canada Post will continue to seek opportunities to streamline and improve the efficiency of its operations to take advantage of voluntary attrition.

Security and privacy

Canada Post is responsible for ensuring the security of Canadians' physical mail. It is also responsible for protecting the privacy of customer and employee data in its custody. Data breaches could result in negative impacts for customers and employees and cause serious damage to the Corporation's financial position and brand. Fraudulent use of the Corporation's products and services could cause financial harm to Canadians.

Risk mitigation

Canada Post has invested heavily in physical and electronic security, the protection of employee and customer data and the avoidance of fraudulent use of its products and services. The Corporation adheres to multiple acts, policies and practices to ensure protection of the mail. Canada Post has also established an incident management process to manage data breaches, including those involving personal information. It has incorporated security and privacy language with third-party contractors to ensure that adequate protection and controls are in place where contractors handle or have access to information under Canada Post's control. Canada Post has deployed records management for stronger access and security controls. Regular monitoring and reporting of authorized access is conducted, and oversight is provided by an internal audit team. In addition to established privacy and security policies and guidelines, security clearance is required for all employees and contractors. Canada Post is targeting role-based awareness and education to manage personal information of customers and employees. The Corporation regularly conducts threat-risk assessments to ensure that its customers' and employees' security and privacy interests are protected. Canada Post has also developed partnerships with third parties and law enforcement agencies to detect, deter and disrupt threats. Privacy impact assessments are conducted to ensure that new or modified technologies, information systems and initiatives adequately protect privacy. Physical and electronic security measures, including high-security locks, cameras and electronic access controls, are also in place to protect mail, postal facilities and information.

Organizational resilience

Canada Post and its customers rely on physical and electronic delivery networks that are vulnerable to disruptions of natural or human origin. The Corporation's extensive physical network is also increasingly dependent on key operating systems, equipment, a transportation network and an IT infrastructure.

Risk mitigation

The Corporation has a business continuity management program in place, which provides oversight, co-ordination and management of the various business continuity plans. Canada Post also has process resumption plans, emergency response plans, and disaster recovery plans in place to support the business in the event of a major incident. The purpose of these plans is to provide the necessary tools to respond to incidents that could potentially disrupt operations, minimize the impact and recover the products and services delivered through the physical and digital delivery networks. Business continuity plans are regularly exercised and updated, taking into account changes and threats to the business environment.

Health and safety

Canada Post is committed to maintaining the highest safety standards for all employees, visitors and contractors. Canada Post believes that all occupational injuries, illnesses and incidents are preventable. Operational challenges that may contribute to health and safety risk include a lack of standard routines, core processes that have been designed for mail rather than parcels, failure to follow safety rules, turnover leading to an inexperienced workforce, and facility-related risks (e.g. structural, water quality). Non-compliance with statutory health and safety requirements, policies and procedures could also negatively affect the physical and psychological safety of employees, visitors, contractors and the public.

Risk mitigation

Canada Post has a high-injury sites program, whereby the health and safety team works with management teams in locations where there are a high number of injuries. At these sites, assessments are conducted to establish site-specific prevention plans to reduce injuries. On-site occupational health and safety specialists support these plans with coaching and monitoring. To mitigate specific risks, safety tools, such as risk assessments, job hazard analysis, work permits and facility inspection checklists, have been introduced. New life safety behavioural compliance audits were piloted and introduced late in 2019. These audits will continue throughout 2020.

Training is also delivered to employees to ensure awareness of health and safety rules and standards. Canada Post continues to increase safety awareness and promote basic safety, life safety and safety leadership through the *Make it safe, make it home* employee portal and campaign. *Keep wellness in mind*, introduced in 2019, is a new approach to mental health at Canada Post. This campaign is based on an important principle that the mental health and well-being of employees and their families are as important as their physical health and safety.

Service quality

Service quality and a focus on customer needs is a top priority for Canada Post. As the Corporation shifts focus toward serving the competitive parcel market, maintaining a high level of service quality is necessary to ensure customer attraction, retention and satisfaction. However, this may be difficult to achieve due to our inflexible cost structure. Other factors, such as changing labour markets and increasing international inbound volumes, may also have an impact on service.

Risk mitigation

Canada Post uses business intelligence and analytics to actively monitor operational performance to identify issues, determine root causes, and resolve service-related issues. Parcel growth strategies, capacity planning, and investments to expand processing capacity and reduce facility constraints will improve processes and mitigate capacity risk, ensuring service quality. In addition, evolution of the retail network is under way to ensure quality of service for customers. To manage performance risks related to labour, Canada Post is implementing labour shortage strategies, applying recruitment cycle enhancements and expanding its succession planning strategy. Continuous improvement in our exchange offices and procurement of new resources and technology will facilitate product flow through the inbound postal channel.

Environmental sustainability

There is a risk that Canada Post may fail to demonstrate progressive environmentally sustainable practices across its value chain that will meet rapidly changing expectations of customers, the Government of Canada and all Canadians. This risk may result in increased shareholder direction and guidance, customers or suppliers seeking solutions with alternate suppliers that are more in line with their environmental sustainability expectations and policies and negative impacts to the Canada Post brand.

Risk mitigation

Canada Post has prioritized the development of a new environmental strategy, goals and 2020-22 action plan. This plan was jointly developed with input from Canada Post's four bargaining agents, who share a mutual interest and responsibility to reduce Canada Post's environmental footprint. A specialized consulting firm was engaged to assist in the development process. Implementation of the strategy and action plan will guide environmental decisions and investments within the Corporation to align with expectations of the Government of Canada and all other stakeholders, including unions, employees, customers and Canadians. Canada Post continues to disclose its environmental performance in its Corporate Responsibility Report.

Legal risk

Management considers risks and opportunities at all levels of decision-making and has implemented a rigorous approach to enterprise risk management. Where appropriate, Canada Post has recorded provisions for some of the following claims. If the ultimate resolution of these actions differed from management's assessments and assumptions, there could be a material future adjustment to the Corporation's financial position and results of operations.

CPAA pay equity complaint

On May 12, 2019, the Canadian Postmasters and Assistants Association (CPAA) and Canada Post reached an agreement regarding the CPAA's complaint under the *Canadian Human Rights Act* alleging gender-based pay discrimination for the period 1992-97.The agreement was subsequently approved by the Canadian Human Rights Commission. An implementation committee with representatives from Canada Post and the CPAA has been formed and implementation of the settlement is under way.

Health and safety obligation under the Canada Labour Code – Burlington points of call

The Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. Although the order in question is limited to all points of call in Burlington, Ontario, the rationale is applicable to all points of call in Canada. The appeal of the decision of the Court of Appeal of Ontario was heard by the Supreme Court of Canada on December 10, 2019. The Supreme Court of Canada granted Canada Post's appeal in a decision rendered December 20, 2019. The ESDC appeals officer's decision to overturn the original direction of the health and safety officer was restored.

Class action lawsuit regarding drug plan benefits for Canada Post employees and retirees in Quebec

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by Quebec's *Act respecting prescription drug insurance*. The plaintiff for the class is essentially asking that Canada Post abide by the "out of pocket" maximum provisions of the Act and is seeking, for all members of the class, reimbursement of the amounts paid since July 2013, which exceeded the maximum provisions. Litigation is ongoing. The trial date is yet to be set, but it is expected to be in 2020. The outcome of this class action is currently not determinable.

9 Critical Accounting Estimates, Adoption of New Accounting Standards and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2019 and future years

9.1 Critical accounting estimates

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from the estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects current and future periods. Our significant estimates and judgments are described below.

Capital assets

Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives, based on management's estimates of the periods of service provided by the assets are assessed annually for continued appropriateness.

Leases

The Group of Companies is party to many contracting arrangements requiring judgment to assess at contract inception, whether such contract contains a lease or a service, and whether it conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration.

Right-of-use assets, comprising land, buildings, vehicles and plant equipment, are valued using, and depreciated over, their estimated lease term, which is based on management's best estimate of whether it is reasonably certain that renewal and termination options will be exercised in the future. This judgment is based on historical use of available options, operational requirements and strategic decisions about use.

The incremental borrowing rate used to discount lease payments represents management's best estimate of the rate obtained if the underlying asset within the lease contract was purchased and not leased.

Goodwill

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events and circumstances indicate that there may be an impairment. Goodwill is tested by comparing the carrying value of a cash-generating unit to its estimated recoverable amount. The Purolator segment represents a significant portion of the goodwill balance in the consolidated statement of financial position. The estimated recoverable amount of this segment is based on its value in use, which is derived using a discounted cash flow analysis and requires making assumptions and estimates relating to future cash flows and discount rates.

The future cash flows of the Purolator segment are estimated using its approved plans. These plans reflect management's best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be able to control. Growth and profitability levels are compared to other competitors in the industry and general economic conditions prevailing at the valuation date. The discount rate applied to the future cash flows of the Purolator segment is based on its estimated weighted average cost of capital at the valuation date. There were no goodwill impairment charges in 2019 or 2018.

Provisions and contingent liabilities

A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, outflow of resources to settle the obligation is probable, and the amount can be reliably estimated. A contingent liability is a possible legal or constructive obligation that arises from a past event, or a present legal or constructive obligation that arises from a past event but is not recognized because it is either not probable that an outflow of resources will be required to settle, or a reliable estimate cannot be made. Contingent liabilities are not recognized but disclosed in the notes to the consolidated financial statements.

In determining whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability in the notes, management must exercise judgment such as whether or not the obligation is a present obligation or a possible obligation, whether it is probable that an outflow of resources will be required to settle and whether a reliable estimate can be made. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood and timing of outflows, and the discount rate to use.

Pension, other post-employment benefits and other long-term benefit plans

The Canada Post Group of Companies sponsors plans that provide pension, other post-employment and other long-term benefits for the majority of its employees. Estimates used in the measurement of these plan obligations are based on complex actuarial calculations using several assumptions and, given their magnitude, differences in actual results or changes in assumptions could materially affect the consolidated financial statements.

Assumptions

Due to the long-term nature of these defined benefit plans, the calculation of defined benefit expenses and obligations depends on various assumptions that require significant judgment and have inherent uncertainties. Significant assumptions determined by management and reviewed by the Canada Post Group of Companies' actuaries include the following:

- **Discount rates –** Set annually at the measurement date, discount rate assumptions are used to determine the present value of the defined benefit obligations at the end of the year and the defined benefit expense for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality corporate debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for the defined benefit plans as they become due. The actuaries calculate the discount rates using a yield curve approach based on pricing and yield information for a theoretical portfolio of corporate bonds with a cash flow pattern that resembles that the pattern of the plan being valued. The selected discount rate is the yield on that theoretical portfolio. The actuaries determine future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.
- **Medical costs –** Used in the measurement of certain non-pension defined benefit plans, claims cost assumptions are derived from actual claims experience. Health trend factors or provincial coverage assumptions are supported by third-party studies.
- **Mortality assumptions –** Mortality rates used to determine the majority of the defined benefit obligations are based on the February 2014 Canadian Institute of Actuaries' Final Report on Canadian Pensioners' Mortality (CPM), more specifically the CPM 2014 Private Sector Mortality Table with the CPM improvement scale B. Mortality tables represent the probability of death within a year for plan members of various ages.
- **Consumer price index –** The consumer price index assumption is used in the measurement of the defined benefit obligations for pension benefit plans and some of the other non-pension benefit plans. This assumption is based on long-term expected rates of inflation derived from market yields on long-term nominal government bonds and real return bonds. The consumer price index also has an impact on the long-term rates of compensation increase.

Sensitivity to assumptions – Canada Post segment

The defined benefit obligation and associated defined benefit expense are sensitive to actuarial assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status. Sensitivity to changes in significant assumptions for the Corporation's principal pension plan and health care plan follows:

(in millions of dollars)	Annual pension expense	Defined pension obligation	Annual health care expense	Defined health care obligation
Discount rate sensitivity				
0.5% increase in discount rates	(156)	(2,363)	(6)	(202)
0.5% decrease in discount rates	151	2,574	6	229
Mortality tables sensitivity				
10% increase in mortality tables	(34)	(713)	(5)	(93)
10% decrease in mortality tables	35	730	6	106
Consumer price index sensitivity				
0.25% increase in consumer price index	66	1,156	–	–
0.25% decrease in consumer price index	(64)	(1,114)	–	–
Health care cost trend rates sensitivity				
1% increase in health care cost trend rates	–	–	40	507
1% decrease in health care cost trend rates	–	–	(29)	(392)

Income taxes

Determining the provision for income tax requires judgment in interpreting tax legislation and regulations. There are many transactions and calculations for which the ultimate tax determination is uncertain. Our tax filings are subject to audits by relevant government authorities, the results of which could materially change the amounts recorded in our provision for income tax. Management believes that it has sufficient amounts accrued for anticipated tax exposures.

Deferred tax assets and liabilities are composed of temporary differences between the carrying values and the tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. Deferred tax assets and liabilities are calculated using the tax rate substantively enacted for the period when the asset or liability is expected to be recovered or settled. Management judgment is used to determine the amounts of deferred tax assets and liabilities to be recognized. In particular, judgment is required when estimating the amount of future taxable profit available in future periods against which deductible temporary differences may be utilized.

9.2 Adoption of new accounting standards

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2019. The following amendments were adopted by the Group of Companies January 1, 2019, as described in Note 5 (a) to the consolidated financial statements.

IFRS 16 "Leases" (IFRS 16) • The Group of Companies applied IFRS 16, effective January 1, 2019, following the full retrospective approach and in accordance transitional provisions. Full retrospective application required the Group of Companies to adjust the opening balance of retained earnings as at January 1, 2018, and the other comparative amounts disclosed for each prior period presented as if IFRS 16 had always been applied. This represents a significant accounting policy change given the volume of lease agreements held within the Group of Companies.

The quantitative impact includes the following:

- Recognition, as at January 1, 2018, of right-of-use assets of $944 million and lease liabilities of $1,102 million for leases previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16 that were previously expensed to other operating costs.

- Vehicles and plant equipment of $38 million held under finance lease arrangements previously recognized as property, plant and equipment, which will be presented with right-of-use assets as at January 1, 2018. The lease liability on leases previously classified as financing leases under IAS 17 and previously presented within loans and borrowings of $41 million will be presented with lease liabilities.
- A restatement of the statement of comprehensive income for the year to date, including a decrease in other operating costs of $132 million since IFRS 16 replaces operating lease expenses with a depreciation charge of $102 million for the right-of-use asset and an interest expense of $35 million on the lease liability. This will result in a net increase to loss before tax of $8 million.
- An increase in cash used in financing activities of $93 million for the year to date because payments for the principal component will be presented as a financing outflow; payments under operating leases under IAS 17 were presented as an operating outflow.

IFRIC 23 "Uncertainty over Income Tax Treatments" (IFRIC 23) • This IFRIC clarifies the accounting for uncertainties in income taxes. The adoption of this IFRIC had no impact on these consolidated financial statements.

Annual Improvements to IFRS – 2015-2017 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. The adoption of these improvements had no impact on these consolidated financial statements.

Amendments to IAS 19 "Employee Benefits" (IAS 19) • The IASB issued amendments to IAS 19 "Employee Benefits" requiring the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement. The adoption of these amendments had no impact on these consolidated financial statements.

9.3 Accounting policy developments

The following table presents the not-yet-effective standards and amendments issued by the IASB that have not been early adopted at the end of the reporting period and that have been assessed as having a possible effect on the consolidated financial statements of the Group of Companies in the future. The Group of Companies is not expecting any impact from the adoption of these amendments.

Standard or amendment	Effective for annual periods beginning on or after
Amendments to "IAS 1 Presentation of Financial Statements" and "IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors"	January 1, 2020
Amendments to "IFRS 3 Business Combinations"	January 1, 2020
Amendments to "IAS 1 Presentation of Financial Statements"	January 1, 2022

10 Outlook for 2020

Our prospects for 2020

10.1 Economic outlook

Global economic growth decreased from 3.6% to 2.9% in 2019, the weakest pace since the 2008 global financial crisis. Although global financing conditions have eased considerably, business investments and industrial production have slowed sharply, major trade tensions remain, and most emerging market and developing economies (EMDEs) have witnessed weaker-than-expected growth. Global growth was projected to stabilize in 2020, however, the emergence of coronavirus disease (COVID-19) has had an impact on international trade and consumer demand. The full economic impact of COVID-19 remains highly uncertain at this time. Additional downside risks remain and include the possibility of uncontained or broader trade conflicts, financial disruptions in EMDEs and geopolitical instability. Geopolitical risks include political-economic policies of the U.S. administration, the impacts of Brexit, rising geopolitical tensions and downward interest rate trends in some major economies.

Canada's economic growth in 2019 was 1.6%, down from 2.0% in 2018. Canada's economy was soft in early 2019 and improved over the balance of the year. Consumer spending played a role in keeping the economy going in 2019. Domestic demand was expected to rebound in 2020 as consumption growth recovers and business investment improves. Economic growth was expected to increase to 1.7% in 2020 and 1.9% in 2021. The impact of COVID-19 and the Canadian rail blockade could alter economic growth. The Canadian dollar exchange rate is projected to reach an average of US$0.76 in 2020 and 2021.

Inflation, as measured by the consumer price index (CPI), remained at 2.1% in 2019. Economists expect core and total CPI to stay close to the target level of 2% in 2020. Canada's 30-year bond rate is at a relatively low level and is forecasted to gradually return to 1.7% by 2021. Decreasing long-term rates may put additional pressure on Canada Post's pension liability after the end of the period of relief from solvency deficit payments.

Housing starts are expected to continue adding an average of almost 200,000 addresses per year. Address growth is a cost pressure on Canada Post's delivery operations as mail volumes continue to decline.

	2019	2020	2021	2022	2023
Economic (% change)					
Real gross domestic product (GDP)	1.6	1.6	1.9	1.8	1.7
Inflation (consumer price index [CPI])	2.1	1.9	1.9	2.0	2.0
Demographic (% change)					
Total population growth	1.1	1.1	1.1	1.1	1.1
Household growth	1.4	1.4	1.3	1.3	1.3

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, the Canada Mortgage and Housing Corporation and the Bank of Canada. Population growth is per Statistics Canada's medium growth (M3) scenario projections.

10.2 Canada Post Group of Companies outlook

Canada Post segment

Succeeding in a highly competitive parcel business, demonstrating the value of mail and direct marketing, and focusing on our people, our customers, and our network are critical. There exist opportunities to become more efficient and convenient for customers, reducing injuries to our employees, reducing costs, congestion and pollution. Achieving financial self-sustainability in the future depends on our ability to capture the parcel opportunity and to reshape our operating model to become cost efficient.

Purolator segment

In 2020, Purolator will remain focused on enhancing service excellence and reliability, elevating the customer experience, strengthening health and safety and fostering the culture of continuous improvement. Continued investment in the network, coupled with technology and revenue management initiatives, will strengthen the platform for the company's future growth.

Logistics segment

In 2020, SCI will continue to focus on becoming Canada's leading integrated supply chain solutions organization, growing revenue and profit. This improvement will come from growth of contract logistics and transportation services within targeted verticals in Canada, and operational savings driven by continuous improvement initiatives. As well, SCI continues to work with Canada Post, Purolator and Innovapost on initiatives that would capitalize on existing capabilities within the Group of Companies.

Endnote

1. The amounts for 2018 were restated as a result of new or revised accounting standards. Amounts for years prior to 2018 were not restated and, therefore, they may not be comparable. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated)	**2019**	2018	2017[2]	2016	2015
OPERATIONS[1]					
Revenue from operations	**8,899**	8,672	8,318	7,880	8,006
Total cost of operations	**8,892**	8,754	8,087	7,731	7,837
Profit (loss) from operations	**7**	(82)	231	149	169
Percentage of revenue from operations	**0.1 %**	(0.9) %	2.8 %	1.9 %	2.1 %
Investing and financing income (expense), net	**(30)**	(36)	(27)	(35)	(33)
Profit (loss) before tax	**(23)**	(118)	204	114	136
Tax expense (recovery)	**(9)**	(25)	56	33	37
Net profit (loss)	**(14)**	(93)	148	81	99
Other comprehensive income (loss)	**120**	397	(193)	741	788
Comprehensive income (loss)	**106**	304	(45)	822	887
Net profit (loss) attributable to					
Government of Canada	**(22)**	(102)	142	78	96
Non-controlling interests	**8**	9	6	3	3
	(14)	(93)	148	81	99
Comprehensive income (loss) attributable to					
Government of Canada	**103**	294	(51)	820	884
Non-controlling interests	**3**	10	6	2	3
	106	304	(45)	822	887
STATEMENT OF FINANCIAL POSITION[1]					
Assets					
Current	**3,734**	3,841	3,395	2,826	2,505
Segregated securities	**514**	495	526	523	539
Capital assets	**3,066**	2,793	2,708	2,789	2,845
Right-of-use assets	**1,113**	982	944	–	–
Pension benefit assets	**75**	95	116	135	157
Deferred tax assets	**1,659**	1,680	1,605	1,384	1,540
Other assets	**366**	325	141	135	134
Total assets	**10,527**	10,211	9,435	7,792	7,720
Liabilities and equity					
Current	**1,901**	2,035	1,598	1,307	1,356
Pension, other post-employment and other long-term benefit liabilities	**6,498**	6,277	6,297	5,726	6,398
Other liabilities	**2,200**	2,073	2,016	1,063	1,090
Non-controlling interests	**35**	36	28	27	27
Equity of Canada	**(107)**	(210)	(504)	(331)	(1,151)
Total liabilities and equity	**10,527**	10,211	9,435	7,792	7,720
ADDITIONS TO CAPITAL ASSETS					
Land and buildings	**160**	66	80	40	35
Other capital assets	**431**	321	221	215	339
	591	387	301	255	374

1. Effective January 1, 2019, the Group of Companies adopted IFRS 16 "Leases". The historical financial information as at and for the year ended December 31, 2018, has been restated. Previous years presented in this table have not been restated.
2. Comparative figures in the statement of financial position are restated from January 1, 2018.

Historical Financial Information

(unaudited, in millions of Canadian dollars, unless otherwise indicated / trading day adjusted percentage)	**2019**	**% Change**	2018	% Change	2017	% Change	2016	% Change	2015
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS[1,2]									
Transaction Mail									
Domestic Lettermail	**2,540**	**(2.3) %**	2,601	(2.7) %	2,663	(2.9) %	2,754	(5.2) %	2,905
Outbound Letter-post (to other postal administrations)	**96**	**(3.7) %**	99	(14.5) %	116	(2.4) %	119	(9.5) %	132
Inbound Letter-post (from other postal administrations)	**78**	**(5.3) %**	83	(46.7) %	155	(5.8) %	164	7.7 %	153
Canada Post segment	**2,714**	**(2.5) %**	2,783	(5.5) %	2,934	(3.0) %	3,037	(4.8) %	3,190
Elimination of intersegment	**(2)**		(2)		(2)		(3)		(3)
Canada Post Group of Companies	**2,712**	**(2.5) %**	2,781	(5.5) %	2,932	(3.0) %	3,034	(4.8) %	3,187
Parcels									
Domestic Parcels	**2,068**	**11.0 %**	1,864	15.3 %	1,610	28.8 %	1,255	7.6 %	1,167
Outbound Parcels (to other postal administrations)	**243**	**0.1 %**	242	(1.9) %	246	10.5 %	223	(2.5) %	229
Inbound Parcels (from other postal administrations)	**401**	**9.3 %**	367	18.6 %	309	28.4 %	241	3.0 %	234
Total – Parcels	**2,712**	**9.7 %**	2,473	13.8 %	2,165	26.4 %	1,719	5.5 %	1,630
Other	**23**	**(23.0) %**	30	(2.2) %	30	62.3 %	19	17.3 %	16
Canada Post segment	**2,735**	**9.3 %**	2,503	13.6 %	2,195	26.8 %	1,738	5.6 %	1,646
Purolator segment	**1,936**	**4.8 %**	1,847	12.5 %	1,634	7.5 %	1,527	(0.7) %	1,537
Logistics segment	**346**	**8.2 %**	319	15.4 %	276	6.9 %	259	(1.1) %	262
Elimination of intersegment	**(127)**		(117)		(94)		(90)		(110)
Canada Post Group of Companies	**4,890**	**7.4 %**	4,552	13.1 %	4,011	17.3 %	3,434	3.0 %	3,335
Direct Marketing									
Personalized Mail™	**485**	**(3.2) %**	501	(1.8) %	508	(4.5) %	534	(5.5) %	565
Neighbourhood Mail™	**401**	**(1.7) %**	408	(2.2) %	415	6.9 %	390	(4.2) %	407
Total – Smartmail Marketing™	**886**	**(2.5) %**	909	(2.0) %	923	0.4 %	924	(5.0) %	972
Publications Mail™	**146**	**(5.2) %**	153	(5.8) %	162	(9.3) %	180	(8.6) %	197
Business Reply Mail™ and Other mail	**20**	**(8.3) %**	22	1.8 %	22	(3.4) %	22	(6.1) %	24
Total – Mail	**1,052**	**(3.0) %**	1,084	(2.5) %	1,107	(1.3) %	1,126	(5.6) %	1,193
Other	**14**	**0.3 %**	14	0.4 %	14	16.9 %	12	0.3 %	12
Canada Post segment / Group of Companies	**1,066**	**(3.0) %**	1,098	(2.4) %	1,121	(1.1) %	1,138	(5.6) %	1,205
Other revenue									
Canada Post segment	**233**	**(0.9) %**	236	(8.7) %	256	(5.6) %	273	(0.9) %	275
Purolator segment	**(2)**	**(141.7) %**	5	328.0 %	(1)	(294.7) %	1	(78.7) %	5
Innovapost and elimination of intercompany	**–**		–		(1)		–		(1)
Canada Post Group of Companies	**231**	**(3.9) %**	241	(5.0) %	254	(7.8) %	274	(2.1) %	279
Revenue from operations									
Canada Post segment	**6,748**	**1.9 %**	6,620	1.3 %	6,506	5.6 %	6,186	(2.1) %	6,316
Purolator segment	**1,934**	**4.4 %**	1,852	13.0 %	1,633	7.3 %	1,528	(1.0) %	1,542
Logistics segment	**346**	**8.2 %**	319	16.4 %	276	6.9 %	259	(1.1) %	262
Innovapost and elimination of intercompany	**(129)**		(119)		(97)		(93)		(114)
Canada Post Group of Companies	**8,899**	**2.6 %**	8,672	3.9 %	8,318	5.9 %	7,880	(1.6) %	8,006

1. Effective January 1, 2019, the Group of Companies adopted IFRS 16 "Leases". The historical financial information for the year ended December 31, 2018 has been restated. Previous years presented in this table have not been restated.
2. Prior years' revenue may be restated due to realignments in the reporting structure.

Historical Financial Information

(unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage)	**2019**	**% Change**	2018	% Change	2017	% Change	2016	% Change	2015
LINE OF BUSINESS DIMENSIONS									
VOLUME[1]									
Transaction Mail									
Domestic Lettermail	**2,683**	**(6.3) %**	2,863	(4.6) %	2,988	(5.3) %	3,169	(7.6) %	3,430
Outbound Letter-post (to other postal administrations)	**45**	**(7.6) %**	49	(12.1) %	56	(9.1) %	61	(11.5) %	69
Inbound Letter-post (from other postal administrations)	**98**	**(7.8) %**	106	(34.8) %	161	(7.3) %	175	(9.1) %	192
Canada Post segment	**2,826**	**(6.4) %**	3,018	(6.2) %	3,205	(5.5) %	3,405	(7.8) %	3,691
Elimination of intersegment	**(2)**		(2)		(2)		(3)		(3)
Canada Post Group of Companies	**2,824**	**(6.4) %**	3,016	(6.2) %	3,203	(5.5) %	3,402	(7.8) %	3,688
Parcels									
Domestic Parcels	**222**	**13.2 %**	196	10.9 %	176	22.3 %	144	9.0 %	133
Outbound Parcels (to other postal administrations)	**10**	**0.9 %**	10	(3.5) %	10	(3.0) %	11	(8.7) %	11
Inbound Parcels (from other postal administrations)	**88**	**(1.5) %**	90	60.8 %	56	39.8 %	40	8.4 %	37
Canada Post segment	**320**	**8.3 %**	296	21.7 %	242	24.5 %	195	7.7 %	181
Purolator segment	**140**	**4.8 %**	134	9.2 %	122	0.8 %	122	1.0 %	120
Elimination of intersegment	**(8)**		(7)		(6)		(4)		(3)
Canada Post Group of Companies	**452**	**7.2 %**	423	17.5 %	358	14.8 %	313	4.9 %	298
Direct Marketing									
Personalized Mail	**886**	**(3.5) %**	918	(4.2) %	954	(3.6) %	994	(7.1) %	1,070
Neighbourhood Mail	**3,461**	**(0.7) %**	3,486	(3.5) %	3,600	7.5 %	3,362	(4.3) %	3,514
Total – Smartmail Marketing	**4,347**	**(1.3) %**	4,404	(3.7) %	4,554	5.0 %	4,356	(5.0) %	4,584
Publications Mail	**215**	**(6.9) %**	231	(8.3) %	250	(10.6) %	281	(9.6) %	311
Business Reply Mail and Other mail	**16**	**(13.4) %**	18	(1.5) %	18	(6.0) %	19	(11.5) %	22
Canada Post segment/ Group of Companies	**4,578**	**(1.6) %**	4,653	(3.9) %	4,822	4.0 %	4,656	(5.3) %	4,917
Total volume									
Canada Post segment	**7,724**	**(3.1) %**	7,967	(4.0) %	8,269	0.6 %	8,256	(6.1) %	8,789
Purolator segment	**140**	**4.8 %**	134	9.2 %	122	0.8 %	122	1.0 %	120
Elimination of intersegment	**(10)**		(9)		(8)		(7)		(6)
Canada Post Group of Companies	**7,854**	**(2.9) %**	8,092	(3.9) %	8,383	0.5 %	8,371	(6.0) %	8,903
EMPLOYMENT[2]									
Canada Post segment	**53,353**	**0.9 %**	52,891	3.7 %	50,995	0.6 %	50,711	0.7 %	50,348
Purolator segment	**11,403**	**0.0 %**	11,403	15.1 %	9,907	(3.9) %	10,304	(4.7) %	10,814
Logistics segment	**2,261**	**(3.3) %**	2,338	17.4 %	1,991	10.6 %	1,800	1.2 %	1,778
Innovapost business unit	**828**	**(0.7) %**	834	(4.8) %	876	(2.3) %	897	(1.0) %	906
Canada Post Group of Companies	**67,845**	**0.6 %**	67,466	5.8 %	63,769	0.1 %	63,712	(0.2) %	63,846
MAIL NETWORK									
Post offices	**6,084**	**(0.9) %**	6,137	(0.7) %	6,183	(0.5) %	6,217	(0.6) %	6,252
Points of delivery (in thousands)	**16,547**	**1.0 %**	16,379	1.2 %	16,185	1.1 %	16,006	1.2 %	15,814
Pickup points (in thousands)[3]	**943**	**(0.4) %**	947	(0.1) %	948	0.2 %	946	0.2 %	944

1. Volumes of prior years may be restated due to realignments in the reporting structure.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.
3. Includes rural mailboxes, which are collection points for customers with this mode of delivery.

Independent Auditors' Report on Annual Cost Study Contribution Analysis

To the Board of Directors of Canada Post Corporation

We have audited the accompanying Annual Cost Study Contribution Analysis (Annual Cost Study) of Canada Post Corporation (the Entity) for the year ended December 31, 2019 and of the accompanying management assertion in note 1 on whether the competitive grouping of services has been cross-subsidized using revenues from exclusive privilege services based on the Annual Cost Methodology (applicable criteria) for the year ended December 31, 2019.

Management's Responsibilities
Management is responsible for the preparation of the Annual Cost Study, and the measurement and evaluation of the Annual Cost Study, both in accordance with the Annual Cost Methodology (applicable criteria). Management is responsible for evaluating the appropriateness of the applicable criteria used. Management is also responsible for such internal control as management determines necessary to enable the preparation, measurement and evaluation of the Annual Cost Study that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities
Our responsibility is to express a reasonable assurance opinion on the Annual Cost Study based on the evidence we have obtained.

We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the Annual Cost Study is free from material misstatement.

Reasonable assurance is a high level of assurance, but is not a guarantee that an engagement conducted in accordance with this standard will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. The nature, timing and extent of procedures performed depends on our professional judgment, including an assessment of the risks of material misstatement, whether due to fraud or error, and involves obtaining evidence about the Annual Cost Study.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditors' Independence and Quality Control
We have complied with the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The Firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion
In our opinion:

(a) the Annual Cost Study of the Entity for the year ended December 31, 2019 is prepared, in all material respects, in accordance with the applicable criteria; and
(b) based on the Annual Cost Methodology, management's assertion that the Entity did not cross-subsidize its competitive services with revenues from exclusive privilege services, for the year ended December 31, 2019, is fairly stated, in all material respects.

Specific Purpose of the Annual Cost Study
The Annual Cost Study is prepared to demonstrate, in accordance with the applicable criteria, that the competitive grouping of services has not been cross-subsidized using revenues from exclusive privilege services. The Annual Cost Study has been evaluated against the applicable criteria. As a result, the Annual Cost Study may not be suitable for another purpose.

Other Matter
We have not audited, reviewed or performed any procedures on the Entity's operational systems and special studies that yield operational data used to allocate costs to products and therefore we do not provide any assurance on such matters.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 27, 2020
Ottawa, Canada

Annual Cost Study Contribution Analysis

Canada Post Corporation

The Annual Cost Study Contribution Analysis calculates the long-run incremental contribution from exclusive privilege services, competitive services, concessionary services and other services. The long-run incremental contribution is defined as the revenue from such services, less their long-run incremental cost.

Annual Cost Study Contribution Analysis

Year ended December 31, 2019
(in millions of Canadian dollars, unless otherwise indicated)

Long-run incremental contribution from exclusive privilege, competitive, concessionary and other services

The following analysis is based on the assignment of 64% of the total non-consolidated costs of Canada Post Corporation to individual services or groups of services.

	Exclusive privilege	Competitive	Concessionary	Other	**Total**
Revenue from operations	$ 2,896	$ 3,573	$ 24	$ 255	$ 6,748
Long-run incremental costs	(1,612)	(2,657)	(19)	(148)	(4,436)
Long-run incremental contribution	**$ 1,284**	**$ 916**	**$ 5**	**$ 107**	**$ 2,312**
Percentage of revenue	44 %	26 %	21 %	42 %	34 %
Unallocated fixed costs					$ (2,499)
Contribution before the undernoted items					**$ (187)**
Investment and other income					107
Finance costs and other expense					(73)
Loss before tax – Canada Post segment					**$ (153)**

The accompanying notes are an integral part of the Annual Cost Study Contribution Analysis.

Notes to Annual Cost Study Contribution Analysis

Year ended December 31, 2019

1. Basis of Preparation

The Annual Cost Study Contribution Analysis provides costing data that serve as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services.

In conjunction with external experts, Canada Post Corporation maintains a costing methodology based on the principles of long-run incremental costs, which was designed to leverage the structure of an activity-based costing system. Canada Post Corporation applies this methodology each year in its Annual Cost Study Contribution Analysis for cost attribution purposes (Annual Cost Methodology).

The Annual Cost Methodology, which is summarized in Note 2, recognizes that some costs are caused by the provision of individual services or groups of services, while others are common costs of Canada Post Corporation's infrastructure.

Under the Annual Cost Methodology, a positive long-run incremental contribution from competitive services establishes that this grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As the Annual Cost Study Contribution Analysis indicates, the competitive grouping of services generated a positive long-run incremental contribution, and therefore, Canada Post Corporation did not cross-subsidize its competitive services using revenues protected by exclusive privilege for the year ended December 31, 2019.

2. Annual Cost Methodology

(a) Long-run incremental cost • The Annual Cost Methodology employed by Canada Post Corporation measures the long-run incremental cost of individual services and groups of services. Long-run incremental cost is the total annual cost caused by the provision of a service.

(b) Activity-based • Services provided by Canada Post Corporation are analyzed to determine the various activities involved in their fulfillment. Each activity is then analyzed to determine the causal relationship between the costs of the activity and the services that require the performance of that particular activity. Service volumes or other data are used to attribute those activity costs to services.

(c) Attribution principles • The relationship between the cost of resources and the activities performed, and the relationship between the activities performed and the services delivered are identified using the principles of causality and time horizon. Those activity costs, which are incurred because of the provision of a service, are attributed to that service. Activity costs that cannot be attributed to the provision of a service but are common to a specific group of services, are attributed at that higher level of aggregation. The remaining business-sustaining and common fixed costs are unallocated fixed costs.

(d) Source data • The source of the financial data used to produce the Annual Cost Study Contribution Analysis is the Canada Post Corporation general ledger revenues and costs. Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data are used to determine revenue by services. Where operational data are not available, an appropriate proxy is used to make the attribution.

(e) Reconciliation with financial records • Total revenues and costs considered in the Annual Cost Study Contribution Analysis are reconciled with the total revenues and expenses forming the Canada Post segment of the audited consolidated financial statements.

(f) Cross-subsidization test • Under the Annual Cost Methodology in the Annual Cost Study Contribution Analysis, a positive long-run incremental contribution (revenue exceeds long-run incremental cost) from a competitive grouping of services establishes that the grouping of services has not been cross-subsidized using revenues from other services or groups of services.

Management's Responsibility for Financial Reporting

Management is responsible for the consolidated financial statements and all other information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

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

The Board of Directors' Audit Committee acts on behalf of the Board in fulfilling its responsibilities, which are prescribed by section 148 of the *Financial Administration Act*. The Audit Committee, consisting of five members who are independent in accordance with the Corporation's standards of independence, meets not less than four times a year, focusing on the areas of financial reporting, risk management and internal control. It is responsible for reviewing the consolidated financial statements and the Annual Report, and for meeting with management and internal and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues.

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

Canada Post Corporation is a Crown corporation included in Part I of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and KPMG LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2019, in accordance with the *Financial Administration Act*. The Auditor General and KPMG LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as to the Minister of Public Services and Procurement.

D. Ettinger

President and Chief Executive Officer

W. G. Chiesman

Chief Financial Officer

March 27, 2020

Independent Auditors' Report

To the Minister of Public Services and Procurement

Report on the Audit of the Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Canada Post Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Canada Post Corporation and its wholly owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly owned subsidiaries, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Canada Post Corporation and its wholly owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the Financial Administration Act, we report that, in our opinion, the accounting principles in IFRSs have been applied, after giving retrospective effect to the change in accounting standard as explained in Note 5 (a) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Canada Post Corporation and its wholly owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Post Corporation and its wholly owned subsidiaries to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

KPMG LLP

Etienne Matte, CPA, CA
Principal
for the Interim Auditor General of Canada

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
March 27, 2020

Consolidated Statement of Financial Position

As at (in millions of Canadian dollars)	**Notes**	**December 31, 2019**	December 31, 2018 (Restated – Note 5)	January 1, 2018 (Restated – Note 5)
Assets				
Current assets				
Cash and cash equivalents	**6**	**$ 1,475**	$ 1,421	$ 1,503
Marketable securities	**6**	**1,077**	1,338	821
Trade, other receivables and contract assets	**20, 22**	**1,011**	979	946
Other assets	**7**	**171**	103	125
Total current assets		**3,734**	3,841	3,395
Non-current assets				
Marketable securities	**6**	**171**	132	–
Property, plant and equipment	**8**	**2,942**	2,687	2,589
Intangible assets	**8**	**124**	106	119
Right-of-use assets	**8**	**1,113**	982	944
Segregated securities	**6**	**514**	495	526
Pension benefit assets	**10**	**75**	95	116
Deferred tax assets	**11**	**1,659**	1,680	1,605
Goodwill	**12**	**130**	130	130
Other assets		**65**	63	11
Total non-current assets		**6,793**	6,370	6,040
Total assets		**$ 10,527**	$ 10,211	$ 9,435
Liabilities and equity				
Current liabilities				
Trade and other payables	**13**	**$ 676**	$ 648	$ 579
Salaries and benefits payable and related provisions	**15**	**839**	988	600
Provisions	**14**	**55**	61	77
Income tax payable		**–**	8	38
Deferred revenue	**21**	**152**	153	135
Lease liabilities	**18**	**116**	109	106
Other long-term benefit liabilities	**10**	**63**	68	63
Total current liabilities		**1,901**	2,035	1,598
Non-current liabilities				
Lease liabilities	**18**	**1,183**	1,054	996
Loans and borrowings	**17**	**997**	997	997
Pension, other post-employment and other long-term benefit liabilities	**10**	**6,498**	6,277	6,297
Other liabilities		**20**	22	23
Total non-current liabilities		**8,698**	8,350	8,313
Total liabilities		**10,599**	10,385	9,911
Equity				
Contributed capital		**1,155**	1,155	1,155
Accumulated other comprehensive income	**25**	**64**	43	54
Accumulated deficit		**(1,326)**	(1,408)	(1,713)
Equity of Canada		**(107)**	(210)	(504)
Non-controlling interests		**35**	36	28
Total equity		**(72)**	(174)	(476)
Total liabilities and equity		**$ 10,527**	10,211	9,435
Contingent liabilities	**16**			
Commitments	**21**			

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

Approved on behalf of the Board of Directors:

Chair of the Board of Directors

Chair of the Audit Committee

Consolidated Statement of Comprehensive Income

For the year ended (in millions of Canadian dollars)	Notes	December 31, 2019	December 31, 2018 (Restated – Note 5)
Revenue from operations	**27**	**$ 8,899**	$ 8,672
Cost of operations			
Labour		**4,417**	4,365
Employee benefits	**9**	**1,550**	1,620
		5,967	5,985
Other operating costs	**23**	**2,495**	2,356
Depreciation and amortization	**8**	**430**	413
Total cost of operations		**8,892**	8,754
Profit (loss) from operations		**7**	(82)
Investing and financing income (expense)			
Investment and other income	**6, 24**	**64**	57
Finance costs and other expense	**17, 24**	**(94)**	(93)
Investing and financing expense, net		**(30)**	(36)
Loss before tax		**(23)**	(118)
Tax recovery	**11**	**(9)**	(25)
Net loss		**$ (14)**	$ (93)
Other comprehensive income (loss)	**25**		
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of financial assets		**$ 28**	$ (13)
Foreign currency translation adjustment		**–**	2
Reclassification adjustments for gains included in net profit (loss)		**(7)**	–
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans		**99**	408
Other comprehensive income		**120**	397
Comprehensive income		**$ 106**	$ 304
Net profit (loss) attributable to			
Government of Canada		**$ (22)**	$ (102)
Non-controlling interests		**8**	9
		$ (14)	$ (93)
Comprehensive income attributable to			
Government of Canada		**$ 103**	$ 294
Non-controlling interests		**3**	10
		$ 106	$ 304

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2019 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2018, as previously reported	**$ 1,155**	**$ 43**	**$ (1,300)**	**$ (102)**	**$ 40**	**$ (62)**
Effects of adopting new standards (Note 5)	**–**	**–**	**(108)**	**(108)**	**(4)**	**(112)**
Balance at December 31, 2018, as restated	**$ 1,155**	**$ 43**	**$ (1,408)**	**$ (210)**	**$ 36**	**$ (174)**
Net profit (loss)	**–**	**–**	**(22)**	**(22)**	**8**	**(14)**
Other comprehensive income (loss) (Note 25)	**–**	**21**	**104**	**125**	**(5)**	**120**
Comprehensive income	**–**	**21**	**82**	**103**	**3**	**106**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Balance at December 31, 2019	**$ 1,155**	**$ 64**	**$ (1,326)**	**$ (107)**	**$ 35**	**$ (72)**

For the year ended December 31, 2018 (in millions of Canadian dollars, Restated – Note 5)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2017, as previously reported	$ 1,155	$ 54	$ (1,611)	$ (402)	$ 32	$ (370)
Effects of adoption of new standards (Note 5)	–	–	(102)	(102)	(4)	(106)
Balance at beginning of year, as restated	$ 1,155	$ 54	$ (1,713)	$ (504)	$ 28	$ (476)
Net profit (loss)	–	–	(102)	(102)	9	(93)
Other comprehensive income (loss) (Note 25)	–	(11)	407	396	1	397
Comprehensive income (loss)	–	(11)	305	294	10	304
Transactions with shareholders – Dividend	–	–	–	–	(2)	(2)
Balance at December 31, 2018	$ 1,155	$ 43	$ (1,408)	$ (210)	$ 36	$ (174)

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

Consolidated Statement of Cash Flows

For the year ended (in millions of Canadian dollars)	**Notes**	**December 31, 2019**	December 31, 2018 (Restated – Note 5)
Cash flows from operating activities			
Net profit (loss)		**$ (14)**	$ (93)
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**8**	**430**	413
Pension, other post-employment and other long-term benefit expense	**10**	**951**	1,083
Pension, other post-employment and other long-term benefit payments	**10**	**(585)**	(532)
Loss on sale of capital assets (and assets held for sale)	**24**	**2**	6
Tax recovery	**11**	**(9)**	(25)
Net interest expense	**24**	**20**	30
Change in non-cash operating working capital:			
Increase in trade and other receivables		**(31)**	(33)
Increase in trade and other payables		**30**	70
(Decrease) increase in salaries and benefits payable and related provisions		**(151)**	389
Decrease in provisions		**(3)**	(20)
Net (increase) decrease in other non-cash operating working capital		**(25)**	31
Other income not affecting cash, net		**(23)**	(18)
Cash provided by operations before interest and tax		**592**	1,301
Interest received		**82**	60
Interest paid		**(82)**	(80)
Tax paid		**(63)**	(215)
Cash provided by operating activities		**529**	1,066
Cash flows from investing activities			
Acquisition of securities		**(1,892)**	(2,135)
Proceeds from sale of securities		**2,124**	1,506
Acquisition of capital assets		**(589)**	(373)
Proceeds from sale of capital assets		**2**	1
Other investing activities, net		**(5)**	(44)
Cash used in investing activities		**(360)**	(1,045)
Cash flows from financing activities			
Repayments of lease liabilities, net of sublease proceeds		**(109)**	(106)
Dividend paid to non-controlling interests		**(4)**	(2)
Other financing activities, net		**–**	1
Cash used in financing activities		**(113)**	(107)
Net increase (decrease) in cash and cash equivalents		**56**	(86)
Cash and cash equivalents, beginning of year		**1,421**	1,503
Effect of exchange rate changes on cash and cash equivalents		**(2)**	4
Cash and cash equivalents, end of year		**$ 1,475**	$ 1,421

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

Notes to Consolidated Financial Statements

December 31, 2019

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* in 1981, Canada Post Corporation (Corporation) is a Crown corporation included in Part I of Schedule III of the *Financial Administration Act* and is an agent of Her Majesty. The Corporation's head office is located at 2701 Riverside Drive, Ottawa, Ontario, Canada.

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the *Canada Post Corporation Act* requires the Corporation to carry out its statutory objects, with regard to the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.

Under the *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada.

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation September 1, 2005, while respecting all applicable laws. The Corporation's assessment of the safety risks related to rural roadside mailboxes was completed at the end of 2013, and applicable corrective measures were implemented over the course of the assessment, as required.

The Corporation is subject to a directive that was issued in December 2013, and a related subsequent directive that was issued in June 2016, pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board approval before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council. Treasury Board approvals were obtained, where necessary.

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation aligned its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of the Treasury Board in 2018, and will continue to report on the status of this directive in its Corporate Plans.

2. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates for Domestic Lettermail and U.S. and international letter-post items as well as fees for certain services such as Domestic Registered Mail through regulations under the *Canada Post Corporation Act* (Act). These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray costs incurred by the Corporation in the conduct of its operations under the Act. The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to prepare a mailing in bulk or in a manner that facilitates its processing. Revenue from products and services charged to customers at regulated rates comprises 8% (2018 – 8%) of the Canada Post segment revenue (Note 27).

The Act requires that proposed changes to regulated rates be published in the *Canada Gazette* to provide interested persons with a reasonable opportunity to make representations to the Minister responsible for the Corporation. These representations are considered by the Corporation's Board of Directors when determining the final form of the proposed rate changes. Once approved by the Board of Directors, the regulations are submitted to the Minister responsible for Canada Post Corporation for approval by the Government of Canada, specifically the Governor in Council. Regulations are deemed approved 60 days after the Clerk of the Privy Council receives them for submission to the Governor in Council for consideration, unless the Governor in Council previously approved or refused to approve them.

On June 15, 2019, Canada Post published proposed rate increases to Lettermail™ items, International letter-post items, and special services and fees in the *Canada Gazette*. On December 19, 2019, the Governor in Council approved the new rates that came into effect on January 13, 2020.

Under the provisions of the *Canada Post Corporation Act*, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for the mailing of materials for persons who are blind. The Government of Canada provides compensation to the Corporation in respect of these services (Note 26 [a]).

The fact that postage rates of certain products and services are subject to regulation does not affect the application of International Financial Reporting Standards (IFRS) to these consolidated financial statements.

3. Basis of Presentation and Significant Accounting Policies

Statement of compliance • The Corporation has prepared its consolidated financial statements in compliance with IFRS issued and effective as at the reporting date.

These consolidated financial statements were approved and authorized for issue by the Board of Directors March 27, 2020.

Basis of presentation • The consolidated financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes. Amounts are shown in millions, unless otherwise noted.

Functional and presentation currency • These consolidated financial statements are presented in Canadian dollars. The Canadian dollar is the functional currency of the Group of Companies.

Significant accounting policies • A summary of the significant accounting policies used in these consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented.

(a) **Basis of consolidation** • These consolidated financial statements include the accounts of the Corporation and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Place of incorporation	Place of operation	Proportion of ownership interest held directly or indirectly	
				December 31, 2019	December 31, 2018
Purolator Holdings Ltd.	Transportation and courier services	Canada	Canada and United States	91 %	91 %
SCI Group Inc.	Logistics and transportation services	Canada	Canada	99 %	99 %
Innovapost Inc.	IS/IT services	Canada	Canada	98 %	98 %

(b) **Financial instruments** • Upon initial recognition, all financial assets are either irrevocably designated at fair value through profit and loss or are classified based on the business model and the contractual cash flow characteristics of financial instruments as financial assets at (i) amortized cost, (ii) fair value through other comprehensive income, or (iii) fair value through profit and loss. All financial liabilities are classified as financial liabilities at amortized cost or, at fair value through profit and loss if they are held for trading or designated as such. After initial recognition and classification, the financial asset is not reclassified, unless there is a change in the business model used for managing the financial assets. Financial liabilities cannot be reclassified.

Except for trade receivables, financial instruments are initially recognized at fair value and subsequent measurement depends on the classification of the financial instrument. Trade receivables are initially recognized at their transaction price in accordance with IFRS 15 "Revenue from Contracts with Customers" (IFRS 15). Financial assets are derecognized when rights to receive cash flows from assets have expired or have been transferred, and the Group of Companies has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Group of Companies' financial assets and financial liabilities are classified and subsequently measured as follows:

Financial instrument	Classification	Subsequent measurement
Cash	Amortized cost	Amortized cost
Cash equivalents	Fair value through other comprehensive income	Fair value
Marketable securities	Fair value through other comprehensive income	Fair value
Segregated securities	Fair value through other comprehensive income	Fair value
Trade and other receivables	Amortized cost	Amortized cost
Risk management financial assets and liabilities	Fair value through profit or loss	Fair value
Trade and other payables	Amortized cost	Amortized cost
Salaries and benefits payable	Amortized cost	Amortized cost
Loans and borrowings	Amortized cost	Amortized cost

(b.1) Financial Assets at fair value through other comprehensive income

The Corporation's financial assets at fair value through other comprehensive income are debt instruments with cash flows consisting of solely payments of principal and interest.

Cash equivalents and marketable securities are principally used to manage cash flow requirements, while earning return on investment and are managed by either collecting contractual cash flows or selling financial assets. Cash equivalents consist of investments with maturities of three months or less from the date of acquisition and are recognized at the settlement date. Marketable securities consist of investments in debt securities with maturities of three years or less at date of acquisition and are recognized at the settlement date. Marketable securities with maturities exceeding 12 months at acquisition are classified as non-current. Unrealized changes in fair value are recognized as they occur in other comprehensive income.

Segregated securities are intended to be held to fund specific restricted benefit plans (Note 6 [a]) and consist of investments that are managed by either collecting contractual cash flows or selling financial assets. These debt securities are recognized at the settlement date and unrealized changes in fair value are recognized as they occur and are included in other comprehensive income or loss until the investment is sold, impaired or otherwise derecognized. Interest income and realized gains and losses on sale of investments are included in the employee benefit expense.

Impairment • The Corporation's investment policy restricts the type of investments to investment grade debt securities. Therefore, by using the low credit risk approach, a 12-month expected credit loss impairment provision is estimated using the probability-of-default method. The probability-of-default method uses historical default rates implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. When these financial assets at fair value through other comprehensive income are impaired, the unrealized changes in fair value recorded in other comprehensive income or loss are reclassified, for cash equivalents and marketable securities, to investment and other income or, for segregated securities, to employee benefit expense, which are both recorded within net profit or loss.

(b.2) Financial assets at amortized cost

Trade and other receivables are initially recognized at their transaction price if these are in scope of IFRS 15 or at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment.

Impairment • The expected credit loss allowance for trade and other receivables is estimated using the simplified approach which requires the use of lifetime expected credit losses. The allowance for other receivables not in scope for IFRS 15 is estimated using 12 month expected credit losses unless there is deterioration in credit risk since initial recognition, in which case the allowance is estimated based on the lifetime expected credit losses. The Group of Companies estimates the lifetime expected losses from a combination of historical write-off percentages and forward looking information used to identify a deterioration of credit, either at company or macro economy level. The amount of the allowance is the difference between the receivable's gross carrying amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.3) Financial assets and liabilities at fair value through profit or loss

Risk management financial assets and liabilities are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will be settled in future periods. These financial assets and liabilities are recognized at the trade date and are presented within either trade and other receivables or trade and other payables. Fair value adjustments are recognized as they occur in revenue from operations. These derivatives were not designated in a hedging relationship for accounting purposes.

(b.4) Financial liabilities at amortized cost

Trade and other payables and salaries and benefits payable include financial liabilities as well as obligations created by statutory requirements imposed by governments. After initial recognition at fair value, financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not significant due to short-term settlement, financial liabilities are carried at payment or settlement amounts.

Loans and borrowings are initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs and any discount or premium. The interest expense on loans and borrowings is recognized in finance costs and other expense.

(b.5) Fair value measurement

Fair values used to measure or disclose amounts in these consolidated financial statements are categorized into different levels in a fair value hierarchy based on inputs to the valuation technique as follows:

- Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.

- Level 2: Fair value is based on valuation techniques using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active. Financial assets and liabilities are measured by discounting future cash flows, making maximum use of directly or indirectly observable market data, such as interest rates with similar terms and characteristics and yield curves and forward market prices from interest rates and credit spreads of identical or similar instruments.
- Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

The fair values of cash, trade and other receivables, trade and other payables, and salaries and benefits payable and related provisions approximate their carrying values due to their expected short-term settlement.

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

(c.1) Recognition and measurement • Capital assets acquired or developed internally are initially measured at cost and are subsequently measured at cost, less accumulated depreciation or amortization and any accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset.

When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

(c.2) Subsequent costs • The cost of replacing a part of a capital asset is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group of Companies and its cost can be measured reliably. The carrying amount of the replaced part is derecognized concurrent with the replacement. The costs of day-to-day servicing of capital assets are recognized in net profit or loss as incurred.

(c.3) Depreciation and amortization • Depreciation or amortization commences when assets are available for use and is calculated on the cost of an asset, less residual value. Depreciation or amortization is recognized over the estimated useful lives of capital assets, as described in the table below. When a capital asset includes major components, depreciation or amortization is recognized at this level; the depreciation or amortization periods noted below incorporate those applicable for major components, if any, contained within the overall asset.

Type of capital asset	Depreciation or amortization method	Depreciation or amortization period or rate
Buildings	Straight-line	10 to 65 years
Leasehold improvements	Straight-line	Shorter of lease term or the asset's economic useful life
Plant equipment	Straight-line	3 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 10 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

The appropriateness of depreciation or amortization methods and estimates of useful lives and residual values is assessed on an annual basis and revised on a prospective basis, where appropriate.

(c.4) Decommissioning obligations • Obligations associated with the retirement of property, plant and equipment are recorded when those obligations result from the acquisition, construction, development or normal operation of the assets. The Group of Companies recognizes these obligations in the period they are incurred at the present value of the best estimate of the expenditures required to settle the present obligation, discounted at a risk-free interest rate. Subsequently, at each reporting date, the obligation is adjusted to reflect the passage of time through accretion expense, changes in the estimated amounts required to settle the obligation and significant changes in the discount rate. The associated costs are capitalized as part of the carrying value of the related asset.

(c.5) Impairment of capital assets • The Group of Companies assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of an asset or group of assets may be impaired. If such indication exists, or when annual impairment testing for an asset or group of assets is required, the Group of Companies makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets. When the carrying amount exceeds the recoverable amount, the asset or group of assets is considered impaired and is written down to its recoverable amount. For the purpose of assessing recoverability, capital assets are grouped at the cash-generating unit level, which is the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized as part of net profit or loss for the year. After the recognition of an impairment loss, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

An assessment is also made at each reporting date as to whether there is an indication that any previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized.

(c.6) Capital assets to be disposed of by sale • When the Group of Companies intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in assets held for sale under current assets, provided that the asset is available for immediate sale in its present condition, subject only to customary terms and conditions. The asset to be sold is measured at the lower of its carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded once the held-for-sale classification is met. The impairment loss, if any, resulting from the remeasurement of an asset to fair value less costs to sell is recorded as a charge to net profit or loss.

(d) Goodwill • Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually, as at the same date each year, or more frequently if events and circumstances indicate that there may be an impairment. Impairment losses recognized for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill arising on the acquisition of a business is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units to which it relates. An impairment loss is recognized when the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its estimated recoverable amount. The impairment loss is the excess of the carrying value over the estimated recoverable amount, and is recognized in net profit or loss in the period in which it is determined. The impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro-rata basis.

(e) Borrowing costs • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

(f) Provisions and contingent liabilities • A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation at the end of the reporting period. When there are a number of similar obligations, the likelihood that an outflow will be required in the settlement of obligations is determined by considering the class of obligations as a whole. Discounting, using a risk-free interest rate specific to the liability, is applied in the measurement of amounts to settle the obligation when the expected time to settlement extends over many years and, when coupled with the settlement amounts, would result in material differences if discounting was not considered. Provisions are remeasured at each reporting date using the current discount rate, as applicable. The accretion expense is presented in net profit or loss as part of finance costs and other expense.

A contingent liability is disclosed in the notes to the consolidated financial statements if there is a possible outflow of resources embodying economic benefits or if no reliable estimate can be made. No contingent liability is disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

(g) Revenue from contracts with customers • The Group of Companies' revenue is derived primarily from providing products and services represented by three distinct lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes physical delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Personalized Mail™, Neighbourhood Mail™ and Publications Mail™, such as newspapers and periodicals.

(g.1) Legally enforceable contracts • Revenue from these lines of business are generally subject to master service agreements, statements of work and/or customer guides that depict terms and conditions, which become legally enforceable rights and obligations when mail and parcels are inducted into the delivery network or when a delivery or service request is received.

(g.2) Performance obligation and allocation • Delivery of mail or parcels is generally the only performance obligation in contracts with customers. This performance obligation sometimes includes other services (i.e. pickup, transportation, signature, proof of identity, etc.) that are integrated by the network to create a bundle of services and represent one combined output or performance obligation for which the customer has contracted for. However, if a contract is separated into more than one performance obligation, allocation of the total transaction price to each performance obligation is based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. In limited circumstances, when the right to consideration from a customer corresponds directly with the value to the customer of the service transferred to date, the Group of Companies recognizes revenue in the amount to which it has a right to invoice the customer. The Group of Companies applied the practical expedient to not disclose information about remaining performance obligations that have an original expected duration of one year or less and for performance obligations where revenue is recognized in the amount to which it has a right to invoice the customer.

(g.3) **Transaction price •** Revenue is measured based on the value of the expected consideration in a contract with a customer and excludes sales taxes and other amounts collected on behalf of third parties. Certain Canada Post Group of Companies' customer contracts contain customary discounts or rebates, performance bonuses, refunds for sales with right of return or other consideration that can increase or decrease the transaction price. Most of these forms of variable considerations are contingent on meeting certain volume or revenue thresholds or other performance metrics. These amounts are included in revenue to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. Due to the short-term nature of customer contract payment terms, the Group of Companies does not have a significant financing component within its revenue from contracts with customers.

(g.4) **Revenue recognition •** The Group of Companies generally recognizes revenue over time due to the continuous transfer of control to the customers. Customers receive the benefit of delivery services for Parcels, Transaction Mail and Direct Marketing items and of transportation and third-party logistics services. Basic warranties for lost, damaged or missing content, as well as warranties for on-time delivery are not sold separately. Therefore, they are not separate performance obligations and they are accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

Other revenue is derived from mail redirection, data products and services, philatelic products and other retail products and services such as money orders and postal box rentals. Other revenue is typically provided over a short period, less than one year, and recognized over time. For some other retail products, revenue is recognized at a point in time.

The Group of Companies may enter into arrangements with subcontractors, mostly resellers and delivery agents, to provide services to customers. If the Group of Companies acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained, which is the amount billed to the customer less the amount paid to the subcontractor, is recognized as revenue.

(g.5) **Contract costs** consist mostly of costs to obtain contracts such as fees or commissions paid to resellers to sell products and services on its behalf. The Group of Companies applies the practical expedient, which allows it to recognize the incremental cost of obtaining contracts as an expense when incurred if the amortization of the asset would have otherwise been less than one year.

(g.6) **Contract assets** includes mostly billed and unbilled amounts resulting from in-transit parcels and mail as a receivable only exists when all performance obligations have been completed and the right to payment is solely based on the passage of time. Given the short-term nature, billed and unbilled amounts are presented as current with trade,other receivables and contract assets.

(g.7) **Contract liabilities** include payments received or amounts billed before services or goods are transferred to the customer. These include payments from meter customers, which are deferred based on a sampling methodology that closely reflects the meter-resetting practices of customers and payments for mail redirection services deferred over the term of the contract, generally four to 12 months. Deferred revenue also includes amounts billed for delivery services prior to delivery or amounts billed to resellers for postal product shipments prior to rendering of related services to customers. Contract liabilities are presented as current in deferred revenue or as non-current in other liabilities based on the nature of the transaction.

(g.8) **Refund liabilities** include volume-based rebates expected to be refunded to the customer when an established sales volume is reached. Refund liabilities are presented as a current liability in trade and other payables.

(h) Pension, other post-employment and other long-term benefit plans

(h.1) **Defined contribution pension plans •** Employer contributions to the defined contribution pension plans are recognized as an expense when employees render the service entitling them to the contributions.

(h.2) **Defined benefit pension and other post-employment plans •** Obligations for providing defined benefit pension and other post-employment benefits are recognized over the period of employee service. Defined benefit obligations and related estimated costs are determined at least annually, or when a plan amendment, curtailment or settlement occurs, on an actuarial basis using the projected unit credit method. Actuarial calculations include actuarial assumptions about demographic and financial variables, such as the discount rates, inflation rate, rates of compensation increase, retirement age, growth rates of health care and dental costs, rates of employee disability and mortality tables.

Discount rates used to establish defined benefit obligations are determined by reference to market conditions at year's end using the yield curve approach, based on a theoretical portfolio of AA-rated corporate bonds with overall duration equal to the weighted-average duration of respective defined benefit obligations.

Components of defined benefit costs include service costs, net interest on the net defined benefit liability and remeasurements of the net defined benefit liability.

The defined benefit expense is presented in employee benefits in net profit or loss on the consolidated statement of comprehensive income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on plan assets, interest on the effect of the asset ceiling, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. The current service cost, interest income on plan assets, interest cost and interest on the effect of the asset ceiling are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period or when a plan amendment, curtailment or settlement occurs.

Remeasurements of defined benefit plans are presented in other comprehensive income or loss on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return (net of costs of managing plan assets) and interest income on plan assets, and the change in the effect of the asset ceiling (net of interest), if applicable. Remeasurements are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. The plans' significant assumptions are assessed and revised, as appropriate.

When a funded plan gives rise to a pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the pension benefit asset and may create or increase a pension benefit liability. This assessment is made on a plan-by-plan basis.

The pension benefit assets and the pension and other post-employment benefit liabilities are presented as non-current items on the consolidated statement of financial position.

(h.3) Other long-term employee benefits • Other long-term employee benefits primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and the continuation of benefits for employees on long-term disability. The same methodology and assumptions as for post-employment benefit plans are applicable, except for the following:

- The obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs.
- Management's best estimate includes top-up credits utilization experience as well as the experience and assumptions for provincial workers' compensation boards.
- Any actuarial gains and losses on defined benefit obligations are recognized in net profit or loss in the period in which they arise.
- Other long-term benefit liabilities are segregated between current and non-current components on the consolidated statement of financial position.

(h.4) Termination benefits • Termination benefits result from a decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group of Companies recognizes termination benefits at the earliest of when it can no longer withdraw its termination offer or when restructuring costs are accrued if termination benefits are part of a restructuring plan.

(i) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between carrying values and tax bases of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Deferred tax assets and deferred tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each reporting period in the event of changes in income tax rates.

(j) Foreign currency translation

(j.1) Subsidiaries • Items included in the consolidated financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operated (functional currency).

(j.2) Transactions and balances • Foreign currency transactions for each entity within the Canada Post Group of Companies are translated into Canadian dollars, the functional and presentation currency of the Corporation, using the exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at the period-end rate of exchange, of monetary assets and liabilities not denominated in the functional currency of the Corporation, are recognized in net profit or loss. Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period-end rates of exchange, and the results of their operations are translated at exchange rates on transaction dates. The resulting foreign currency translation adjustment is recognized in other comprehensive income or loss. Additionally, foreign exchange gains and losses related to intercompany loans that are permanent in nature are recognized in other comprehensive income or loss.

(k) Leases • As a lessee, the Group of Companies assesses whether a contract is or contains a lease at inception of the contract. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group of Companies assesses whether

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, if the supplier has a substantive substitution right, then the asset is not identified;
- the Group of Companies has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use;
- the Group of Companies has the right to direct the use of the asset; the Group of Companies has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Following this approach, the Group of Companies has identified lease contracts for many assets including land and buildings, vehicles and plant equipment. At inception or on reassessment of a contract that contains a lease component, the Group of Companies allocates the consideration in the contract to each lease component on the basis of its relative standalone price. For certain building leases in which it is a lessee, the Group of Companies has elected not to separate non-lease components, and it will account for the lease and non-lease components as a single lease component.

The Group of Companies has elected not to recognize right-of-use assets and lease liabilities for short-term leases for all right-of-use asset classes that have a lease term of 12 months or less and leases of low-value assets, such as computer hardware and office equipment. For all other leases, the Group of Companies recognizes a right-of-use asset and a corresponding lease liability.

(k.1) Right-of-use assets • Assets that are leased, but the right to control the assets is conveyed in contracts, are referred to collectively as right-of-use assets, and they are presented as a separate line in the consolidated statement of financial position.

The Group of Companies has categorized and defined portfolios, or classes, of right-of-use assets based on the nature of the underlying asset and the existence of non-lease components: land, buildings – net, buildings – gross, vehicles and plant equipment. A net lease specifies base rent, while the lessee’s share of operating costs are accounted for separately and proportionately. In a gross lease, the landlord is responsible for at least some costs associated with the maintenance and operation of the lease, and the lessee’s base or gross rent includes these non-lease components. Typical base rent inclusions are cleaning, garbage collection and snow removal, repairs and maintenance, landscaping or security. As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, but to account for any lease and associated non-lease components as a single arrangement. The Group of Companies has elected this practical expedient to not separate non-lease components in gross leases for buildings. Any operating expenses incurred outside of base or gross rent will be recognized as an operating expense in the period incurred.

The carrying value of right-of-use assets is recorded as follows:

Recognition and measurement • At the commencement date of leases, when the underlying right-of-use asset is made available, right-of-use assets are recognized at cost, which comprise the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease inducements in the form of commission rebates and incentives toward fit-ups, if applicable. These inducements are treated as a reduction of the right-of-use asset. Initial direct costs to negotiate and secure lease agreements and costs to dismantle and remove the underlying asset are not significant to the Group of Companies and, therefore, they are expensed as incurred.

Subsequent measurement • Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses, and adjusted for any remeasurements of the lease liability due to a lease modification. Depreciation is calculated over the lease term of the underlying asset. Depreciation starts at the commencement date of the lease and is recognized on a straight-line basis. The Group of Companies accounts for any identified impairment loss in profit or loss.

(k.2) Lease liabilities • Obligations that arise from lease contracts are collectively referred to as lease liabilities and are presented as a separate line under current liabilities and non-current liabilities in the consolidated statement of financial position, based on the lease payment terms. The present value of lease liabilities is calculated as follows:

Recognition and measurement • At the commencement date, lease liabilities are initially measured at the present value of lease payments that are not paid at that date. Fixed lease payments, including fixed base rent increases, are included in the initial measurement of the lease liability. Lump sum variable lease payments that depend on an index or rate, residual value guarantees, purchase options and termination penalties are not significant to the Group of Companies and are generally expensed if incurred. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs.

Subsequent measurement • Lease liabilities are subsequently measured at amortized cost by increasing the carrying amount to reflect interest on the lease liability using the effective interest method and by reducing the carrying amount to reflect lease payments.

(k.3) Discount rate • Lease payments are discounted using the incremental borrowing rate (IBR), since the rate implicit in leases cannot be readily determined. The IBR is the rate of interest that the Group of Companies would have to pay to borrow funds over similar terms and with similar security to obtain an asset of similar value to the underlying asset in the lease. The IBR is based on Government of Canada bond yields adjusted for entity-specific financing spreads.

(k.4) Modifications • A lease modification occurs when there is a change in future lease payments, duration of the lease or a change in the Group of Companies' assessment of renewal or termination options. Lease modifications require remeasurement of the lease liability with a corresponding adjustment to the right-of-use asset. If the carrying amount of the right-to-use asset is reduced to zero and there is further reduction in the measurement of the lease liability, the remaining remeasurement is recorded in profit or loss. Lease modifications are often triggered when the Group of Companies executes a lease extension. A revised discount rate, which is the rate in effect when both parties agree to a lease modification, is used with the revised terms and conditions to determine the impact of the change on the lease liability.

(k.5) Lessor accounting • As a lessor, the Group of Companies determines at contract inception whether the lease is a finance lease or an operating lease. This classification is with reference to the right-of-use asset, not the underlying asset, and the Group of Companies makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If such risks and rewards are transferred, it is considered a finance lease; if not, then it is an operating lease. As part of this assessment, indicators such as whether the lease is for the major part of the economic life of the asset are considered. If a contract contains lease and non-lease components, the Group of Companies applies IFRS 15 to allocate the consideration in the contract. The Group of Companies recognizes lease payments received under operating leases as income on a straight-line basis over the lease term. Finance lease receivables are recorded in other assets and financing income is recognized in Investment and other income.

(l) Segmented information

Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Other category includes the results of the support functions provided by the information technology business unit, Innovapost, under a shared services agreement between Canada Post, Purolator and Innovapost, as well as consolidation adjustments and intersegment balance eliminations.

The Canada Post segment provides products and services in three lines of business, Transaction Mail, Parcels and Direct Marketing. The Purolator segment derives its revenue from specialized courier services. The Logistics segment, which is essentially composed of SCI, provides third-party logistics services in supply chain management and transportation services in the small to medium enterprise market.

4. Critical Accounting Estimates and Judgments

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require material change in reported amounts and disclosures in the consolidated financial statements of future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods.

(a) Critical judgments in applying accounting policies • The following are critical judgments, apart from those involving estimations (see [b] below), that management has made in the process of applying the Group of Companies' accounting policies and that have the most significant effects on amounts recognized in the consolidated financial statements.

(a.1) Capital assets • Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities • In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether the Group of Companies has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is remote.

(a.3) Leases • The Group of Companies is party to many contracting arrangements, which requires judgment to assess, at inception of a contract, whether such contract contains a lease or a service, and whether it conveys the right to control the use of an identifiable asset for a period of time in exchange for consideration. Factors used by management to determine whether a contract meets the definition of a lease include, but are not limited to, whether an identified asset exists, whether a right exists to obtain substantially all the economic benefits and whether the Group of Companies directs how and for what purpose the asset is used throughout the period of use.

Right-of-use assets are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the right-of-use asset, external valuations of the right-of-use asset, and obsolescence or physical damage to the right-of-use asset.

Most property leases contain renewal or termination options exercisable by the Group of Companies before the end of the non-cancellable contract period. Where practicable, the Group of Companies seeks to include such options to provide operational flexibility. At lease commencement and annually thereafter, management applies judgment to assess whether it is reasonably certain to exercise renewal and termination options. Any change in the lease term is accounted for as a lease modification, which requires remeasurement of the lease liability.

(a.4) Revenue from contracts with customers • As control transfers over time, revenue from Parcels, Transaction Mail and Direct Marketing, is recognized to the extent of progress toward completion of the performance obligation. Progress toward completion is estimated using a straight-line output method based on delivery performance days to date. Management believes delivery performance days to date best depict the transfer of services because delivery performance is a key performance indicator in the industry. Progress toward completion for services included in other revenue is estimated using input methods such as time elapsed over the contract period or output methods such as hours or quantity of service provided. Retail product revenue included in other revenue, is recognized at a point in time, as control passes when the customer takes physical possession of the product in the retail outlet.

The transaction price is generally determined from a price list, but it is also based on variable considerations such as discounts or rebates, performance bonuses, refunds for sales with right of return or other considerations that can increase or decrease the transaction price. Discounts, rebates and performance bonuses are estimated using the most likely amount method based on observed volumes, revenue, scanning or delivery performance metrics and trends. Refunds are estimated using the expected value method based on historical refunds. In determining whether each variable consideration is constrained (i.e. whether or not it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur), the Group of Companies considers the impact of outside factors. These factors can include labour disruptions, experience or history with uncertainties for the type of revenue contracts and the length of time the uncertainties will remain. When a contract contains more than one performance obligation, price is allocated based on the stand-alone selling price. Stand-alone selling price is estimated using rates offered to other customers with similar profiles or estimated using the expected cost plus margin approach where a profit margin comparable to similar contracts for similar services is added to actual cost. Variable considerations that relate directly to a performance obligation are allocated to that specific performance obligation.

(b) Key sources of estimation uncertainty • The following are key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next 12 months.

(b.1) Impairment of financial assets • The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Group of Companies uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Refer to Note 20 (b) on credit risk for further details of key assumptions and inputs used.

(b.2) Capital assets • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's best estimates of the periods of service provided by the assets, and are included in Note 3 (c.3). The appropriateness of useful lives of these assets is assessed annually. Changes to useful life estimates would affect future depreciation or amortization expenses and future carrying values of assets.

Capital assets are tested for impairment as described in Note 3 (c.5). The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the consolidated financial statements, both in determining the existence of any impairment and in determining the amount of impairment.

(b.3) Goodwill • The Group of Companies tests annually, or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in Note 3 (d). Performing goodwill impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to Note 12.

(b.4) **Leases •** Right-of-use assets, comprising land, buildings, vehicles and plant equipment, are valued using, and depreciated over, their estimated lease term. Lease terms are based on management's best estimate of whether it is reasonably certain that renewal and termination options will be exercised in future periods. The appropriateness of lease terms used in the calculation of these right-of-use assets and lease liabilities is reassessed annually and based on historical use of available options, operational requirements and strategic decisions about asset use. Changes to management's assessment of lease terms would affect future carrying values of right-of-use assets and lease liabilities.

Right-of-use assets are reviewed for impairment. Refer to Note 3 (c.5) and Note 4 (b.2).

The IBR used to discount lease payments represents management's best estimate of the rate obtained if the underlying asset within the lease contract was purchased and not leased. The IBR is based on Government of Canada bond yields adjusted for entity-specific financing spreads and applied on a lease-by-lease basis.

(b.5) **Deferred revenue •** The Group of Companies estimates deferred revenue at the end of the reporting period for parcels deposited or in transit but not yet delivered, stamps distributed to dealers but not yet resold to customers, meters filled but not yet used by customers and the remaining contract period for mail redirection services. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by the Group of Companies. Estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively, while mail redirection revenue is deferred over the term of the contract, generally four to 12 months.

(b.6) **Pension, other post-employment and other long-term benefit plans •** Pension, other post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan, and the investment and funding decisions. The significant actuarial assumptions used by the Group of Companies in measuring the benefit obligations and benefit costs are the discount rates, mortality tables, health care costs trend rates and inflation rate, which has an impact on the long-term rates of compensation increase. The Group of Companies consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For funded plans, assets are recognized only to the extent that the Group of Companies can realize future economic benefits from them. In establishing the economic benefit, the Group of Companies calculates gains resulting from a projected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In addition, to establish asset limit adjustments, it is assumed that a contribution holiday is taken whenever possible and that the Corporation intends to use additional relief in special contributions as permitted by legislation.

Funded plans for which the Canada Post Group of Companies has a unilateral right to the surplus are not subject to asset limit adjustment requirements.

For a description of the pension, other post-employment and other long-term benefit plans, and a sensitivity analysis of significant assumptions, see Note 10.

(b.7) **Provisions •** When it has been determined by management that the Group of Companies has a present legal or constructive obligation as a result of a past event, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Group of Companies intends to handle the obligation. The actual amount and timing of outflows may deviate from assumptions, and the difference might materially affect future consolidated financial statements, with a potentially adverse impact on the consolidated results of operations, financial position and liquidity.

(b.8) **Income taxes •** The Group of Companies operates in many jurisdictions requiring calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amount that was initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such a determination is made.

Deferred tax assets and liabilities comprise temporary differences between carrying values and tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of temporary differences may take many years, and the related deferred tax is calculated using substantively enacted tax rates for the related period.

If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred income tax adjustments would not result in an immediate cash outflow, nor would they affect the Group of Companies' immediate liquidity.

5. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2019.

The following standards were adopted by the Group of Companies January 1, 2019.

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17) and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" (IFRIC 4), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases, unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification.

(a.1) General impact of application • The Group of Companies applied IFRS 16 using the full retrospective approach and in accordance with transitional provisions. Full retrospective application required the Group of Companies to adjust the opening balance of retained earnings as at January 1, 2018, and the other comparative amounts disclosed for each prior period presented as if IFRS 16 had always been applied.

(a.2) Definition of a lease • The Group of Companies performed a comprehensive review to determine which existing contracts could contain a lease. This review included those contracts previously identified as a lease in accordance with IAS 17 and IFRIC 4, as well as contracts previously identified as not containing a lease. The Group of Companies then applied IFRS 16 to all contracts identified as containing a lease. Criteria used in the determination of whether identified contracts contain or do not contain a lease, included whether an identified asset exists, whether the right to obtain substantially all of the economic benefits from use of the asset exists, whether the right to direct how and for what purpose the asset is used exists, whether the right to operate the asset throughout the period of use without the vendor having the right to change those operating instructions exists and whether the purpose of the asset and the manner in which it will be used has been predetermined. This comprehensive review did not yield a substantially different lease population had the old definition been applied, except for the identification of lease contracts for vehicles governed by certain owner-operator agreements. The Group of Companies applied the definition of a lease and related guidance set out in IFRS 16 to all contracts identified as containing a lease as if IFRS 16 had always been applied.

(a.3) Impact on lessee accounting • As a lessee, the Group of Companies previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group of Companies. Under IFRS 16, the Group of Companies:

- recognized right-of-use assets and lease liabilities in the consolidated statement of financial position, measured at the present value of future lease payments and discounted using the incremental borrowing rate;
- recognized depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income;
- separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

The Group of Companies applied recognition exemptions to low-value assets (value of $5,000 or less when new, including items such as computer hardware and office equipment) and short-term leases (defined as leases with a lease term of 12 months or less for all right-of-use asset classes). Payments for such leases are expensed over the lease term.

Lease incentives such as free rent periods are recognized as part of the measurement of the right-of-use assets and lease liabilities. Under IAS 17, they resulted in the recognition of a lease incentives liability, amortized as a reduction of rental expense on a straight-line basis. Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 "Impairment of Assets" to replace the previous requirement recognizing a provision for onerous lease contracts.

(a.4) Impact on lessor accounting • As a lessor or intermediate lessor, the Group of Companies will continue to classify leases as operating or financing in nature after reassessing the nature of the lease. Under IFRS 16, this classification is determined with reference to the right-of-use asset rather than the underlying asset. Lessor accounting has remained substantially unchanged from IAS 17, and the Group of Companies will continue to record operating lease payments as income on a straight-line basis over the lease term, while finance lease income will be recognized as Investment and other income.

The overall impact of these changes was as follows:

Consolidated statement of financial position

As at January 1, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Other assets (current)	$ 126	$ (1)	$ 125
Property, plant and equipment	2,627	(38)	2,589
Right-of-use assets	–	944	944
Deferred tax asset	1,568	37	1,605
Other assets (non-current)	7	4	11
Trade and other payables	583	(4)	579
Deferred revenue	138	(3)	135
Lease liabilities (current)	–	106	106
Loans and borrowings (current)	13	(13)	–
Lease liabilities (non-current)	–	996	996
Loans and borrowings (non-current)	1,025	(28)	997
Other liabilities (non-current)	25	(2)	23
Accumulated deficit	(1,611)	(102)	(1,713)
Non-controlling interests	32	(4)	28

Consolidated statement of financial position

As at December 31, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Other assets (current)	$ 102	$ 1	$ 103
Property, plant and equipment	2,709	(22)	2,687
Right-of-use assets	–	982	982
Deferred tax asset	1,641	39	1,680
Other assets (non-current)	49	14	63
Trade and other payables	653	(5)	648
Deferred revenue	154	(1)	153
Lease liabilities (current)	–	109	109
Loans and borrowings (current)	12	(12)	–
Lease liabilities (non-current)	–	1,054	1,054
Loans and borrowings (non-current)	1,013	(16)	997
Other liabilities (non-current)	25	(3)	22
Accumulated deficit	(1,300)	(108)	(1,408)
Non-controlling interests	40	(4)	36

Consolidated statement of comprehensive income

For the year ended December 31, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Revenue	$ 8,675	$ (3)	$ 8,672
Other operating costs	2,488	(132)	2,356
Depreciation and amortization	311	102	413
Finance costs and other expense	(58)	(35)	(93)
Loss before tax	(110)	(8)	(118)
Tax recovery	(23)	(2)	(25)
Net loss	(87)	(6)	(93)

Consolidated statement of cash flows

For the year ended December 31, 2018 (in millions)	**As previously reported**	**IFRS 16 impact**	**Restated**
Cash provided by operating activities	$ 973	$ 93	$ 1,066
Cash used in financing activities	(14)	(93)	(107)

The impact of adopting IFRS 16 is included in notes 7, 8, 11, 13, 14, 17, 18, 19, 20, 23, 24, 26 and 27, and resulting comparative sub-totals and totals of the IFRS 16 restatement are included in the restated consolidated financial statements.

The quantitative assessment of the accounting impact included the following:

- A change in other assets as a prepaid rent expense recognized under IAS 17 is now recognized as a reduction of the lease liability. This is offset by the current portion of finance subleases.
- Vehicles and plant equipment held under finance lease arrangements previously recognized as property, plant and equipment are now presented with right-of-use assets. The lease liability on leases previously classified as financing leases under IAS 17 and previously presented within loans and borrowings is now presented with lease liabilities.
- Recognition of right-of-use assets for leases previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16 that were previously expensed to other operating costs.
- An increase in other non-current assets due to the recognition of finance subleases.
- An increase in current and long-term lease liabilities as all lease payments are now recognized as a financial liability that represents the obligation to make future lease payments.
- A decrease to profit before tax given that rent expense (recorded under other operating costs) is replaced by depreciation of right-of-use assets and interest expense on the lease liability.
- An increase to cash provided by operating activities and an increase in cash used in financing activities since IFRS 16 requires principal repayments of lease liabilities to be presented as a financing outflow, whereas payments under operating leases under IAS 17 were presented as an operating outflow.

The Minister of Finance reviews and monitors the funding of Crown corporation activities and provides related approvals for their borrowing transactions. IFRS 16 results in the recognition of lease transactions that represent a material and long-term financial commitment with a payment stream that mimics a long-term debt liability and, therefore, they are deemed to be borrowing transactions. As such, in December 2018, the Governor in Council approved amendments to subsection 10(b) of the *Crown Corporation General Regulations, 1995,* made under the *Financial Administration Act*, which sets the threshold over which the Minister of Finance's approval is required on the terms and conditions of lease transactions. The new regulatory threshold for Minister of Finance approval of leases is the lesser of five percent of the total assets of the Corporation and $10 million. The Corporation's total authorized borrowing limit of $2.5 billion under the *Appropriation Act No. 4, 2009-10* has remained unchanged and is not affected by the addition of lease liabilities to the consolidated statement of financial position.

IFRIC 23 "Uncertainty over Income Tax Treatments" (IFRIC 23) • This IFRIC clarifies the accounting for uncertainties in income taxes. The adoption of this IFRIC had no impact on these consolidated financial statements.

Annual Improvements to IFRS – 2015-2017 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. The adoption of these improvements had no impact on these consolidated financial statements.

Amendments to IAS 19 "Employee Benefits" (IAS 19) • The IASB issued amendments to IAS 19 "Employee Benefits" requiring the use of updated actuarial assumptions to determine current service cost and net interest for the remainder of the reporting period after a plan amendment, curtailment or settlement. The adoption of these amendments had no impact on these consolidated financial statements.

(b) Standards, amendments and interpretations not yet in effect

The following standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee have been assessed as having a possible effect on the Group of Companies in the future. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1) and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8) • In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. It was specified that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions. The amendments state that, in assessing whether any information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances. The amendments must be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier adoption permitted.

Amendments to IFRS 3 Business Combinations (IFRS 3) • In October 2018, the IASB issued narrow-scope amendments to IFRS 3 to guide entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, provide guidance for entities to assess whether an acquired process is substantive, narrow the definitions of a business and outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier adoption is permitted.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1) • In January 2020, the IASB issued amendments to IAS 1 to clarify requirements for classifying liabilities as current or non-current. The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists. The amendments also clarify the situations considered settlement of a liability. The amendments must be applied retrospectively for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

6. Cash and Cash Equivalents, Marketable Securities and Segregated Securities

(a) Cash and cash equivalents, marketable securities and segregated securities consisted of the following:

As at December 31 (in millions)		**2019**			2018	
Cash and cash equivalents						
Cash	$	1,300	88 %	$	1,252	88 %
Money market instruments issued by						
Government of Canada		–	– %		20	1 %
Provincial governments		73	5 %		44	3 %
Financial institutions		24	2 %		40	3 %
Corporations		78	5 %		65	5 %
Total cash and cash equivalents	**$**	**1,475**	**100 %**	$	1,421	100 %
Marketable securities						
Money market instruments issued by						
Government of Canada	$	258	21 %	$	256	18 %
Provincial governments		258	21 %		473	32 %
Financial institutions		469	38 %		349	24 %
Corporations		161	13 %		328	22 %
Bonds issued by corporations		102	7 %		64	4 %
Total marketable securities	$	1,248	100 %	$	1,470	100 %
Current marketable securities	**$**	**1,077**	**86 %**	$	1,338	91 %
Non-current marketable securities	**$**	**171**	**14 %**	$	132	9 %
Segregated securities						
Cash	$	19	4 %	$	22	5 %
Bonds issued by						
Government of Canada		106	21 %		101	20 %
Provincial governments		213	41 %		198	40 %
Corporations		176	34 %		174	35 %
Total segregated securities	**$**	**514**	**100 %**	$	495	100 %

All money market instruments and bonds held as at December 31, 2019, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2019, was 2.2% for money market instruments (2018 – 2.1%) and 2.4% for bonds (2018 – 3.1%).

Securities are segregated due to external restrictions imposed on other retirement dental and life insurance benefit plans repatriated through the federal public sector pension reform. These defined benefit plans were partially funded by the transitional support from the Government of Canada; therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments. Segregated securities, if held to maturity, have terms expiring over a 23-year period.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $59 million (2018 – $47 million). Interest income and gains and losses on segregated securities amounted to $23 million (2018 – $18 million).

(c) Fair values of financial instruments

The estimated fair values of cash equivalents, marketable securities, segregated securities and risk management financial assets and liabilities used to measure amounts in the consolidated financial statements are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2019, and 2018.

7. Other Assets

As at December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Income tax receivable	$ 50	$ 5
Prepaid expenses	119	98
Assets held for sale	1	1
Finance lease receivable	14	19
Other receivables	52	43
Total other assets	**$ 236**	$ 166
Current other assets	**$ 171**	$ 103
Non-current other assets	**65**	63

As at December 31, 2019, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

The table below identifies undiscounted lease payments to be received on an annual basis for each of the following periods:

As at December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Contractual undiscounted cash flows		
Less than one year	$ 5	$ 5
One to five years	9	14
Total undiscounted finance lease receivable	**$ 14**	$ 19

8. Capital Assets

(a) Property, plant and equipment

(in millions)	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2017	$ 331	$ 2,082	$ 305	$ 1,267	$ 581	$ 324	$ 993	$ 79	$ 5,962
Effects of adopting new standards (Note 5)	–	–	(1)	(25)	(144)	(10)	–	–	(180)
Restated balance at January 1, 2018	331	2,082	304	1,242	437	314	993	79	5,782
Additions	16	50	16	44	68	40	31	91	356
Reclassified as held for sale	–	2	–	–	–	–	–	–	2
Retirements	–	(12)	(3)	(112)	(6)	–	(9)	–	(142)
Transfers	–	16	1	3	4	–	43	(67)	–
Restated balance at December 31, 2018	$ 347	$ 2,138	$ 318	$ 1,177	$ 503	$ 354	$ 1,058	$ 103	$ 5,998
Additions	105	55	42	49	99	26	82	74	532
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	(14)	(1)	(41)	(3)	(12)	(4)	–	(75)
Transfers	–	19	5	2	–	3	33	(62)	–
December 31, 2019	**$ 452**	**$ 2,197**	**$ 364**	**$ 1,187**	**$ 599**	**$ 371**	**$ 1,169**	**$ 115**	**$ 6,454**
Accumulated depreciation									
December 31, 2017	$ –	$ 1,113	$ 231	$ 786	$ 395	$ 263	$ 547	$ –	$ 3,335
Effects of adopting new standards (Note 5)	–	–	(1)	(22)	(109)	(10)	–	–	(142)
Restated balance at January 1, 2018	–	1,113	230	764	286	253	547	–	3,193
Depreciation	–	67	12	70	37	22	45	–	253
Reclassified as held for sale	–	1	–	–	–	–	–	–	1
Retirements	–	(10)	(1)	(111)	(6)	–	(8)	–	(136)
Restated balance at December 31, 2018	$ –	$ 1,171	$ 241	$ 723	$ 317	$ 275	$ 584	$ –	$ 3,311
Depreciation	–	60	16	73	46	28	48	–	271
Reclassified as held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	(12)	(1)	(38)	(3)	(12)	(3)	–	(69)
December 31, 2019	**$ –**	**$ 1,218**	**$ 256**	**$ 758**	**$ 360**	**$ 291**	**$ 629**	**$ –**	**$ 3,512**
Carrying amounts									
Restated balance at December 31, 2018	$ 347	$ 967	$ 77	$ 454	$ 186	$ 79	$ 474	$ 103	$ 2,687
December 31, 2019	**$ 452**	**$ 979**	**$ 108**	**$ 429**	**$ 239**	**$ 80**	**$ 540**	**$ 115**	**$ 2,942**

(b) Intangible assets

(in millions)	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2017	$ 767	$ 31	$ 23	$ 821
Additions	6	25	–	31
Retirements	–	(2)	–	(2)
Transfers	45	(45)	–	–
December 31, 2018	$ 818	$ 9	$ 23	$ 850
Additions	7	52	–	59
Retirements	(22)	–	–	(22)
Transfers	12	(12)	–	–
December 31, 2019	**$ 815**	**$ 49**	**$ 23**	**$ 887**
Accumulated amortization				
December 31, 2017	$ 680	$ –	$ 22	$ 702
Amortization	42	–	–	42
December 31, 2018	$ 722	$ –	$ 22	$ 744
Amortization	41	–	–	41
Retirements	(22)	–	–	(22)
December 31, 2019	**$ 741**	**$ –**	**$ 22**	**$ 763**
Carrying amounts				
December 31, 2018	$ 96	$ 9	$ 1	$ 106
December 31, 2019	**$ 74**	**$ 49**	**$ 1**	**$ 124**

(c) Right-of-use assets

(in millions)	Land	Buildings – gross	Buildings – net	Vehicles	Plant equipment	Total
Carrying amounts						
Restated opening balance at January 1, 2018	$ 115	$ 208	$ 565	$ 51	$ 5	$ 944
Additions	7	49	99	1	1	157
Depreciation	(3)	(26)	(67)	(18)	(3)	(117)
Terminations	(1)	(1)	–	–	–	(2)
Restated balance at December 31, 2018	$ 118	$ 230	$ 597	$ 34	$ 3	$ 982
Additions	2	62	186	1	1	252
Depreciation	(3)	(26)	(73)	(14)	(2)	(118)
Terminations	–	(1)	(1)	–	(1)	(3)
December 31, 2019	**$ 117**	**$ 265**	**$ 709**	**$ 21**	**$ 1**	**$ 1,113**

9. Employee Benefits

The employee benefits expense recognized in net profit consisted of the following items:

For the year ended December 31 (in millions)	**2019**	2018
Active and other employee benefits	$ 622	$ 555
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	928	1,065
Employee benefits	**$ 1,550**	$ 1,620

10. Pension, Other Post-employment and Other Long-term Benefit Plans

(a) Characteristics of benefit plans

The Group of Companies has a number of funded and unfunded benefit plans that provide defined benefit pension plans, other post-employment and other long-term benefits for the majority of its employees, and also provides pension benefits to eligible employees through defined contribution plans. Certain new employees must join the defined contribution plans and are not eligible to join the defined benefit pension plans. The pension benefit plans are funded through contributions made to external trusts, and the other post-employment and other long-term benefit plans are unfunded. Unfunded plans are plans where benefits are paid directly by the employer. With funded plans, which are individually sponsored by each legal entity of the Group of Companies, funds are transferred to external trusts and the benefits are paid directly from these trusts.

Benefits provided under the most significant defined benefit pension plans are calculated based on length of pensionable service, pensionable salary and retirement age, or for certain employees, are based on negotiated benefit rates. These plans provide for a retirement pension, a survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plans and the retirement compensation arrangements, for benefits in excess of statutory limits as defined under the *Income Tax Act*. For the salaried plans, pension benefits in pay are indexed annually.

Both the employers' and, where applicable, the employees' contributions to the external trusts are made in accordance with the provisions of the plans. The contributions to the defined benefit plans are determined by actuarial valuations in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire. Each entity in the Group of Companies has a pension governance structure in place, which is overseen by the Board of Directors. The governance structure includes committees that provide expertise and support management in areas such as investments, administration and compensation. Committees are composed of elected, appointed and retired employees.

The most significant post-employment defined benefit plans, other than pension, include unfunded health care, as well as dental, life and death insurance plans. The benefit costs covered by the employer and the costs assumed by retirees, if any, are determined in accordance with the rules of each plan and the provisions of labour contracts.

Other long-term benefit plans primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and health, dental and life insurance coverage for employees receiving long-term disability benefits. Under short-term disability or injury-on-duty leave, eligible employees can use their unused balances from the former sick leave plan as top-up credits to supplement eligible employees' salary while on leave. The other long-term benefit costs covered by the employer and the costs assumed by employees, if any, are determined in accordance with the rules of each plan, the provisions of labour contracts and respective provincial worker's compensation legislation.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. The Corporation is a self-insured employer, responsible for workers' compensation benefits incurred since incorporation. The Corporation's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential future awards for accidents that occurred up to the measurement date. Workers' compensation benefits are provided according to the respective provincial workers' compensation legislation. Benefit entitlements in the three territories are based on the Alberta legislation.

(b) Risks associated with defined benefit plans

Funding risk

One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension funding obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. Regulations allowed the Corporation to reduce special contributions from 2014 to 2017. Additional details and risks associated with the funding relief are disclosed in Note 10 (i).

The most significant contributors to funding risk are declines in solvency discount rates, investments failing to achieve expected returns, and non-economic factors like changes in member demographics. Changes to member demographics, such as an increase in life expectancies of plan members, also contribute to increasing the funding obligations, which increases the funding risk faced by plan sponsors.

The Group of Companies manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with individual investment policies and procedures and applicable legislation. Investment policies and procedures are designed to provide the pension plans with a long-term rate of return sufficient to assist the plans in meeting funding objectives and the ongoing growth of the pension funding obligations. A Statement of Investment Policies and Procedures (SIPP), addressing the manner in which the pension plan assets will be invested, is reviewed at least annually for significant plans. Under the current SIPP, it is recognized that it is not always desirable to have the investment portfolio exactly match the long-term asset target allocation. Therefore, minimum and maximum asset category limits have been established. For the most significant plans, asset-liability studies are conducted periodically to ensure that the pension plans' investment strategies remain appropriate in challenging economic environments. The investment strategies also incorporate a mix of return-generating and liability-matching investments. The portion of plan assets invested in liability-matching investments has characteristics that offset a portion of variation in the pension funding requirements.

Other risks

Plan assets are also subject to a variety of financial risks as a result of investment activities. These risks include credit risk, market risk (interest rate, currency and price risk) and liquidity risk arising from financial instruments. In addition, defined benefit obligations are subject to measurement uncertainty due to the use of significant actuarial assumptions (Note 10 [g]). The impact of these factors on the remeasurement of the pension benefit asset, and pension, other post-employment and other long-term benefit obligations can be significant and volatile (Note 10 [h]).

(c) Net defined benefit liability

A reconciliation of the net defined benefit liability of the defined benefit plans was as follows, including the present value of defined benefit plan obligations and the fair value of plan assets:

As at December 31 (in millions)		**2019**		2018
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 28,700	$ 3,644	$ 28,790	$ 3,919
Current service cost	533	121	561	120
Interest cost	1,083	139	1,033	141
Employee contributions	281	–	235	–
Benefits paid	(1,098)	(167)	(1,052)	(158)
Actuarial (gains) losses (Note 10 [f])	2,405	156	(1,031)	(405)
Losses from plan amendments	–	8	164	27
Balance, end of year	$ 31,904	$ 3,901	$ 28,700	$ 3,644
Fair value of plan assets				
Balance, beginning of year	$ 26,094	$ –	$ 26,465	$ –
Interest income on plan assets	984	–	943	–
Return on plan assets, excluding interest income on plan assets	2,677	–	(838)	–
Employer regular contributions	338	–	303	–
Employer special contributions	57	–	51	–
Employee contributions	281	–	235	–
Other administration costs	(14)	–	(13)	–
Benefits paid	(1,098)	–	(1,052)	–
Balance, end of year	$ 29,319	$ –	$ 26,094	$ –
Net defined benefit liability	**$ 2,585**	**$ 3,901**	$ 2,606	$ 3,644

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no resulting decrease in the pension benefit assets and no resulting increase in the pension benefit liabilities as at December 31, 2019, and 2018.

A reconciliation of the net defined benefit liability was as follows:

As at December 31 (in millions)		**2019**		2018
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	$ 2,606	$ 3,644	$ 2,325	$ 3,919
Remeasurements of defined benefit plans (Note 10 [e])	(272)	142	(193)	(352)
Benefits paid directly to beneficiaries	–	(167)	–	(158)
Employer regular contributions paid	(338)	–	(303)	–
Employer special contributions paid	(57)	–	(51)	–
Defined benefit expense (Note 10 [e])	646	282	828	235
Net defined benefit liability, end of the year	**$ 2,585**	**$ 3,901**	$ 2,606	$ 3,644

The net defined benefit liability was recognized and presented in the consolidated statement of financial position as follows:

As at December 31 (in millions)	**2019**	2018
Pension benefit assets	**$ 75**	$ 95
Pension benefit liabilities	$ 2,660	$ 2,701
Other post-employment and other long-term benefit liabilities	3,901	3,644
Total pension, other post-employment and other long-term benefit liabilities	$ 6,561	$ 6,345
Current other long-term benefit liabilities	**$ 63**	$ 68
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,498**	$ 6,277

(d) Fair value measurement of plan assets

The fair value measurement of plan assets disaggregated by asset class and the fair value hierarchy described in Note 3 (b.5) for the Group of Companies were as follows:

As at December 31, 2019
(in millions)

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 509	2 %	$ 112	– %	$ –	– %	$ 621	2 %
Fixed income	–	– %	11,131	39 %	1	– %	11,132	39 %
Equities	11,299	39 %	145	– %	–	– %	11,444	39 %
Real estate	–	– %	–	– %	3,182	11 %	3,182	11 %
Private equity	–	– %	–	– %	1,250	4 %	1,250	4 %
Infrastructure	–	– %	–	– %	1,085	4 %	1,085	4 %
Derivatives	–	– %	48	– %	–	– %	48	– %
Other	1	– %	–	– %	347	1 %	348	1 %
Total investment assets	**$ 11,809**	**41 %**	**$ 11,436**	**39 %**	**$ 5,865**	**20 %**	**$ 29,110**	**100 %**
Non-investment assets less liabilities							$ 209	
Fair value of plan assets							**$ 29,319**	

As at December 31, 2018
(in millions)

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 234	1 %	$ 91	– %	$ –	– %	$ 325	1 %
Fixed income	–	– %	10,261	40 %	–	– %	10,261	40 %
Equities	10,035	39 %	34	– %	3	– %	10,072	39 %
Real estate	–	– %	–	– %	2,986	11 %	2,986	11 %
Private equity	–	– %	–	– %	1,078	4 %	1,078	4 %
Infrastructure	–	– %	–	– %	990	4 %	990	4 %
Derivatives	–	– %	(76)	– %	–	– %	(76)	– %
Other	–	– %	–	– %	257	1 %	257	1 %
Total investment assets	$ 10,269	40 %	$ 10,310	40 %	$ 5,314	20 %	$ 25,893	100 %
Non-investment assets less liabilities							$ 201	
Fair value of plan assets							$ 26,094	

Total plan assets included $3,505 million (2018 – $3,283 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $173 million (2018 – $171 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the non-investment assets less liabilities, which included the refundable taxes, approximated the carrying value.

The Group of Companies' pension plans do not own financial instruments or any other assets of the Group of Companies.

(e) Defined benefit and defined contribution costs

The defined benefit and defined contribution cost components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31 (in millions)			**2019**			2018
	Pension benefit plans	**Other benefit plans**	**Total[2]**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 533	$ 121	$ 654	$ 561	$ 120	$ 681
Interest cost	1,083	139	1,222	1,033	141	1,174
Interest income on plan assets	(984)	–	(984)	(943)	–	(943)
Actuarial (gains) losses (Note 10 [f])[1]	–	14	14	–	(53)	(53)
Other administration costs	14	–	14	13	–	13
Losses from plan amendments	–	8	8	164	27	191
Defined benefit expense (Note 10 [c])	646	282	928	828	235	1,063
Defined contribution expense	23	–	23	20	–	20
Total expense	669	282	951	848	235	1,083
Return on segregated securities (Note 6 [b])	–	(23)	(23)	–	(18)	(18)
Component included in employee benefits expense (Note 9)	**$ 669**	**$ 259**	**$ 928**	$ 848	$ 217	$ 1,065
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ (2,677)	$ –	$ (2,677)	$ 838	$ –	$ 838
Actuarial (gains) losses (Note10 [f])	2,405	142	2,547	(1,031)	(352)	(1,383)
Component included in other comprehensive income (Note 10 [c])[2,3]	**$ (272)**	**$ 142**	**$ (130)**	$ (193)	$ (352)	$ (545)

1. Remeasurements for other long-term benefit plans are recognized in net profit or loss in the period in which they arise.
2. Amounts presented in this table exclude income tax recovery of $31 million for the year ended December 31, 2019 (income tax recovery of $137 million at December 31, 2018).
3. The discount rates used to measure the Canada Post segment pension benefit plans and other benefit plans at December 31, 2019, was 3.1% and 3.2% respectively, compared to 3.8% and 3.9%, respectively, at December 31, 2018.

In 2019, benefits for psychological coverage were increased under the Extended Health Care Plan, resulting in a plan amendment loss of $8 million.

(f) Actuarial (gains) losses

The actuarial (gains) losses components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31 (in millions)			2019			2018
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ –	$ (4)	$ (4)	$ –	$ 4	$ 4
Actuarial (gains) losses arising from changes in financial assumptions	–	12	12	–	(57)	(57)
Actuarial (gains) losses arising from experience adjustments	–	6	6	–	–	–
Actuarial (gains) losses included in net profit (Note10 [e])	**$ –**	**$ 14**	**$ 14**	$ –	$ (53)	$ (53)
Actuarial (gains) losses on defined benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ (1,091)	$ (92)	$ (1,183)	$ –	$ (25)	$ (25)
Actuarial (gains) losses arising from changes in financial assumptions	3,526	232	3,758	(948)	(341)	(1,289)
Actuarial (gains) losses arising from experience adjustments	(30)	2	(28)	(83)	14	(69)
Actuarial (gains) losses included in other comprehensive income (Note 10 [e])	**$ 2,405**	**$ 142**	**$ 2,547**	$ (1,031)	$ (352)	$ (1,383)
Total actuarial (gains) losses (Note 10 [c])	**$ 2,405**	**$ 156**	**$ 2,561**	$ (1,031)	$ (405)	$ (1,436)

(g) Significant actuarial assumptions

The weighted-average actuarial assumptions used in measuring the Group of Companies' significant defined benefit plans were as follows:

As at December 31		2019		2018
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	3.1 %	3.2 %	3.8 %	3.9 %
Consumer price index	2.0 %	2.0 %	2.0 %	2.0 %
Defined benefit expense:				
Discount rate	3.8 %	3.9 %	3.6 %	3.6 %
Consumer price index	2.0 %	2.0 %	2.0 %	2.0 %
Health care cost trend rate[1]	N/A	5.1 %	N/A	5.2 %

1. For 2019, the health care cost trend rate was 5.1%, decreasing progressively to a rate of 4.0% by 2040. For 2018, the health care cost trend rate was 5.2%, decreasing progressively to a rate of 4.0% by 2040.

The average life expectancies used in the measurement of the defined benefit obligations for the significant plans were as follows:

As at December 31	2019	2018
Life expectancy[1] at age 60 at December 31, 2019, and 2018 (in years):		
Males	26	28
Females	29	30
Life expectancy[1] at age 60 at December 31, 2039, and 2038 (in years):		
Males	27	29
Females	30	30

1. For 2019, the average life expectancies are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM), more specifically the CPM 2014 Private Sector Mortality Tables with the CPM improvement scale B. A study of Canada Post pension plan experience was performed in 2019, the results of which show that these unadjusted tables give the best agreement with past experience. In 2018, the average life expectancies were based on the CPM Public Sector Mortality Tables with the CPM improvement scale B.

(h) Sensitivity analysis

The sensitivity analysis of the significant actuarial assumptions on the Group of Companies' defined benefit obligations was as follows:

As at December 31, 2019
(in millions)

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,499)	$ (304)	$ (2,803)
0.5% decrease in discount rates	$ 2,731	$ 346	$ 3,077
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 1,161	$ 38	$ 1,199
0.25% decrease in CPI	$ (1,119)	$ (36)	$ (1,155)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (730)	$ (85)	$ (815)
10% decrease in mortality tables	$ 749	$ 99	$ 848
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 511	$ 511
1% decrease in health care trend rates	N/A	$ (395)	$ (395)

As at December 31, 2018
(in millions)

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,180)	$ (278)	$ (2,458)
0.5% decrease in discount rates	$ 2,376	$ 315	$ 2,691
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 929	$ 33	$ 962
0.25% decrease in CPI	$ (902)	$ (31)	$ (933)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (583)	$ (70)	$ (653)
10% decrease in mortality tables	$ 597	$ 81	$ 678
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 446	$ 446
1% decrease in health care trend rates	N/A	$ (349)	$ (349)

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in amounts may not be linear. The sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining this sensitivity analysis are consistent with those used to determine the pension and other benefit plan obligations in 2018.

The mortality tables sensitivity demonstrates the impact of an increase or decrease in the probability of death within a year for plan members of various ages.

The weighted-average duration of the pension plans, other post-employment plans and other long-term employee benefit plan obligations for the Group of Companies ranges from 15 to 23, 14 to 18, and 5 to 7 years, respectively.

(i) Total cash payments and funding relief

Total cash payments for pension, other post-employment and other long-term benefits for the Group of Companies were as follows:

For the year ended December 31 (in millions)	**2019**	2018
Benefits paid directly to beneficiaries for other benefit plans	$ 167	$ 158
Employer regular contributions to pension benefit plans	338	303
Employer special contributions to pension benefit plans	57	51
Cash payments for defined benefit plans	562	512
Contributions to defined contribution plans	23	20
Total cash payments	**$ 585**	$ 532

Under the *Canada Post Corporation Pension Plan Funding Regulations,* the Corporation was exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation reverted back to the regulations in the *Pension Benefits Standards Act, 1985.* Under these regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities based on the actuarial valuations over five years on a solvency basis. As a result of the relief outlined in these regulations, Canada Post did not have to make special payments in 2019, which would have totaled $1.2 billion (including special payments made to cover transfer deficiencies) without this relief. For 2020, Canada Post has notified and received no objections from the Minister of Finance and the Minister of Public Services and Procurement of its intent to reduce special solvency contributions but expects to make estimated payments of $366 million as the solvency relief of 15% will be fully utilized during the year. The coronavirus (COVID-19) which was declared a pandemic in March 2020 and the related market volatility of market-driven discount rates and returns on pension plan assets could have a negative effect on our pension plan deficit in 2020 and solvency payments for 2021 and thereafter, which could be significantly higher than expected. Securing temporary relief from making these payments is the Corporation's preferred short-term solution, and Canada Post is working with relevant stakeholders including its shareholder, the Government of Canada, to explore short-term options.

During the year, solvency payments of $11 million and retroactive regular contributions of $25 million related to the RSMC pay equity decision were made.

(j) Future expected contributions

In 2020 and assuming no special solvency payments will be required, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $461 million including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $339 million.

11. Income Taxes

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

The sources of the temporary differences giving rise to net deferred tax assets (liabilities), affecting net profit and other comprehensive income or loss (OCI), were as follows:

(in millions)	December 31, 2018 (Restated – Note 5)	**Recognized in net profit**	**Recognized in OCI**	**December 31, 2019**
Net deferred tax assets (liabilities)				
Capital assets	$ (56)	$ (31)	$ –	$ (87)
Right-of-use assets	(252)	(32)	–	(284)
Salaries and benefits payable and related provisions	146	(52)	–	94
Lease Liabilities	299	33	–	332
Pension, other post-employment and other long-term benefit liabilities	1,549	97	(31)	1,615
Other	(7)	4	(8)	(11)
Net deferred tax assets	$ 1,679	**$ 19**	**$ (39)**	**$ 1,659**

(in millions, Restated – Note 5)	December 31, 2017	Recognized in net profit	Recognized in OCI	December 31, 2018
Net deferred tax assets (liabilities)				
Capital assets	$ (53)	$ (3)	$ –	$ (56)
Right-of-use assets	(242)	(10)	–	(252)
Salaries and benefits payable and related provisions	71	75	–	146
Lease Liabilities	283	16	–	299
Pension, other post-employment and other long-term benefit liabilities	1,543	143	(137)	1,549
Other	2	(13)	4	(7)
Net deferred tax assets	$ 1,604	$ 208	$ (133)	$ 1,679

As presented in the consolidated statement of financial position:

As at December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Deferred tax assets	**$ 1,659**	$ 1,680
Deferred tax liabilities, included in non-current other liabilities	**–**	1
Net deferred tax assets	**$ 1,659**	$ 1,679

Deferred tax liabilities were not recognized for temporary differences associated with investments in subsidiaries as the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2019, was $415 million (2018 – $409 million, restated).

The major components of tax expense (recovery) were as follows:

For the year ended December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Current tax expense	$ 72	$ 184
Adjustments for prior years	(62)	(1)
Total current tax expense	**10**	183
Deferred tax recovery relating to origination and reversal of temporary differences	(77)	(210)
Adjustments for prior years	58	2
Total deferred tax recovery	**(19)**	(208)
Tax recovery	**$ (9)**	$ (25)

The tax expense (recovery) differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2018 – 25%) to profit (loss) before tax. The reasons for the differences were as follows:

For the year ended December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Loss before tax	$ (23)	$ (118)
Federal tax at Corporation's statutory rate	(6)	(29)
Subsidiaries' provincial tax less federal tax abatement	3	3
Adjustments for prior years	(4)	–
Other	(2)	1
Tax recovery	**$ (9)**	$ (25)

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2019 and 2018.

12. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the Logistics segment. The carrying amounts of goodwill for those segments were as follows:

As at December 31 (in millions)			**2019**	2018
	Purolator segment	Logistics segment	**Total**	Total
Balance, beginning and end of the year	$ 121	$ 9	**$ 130**	$ 130

Goodwill impairment testing
Impairment testing for goodwill is carried out annually at the end of the third quarter for the Purolator and Logistics segments. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior year.

The calculation of the value in use for the Purolator segment, the only segment with a material balance, was based on the following assumptions:

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (2018 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 16.5% (2018 – 15%), which is based on Purolator's weighted-average cost of capital.

13. Trade and Other Payables

As at December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Trade payables	$ 117	$ 178
Accruals and other payables	394	312
Payables to foreign postal administrations	69	63
Outstanding money orders	16	19
Taxes payable	80	76
Total	**$ 676**	$ 648

Market and liquidity risks relating to trade and other payables are disclosed in Note 20.

14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2019:

(in millions)	Claims	Other	Total
Balance at December 31, 2018 (Restated – Note 5)	$ 41	$ 19	$ 60
Additional provisions recognized	11	26	37
Provisions used during the year	(10)	(18)	(28)
Reduction from remeasurement of provisions	(2)	(10)	(12)
Balance at December 31, 2019	**$ 40**	**$ 17**	**$ 57**
Current provisions	**$ 40**	**$ 15**	**$ 55**
Non-current provisions, included in non-current other liabilities	**$ –**	**$ 2**	**$ 2**

Claims
The provision for claims is management's best estimate of the probable cash outflows related to legal claims and grievances, as well as non-litigated disputes. The timing of cash outflows related to these claims is uncertain, as it often depends on the outcome of specific events including, but not limited to, the length of legal proceedings.

Other
The other provisions category consists of a number of sales tax provisions and other corporate provisions, which represents management's best estimate of the probable cash outflows.

Disclosures regarding contingent liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 16.

15. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions, and such a provision is measured at management's best estimate of the expenditure to be incurred.

The following matters have evolved during the year ended December 31, 2019:

(a) In September 2016, Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender-based wage gap exists for the female-predominant occupational group of rural and suburban mail carriers. A joint study was conducted, involving dual reports, but the parties were not able to reach an agreement about the amount of any wage gap or actions to rectify it. As a result, the parties engaged in a process of arbitration and mediation. On September 20, 2018, the arbitrator released her final ruling, which included wage adjustments, increases in pensionable pay received for personal contact items and lock changes, vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances.

During this time, the Corporation has recognized provisions in salaries and benefits payable and related provisions and plan amendments in pension, other post-employment and other long-term benefit liabilities to reflect these changes. Labour and employee benefit costs, including plan amendments, were also recorded. Adjustments were retroactive to January 1, 2016. The parties have nearly completed implementing the arbitrator's decision and, as applicable, payments to active employees and retirees are on-going.

(b) In 2012, the Canadian Postmasters and Assistants Association (CPAA) requested reactivation of a pay equity complaint filed in 1992, which Canada Post asserted had previously been settled. In 2014, a Canadian Human Rights Commission (Commission) investigator concluded that the 1992-97 period remains at issue and the Commission subsequently referred the matter on its merits to the Canadian Human Rights Tribunal. On May 12, 2019, Canada Post and the CPAA reached an agreement, which the Commission subsequently approved. Canada Post and the CPAA have formed a committee to implement their settlement and implementation is under way.

(c) The implementation of the 2013 memorandum of agreement between the Public Service Alliance of Canada (PSAC) and the Corporation regarding the Canadian Human Rights Tribunal (Tribunal) decision related to PSAC's pay equity complaint continues. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement under the memorandum of agreement. The five-year time frame started July 28, 2016.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters, and may adjust any such provisions in its net profit for subsequent periods, as required. These matters will continue to evolve, but further detailed information will not be provided as it could be prejudicial to the Corporation.

16. Contingent Liabilities

(a) In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 2013 and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). Canada Post filed its statement of defence on September 6, 2019. The outcome of this class action is still not determinable.

(b) In 2017, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which required Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. A hearing took place before the Supreme Court of Canada on December 10, 2018. On December 20, 2019, the Supreme Court rendered its final judgment in favour of the Corporation, effectively rescinding the health and safety officer's direction. The litigation is ended as of December 20, 2019.

(c) In the normal course of business, the Group of Companies enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies its respective directors, officers and certain employees, either through corporate by-laws or indemnity agreements, against claims and expenses incurred by them as a result of serving as directors or officers of the Group of Companies or as directors or officers or in a similar capacity of another entity at the request of the Group of Companies.

These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(d) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, an outflow of resources is probable, and amounts can be reasonably estimated.

(e) Some of the Corporation's owned buildings have asbestos-containing materials, which the Corporation would be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the consolidated financial statements as there is currently no significant obligation to remove and dispose of asbestos-containing materials.

The fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates, and as a result no provision has been recorded in the consolidated financial statements. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

17. Loans and Borrowings

As at December 31 (in millions)	2019 Fair value[3]	2019 Carrying value	2018 (Restated – Note 5) Fair value[3]	2018 (Restated – Note 5) Carrying value
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,2]	$ 666	$ 498	$ 617	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2]	554	499	553	499
Total loans and borrowings (all non-current)	$ 1,220	$ 997	$ 1,170	$ 997

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
3. The estimated fair values disclosed for loans and borrowing are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2019 and 2018.

Additional information regarding the Group of Companies' externally imposed capital requirements and borrowing capacity is disclosed in notes 19 and 20 (c).

Interest expense on loans and borrowings amounted to $42 million (2018 – 42 million, restated) and is accrued to trade and other payables. Interest paid is included in cash flows from operating activities in the consolidated statement of cash flows.

Future principal repayments on loans and borrowings were as follows:

As at December 31 (in millions)	2019	2018
Maturity:		
2025	$ 500	$ 500
2040	500	500
	$ 1,000	$ 1,000

18. Lease Liabilities

(a) Lease liabilities

As at December 31 (in millions)	2019	2018 (Restated – Note 5)
Maturity analysis – contractual undiscounted cash flows		
Less than one year	$ 156	$ 146
One to five years	512	488
More than five years	1,073	1,015
Total undiscounted lease liabilities	**$ 1,741**	$ 1,649
Lease liabilities in the consolidated statement of financial position	**$ 1,299**	$ 1,163
Current lease liabilities	**$ 116**	$ 109
Non-current lease liabilities	**1,183**	1,054

Included in the above table are lease payments (undiscounted cash flows) to be made to related parties in the normal course of business, in the amount of $42 million for premises used in postal operations and transportation services (December 31, 2018 – $27 million). Leases that have not yet commenced, but which have been committed as at December 31, 2019, have future cash outflows of $7 million that are excluded from the measurement of lease liabilities.

The following table presents the financial information for the lease activities recorded within other operating costs in the consolidated statement of comprehensive income.

As at December 31 (in millions)	2019	2018 (Restated – Note 5)
Low value asset lease payments	$ 6	$ 5
Short term lease payments	4	3
Sublease income	(13)	(13)

(b) Changes in liabilities arising from financing activities

(in millions)	December 31, 2018 (Restated – Note 5)	Payments	Interest	Net lease additions	**December 31, 2019**
Lease liabilities	$ 1,163	$ (153)	$ 39	$ 250	**$ 1,299**

19. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* (Acts) and any directives issued pursuant to the Acts. The Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, while maintaining basic postal service and in carrying out its objectives, the Corporation must have regard for the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that meets the needs of the people of Canada.

The Corporation views capital as the sum of loans and borrowings, other liabilities (non-current) and equity of Canada. This definition of capital is used by management and may not be comparable to measures presented by other postal organizations or public companies.

Total outstanding loans and borrowings were $997 million at December 31, 2019, and 2018 (Restated – Note 5). The equity of Canada was in a deficit position of $107 million at December 31, 2019, compared to a deficit position of $210 million as at December 31, 2018 (Restated – Note 5). The increase in the equity of Canada was primarily attributable to the remeasurements of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit.

The Corporation's objectives in managing capital are as follows:

- Provide sufficient liquidity to support and repay its financial obligations and support its operating and strategic plans.
- Maintain financial capacity and access to credit facilities to support future development of the business.

These objectives and their related strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan, which is then forwarded for Treasury Board approval. The Corporation's 2019-23 Corporate Plan was approved by the Treasury Board January 31, 2019. The Corporation's 2020-24 Corporate Plan was filed with the Minister responsible for Canada Post on November 6, 2019, however it was not forwarded to Treasury Board for approval.

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk arising from financial instruments in Note 20 (c). Pursuant to the *Financial Administration Act,* Part X, the Corporation must indicate its intention to borrow money in the annual Corporate Plan, or in an amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Treasury Board. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The Corporation's borrowing limit, other than from the Crown, is authorized pursuant to *Appropriation Act No. 4, 2009-10*. The *Canada Post Corporation Act* provides a maximum limit for borrowing from the Government of Canada's Consolidated Revenue Fund and for the establishment of a share capital structure, giving the Corporation the ability to raise funds through the issuance of shares to the Government of Canada and to the Corporation's employees. No such shares have been issued. Additional information regarding the Corporation's total authorized borrowing limit is disclosed in Note 20 (c).

The Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, subsidiaries must satisfy certain restrictive covenants related to funded debt to income before interest, tax and depreciation and amortization, and interest coverage ratios. The subsidiaries are in compliance with all covenants.

20. Financial Instruments and Risk Management

Financial risk factors

The Group of Companies' financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and commodity risk), credit risk and liquidity risk. Risk management for investment activities is carried out by the Corporate Treasury function under policies approved by the Board of Directors. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return, consistent with the investment policies approved by the Board of Directors. The Group of Companies has various other financial instruments, such as trade and other receivables, trade and other payables and salaries payable, which arise directly from operations. The Group of Companies enters into derivative contracts to manage certain risks in accordance with its risk management policy. Derivatives are never purchased for speculative purposes.

Risk management strategies are likely to evolve in response to future conditions and circumstances, including the effects and consequences resulting from changes in the economic environment. These future strategies may not fully insulate the Group of Companies in the near term from adverse effects, the more significant of which relate to liquidity and capital resources as well as exposure to credit losses.

(a) Market risk

Market risk is the potential for loss that may arise from changes in external market factors, such as interest rates, foreign exchange rates and commodity prices.

(a.1) Interest rate risk • The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities and are classified as fair value through other comprehensive income. Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value for changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment liabilities to which they are externally restricted. The average duration in the segregated securities portfolio was 12 years as at December 31, 2019 (2018 – 12 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities and other comprehensive income or loss by $61 million at December 31, 2019 (2018 – $63 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. Substantially all of the Group of Companies' loans and borrowings have fixed interest rates with prepayment terms at a premium to fair value.

(a.2) Foreign exchange risk • Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro (€), British pound (£), Japanese yen (JP¥) and Chinese renminbi (CN¥), whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the five currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures, where cash flows are highly probable. The forward contracts outstanding were as follows:

As at December 31, 2019
(in millions)

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$54	$ 71	$1.321/US$	January 17, 2020	Sell forward	$ 1
Euro	€36	53	$1.467/€	January 17, 2020	Sell forward	1
British pound	£8	13	$1.732/£	January 17, 2020	Sell forward	–
Japanese yen	JP¥1,100	13	$0.012/JP¥	January 17, 2020	Sell forward	–
Chinese renminbi	CN¥94	18	$0.187/CN¥	January 17, 2020	Sell forward	–
Total		**$ 168**				**$ 2**

As at December 31, 2018
(in millions)

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$37	$ 49	$1.335/US$	January 10, 2019	Sell forward	$ (1)
Euro	€15	23	$1.52/€	January 11, 2019	Sell forward	(1)
British pound	£3	5	$1.706/£	January 11, 2019	Sell forward	–
Japanese yen	JP¥600	7	$0.012/JP¥	January 11, 2019	Sell forward	–
Chinese renminbi	CN¥45	9	$0.195/CN¥	January 11, 2019	Sell forward	–
Total		$ 93				$ (2)

The foreign exchange gains (losses) and derivative gains (losses) were recognized as follows:

For the year ended December 31
(in millions)

	2019			2018		
	Foreign exchange losses	**Derivative gains**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (9)	$ 1	$ (8)	$ 8	$ (3)	$ 5
Realized	(2)	6	4	10	(8)	2
Total	**$ (11)**	**$ 7**	**$ (4)**	$ 18	$ (11)	$ 7

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2019, all other variables held constant, would have been an increase or decrease in net profit for the year by $10 million (2018 – $10 million).

(a.3) Commodity risk • The Group of Companies is inherently exposed to fuel-price increases. It partially mitigates this risk through the use of a fuel-price surcharge on some of its products. This is an industry-accepted practice and long-standing technique in mitigating risk and as a result, does not require derivative instruments to manage the remaining exposure to commodity risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations, resulting in financial loss to the Group of Companies. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards.

The carrying amount of financial assets recorded in the consolidated financial statements, which are presented net of expected credit losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe that it is subject to any significant concentration of credit risk.

(b.1) Cash equivalents, marketable securities and segregated securities • Credit risk arising from investments in cash equivalents, marketable securities and segregated securities is mitigated by investing with issuers who meet specific criteria and imposing dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations must be investment grade ratings with minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service (DBRS) ratings of R-1 (middle) for short-term investments and A for long-term investments. The Group of Companies regularly reviews the credit ratings of issuers with whom the Group of Companies holds investments and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels.

Cash equivalents, marketable and segregated securities, which are investments in debt securities, are considered to have low credit risk, and thus the impairment provision recognized during the period was limited to 12-month expected losses. The probability-of-default approach is used to determine the 12-month expected credit loss, which uses a historical default rate implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. The debt securities are grouped by their individual credit rating and the 12-month expected credit loss is measured on a collective basis. A security designated to be in default implies that the issuer has either not met a legally scheduled payment or has made it clear that it will miss such a payment in the near future or, in certain cases, that there has been a distressed exchange. The debt securities are considered credit impaired when they are in default. There were no significant allowance and no impairment loss on investments recognized during the year and or held at year's end (2018 – nil).

The following table shows the credit risk concentration by credit risk rate grades of debt securities held as cash equivalents, marketable securities and segregated securities:

For the year ended December 31 (in millions)			**2019**			2018
	R-1 (high)[1] / AAA[4]	**R-1 (middle)[2] / AA[5]**	**R-1 (low)[3] / A[6]**	R-1 (high) / AAA	R-1 (middle) / AA	R-1 (low) / A
Cash equivalents	**$ 80**	**$ 51**	**$ 44**	$ 89	$ 80	$ –
Marketable securities	**$ 453**	**$ 290**	**$ 505**	$ 924	$ 411	$ 135
Segregated securities	**$ 184**	**$ 75**	**$ 255**	$ 154	$ 85	$ 256
12-month expected credit loss rate	**0.00%**	**0.08%**	**0.08%**	0.00%	0.08%	0.08%

The Dominion Bond Rating Service (DBRS) credit risk rate grades applicable to cash equivalents and marketable securities are considered investment grade and are defined as follows:
1. R-1 (high): Highest credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is exceptionally high. It is unlikely to be adversely affected by future events.
2. R-1 (middle): Superior credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is very high. It differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.
3. R-1 (low): Good credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is substantial. Overall strength is not as favourable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

The DBRS credit risk rate grades applicable to segregated securities are considered investment grade and are defined as follows:
4. AAA: The loan portfolio (of debt securities) is considered to be of the highest credit quality.
5. AA: The loan portfolio (of debt securities) is considered to be of superior credit quality.
6. A: The loan portfolio (of debt securities) is considered to be of good credit quality.

The gross carrying amount of the debt securities approximates their net carrying amount due to the low expected credit loss rate.

(b.2) Trade and other receivables • Credit risk associated with trade receivables from wholesale and commercial customers is mitigated by the Group of Companies' large customer base, which covers substantially all business sectors in Canada. The Group of Companies follows a program of individual customer credit evaluation based on financial strength and payment history, and limits the amount of credit extended when deemed necessary. The Group of Companies monitors customer accounts against these credit limits and the aging of past-due invoices. The Group of Companies establishes an allowance for doubtful accounts using the simplified approach, which requires the use of lifetime expected credit losses. The Group of Companies estimates the lifetime expected losses from a combination of historical write-off percentages and forward-looking information used to identify a deterioration of credit, either at company level or macroeconomic level. A trade receivable designated to be in default implies that the customer has not met the agreed payment terms and has stated through internal collection efforts that it will not pay part or all of the amount due. Trade receivables that are sent to third-party collection agency are automatically considered in default. Trade receivables are considered credit impaired when they are in default. Despite continued weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with prior years. Weekly and ad hoc monitoring of aged receivables and the day's outstanding sales has indicated no significant change in the trend of the aging of receivables.

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service (USPS), is generally mitigated by corresponding trade payables to each foreign postal administration, under the provisions of the Universal Postal Union. Amounts receivable from and payable to the USPS are settled independently under the bilateral agreement between the Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics for weights and number of pieces exchanged by Canada and the United States. Final settlement with each foreign postal administration can be billed a year or more after the service is performed.

The age of receivables and the allowance for doubtful accounts for trade and other receivables were as follows:

As at December 31 (in millions)	**2019**	2018
Trade receivables:		
Current	$ 494	$ 557
1-15 days past due	75	115
16-30 days past due	35	43
Over 30 days past due	48	38
Allowance for doubtful accounts	(5)	(5)
Trade receivables – net	647	748
Trade receivables from foreign postal administrations	259	190
Risk management financial assets	2	–
Other receivables	103	41
Trade and other receivables	**$ 1,011**	$ 979

The allowance for doubtful accounts is a provision representing potential accounts receivable losses. A weighted average expected loss rate for the Group of Companies ranged from 0% to 1.2% (2018 – 0% to 1.0%), based on historical write-offs, is applied to current and past due amounts and trade receivables aging is monitored to identify potential credit deterioration. When credit deterioration is indicative of a possible economic downturn, a factor is applied to the historical rate. The allowance may also include balances known to be in default which have not been written off because internal collection efforts continue.

The reconciliation of the allowance for doubtful accounts for trade receivables as at December 31, 2019, was as follows:

As at December 31 (in millions)	**2019**	2018
Opening allowance for doubtful accounts:	**$ 5**	$ 7
Increase in allowance in the period recognized in profit and loss	3	2
Decrease from write-off	(3)	(4)
Closing allowance for doubtful accounts:	**$ 5**	$ 5

(c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2019. Special solvency payments related to the obligations of the Canada Post Corporation Registered Pension Plan will be required in 2020, however securing temporary relief from making these payments is the Corporation's preferred short-term solution, and Canada Post is working with all stakeholders including its shareholder, the Government of Canada, to explore short-term options. The coronavirus (COVID-19) which was declared a pandemic in March 2020 and the related market volatility of market-driven discount rates and returns on pension plan assets could have a negative effect on our pension plan deficit in 2020 and solvency payments for 2021 and thereafter, which could be significantly higher than expected. See Note 10 (i) for additional information. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted to the Treasury Board for approval on the recommendation of the Minister responsible for Canada Post and the Minister of Finance, as part of its Corporate Plan approval process (Note 19). Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance. As part of the total authorized borrowing limit, a maximum of $100 million (2018 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2019.

The Corporation's loans and borrowings amounted to $997 million (2018 – $997 million, restated), and letters of credit of $13 million (2018 – $13 million) were issued at December 31, 2019. No amounts were drawn on the short-term borrowing facilities as of December 31, 2019.

As at December 31, 2019, the Corporation's subsidiaries had access to financing facilities totalling $135 million (2018 – $135 million), of which $16 million (2018 – $28 million) was drawn at year's end. The subsidiaries also had letters of credit issued in the amount of $7 million (2018 – $7 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 17.

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

As at December 31, 2019 (in millions)	**Effective interest rate**	**Less than one year**	**Later than one year and not later than five years**	**Later than five years**	**Total**
Non-interest bearing[1]	N/A	$ 1,158	$ 1	$ –	$ 1,159
Bonds, Series 1	4.39%	22	87	849	958
Bonds, Series 2	4.12%	20	82	520	622
		$ 1,200	**$ 170**	**$ 1,369**	**$ 2,739**

As at December 31, 2018 (in millions, Restated – Note 5)	Effective interest rate	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	N/A	$ 948	$ –	$ –	$ 948
Risk management liabilities	N/A	2	–	–	2
Bonds, Series 1	4.39%	22	87	871	980
Bonds, Series 2	4.12%	20	82	541	643
		$ 992	$ 169	$ 1,412	$ 2,573

1. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Liquidity risk arising from financial instruments is also affected by the Group of Companies' management of debt and equity levels that is summarized in Note 19.

21. Commitments

The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $352 million that extend to 2024.

In the normal course of business, the Group of Companies enters into contractual arrangements for the supply of goods and services over periods extending beyond one year. Disbursements largely depend on future volume-related requirements and are subject to the Group of Companies' contractual rights of termination.

22. Revenue from Contracts with Customers

The following tables provide information about trade and other receivables (including contract assets) and contract liabilities from contracts with customers. Contract assets relate to the Group of Companies' rights to consideration for parcels in-transit at the reporting date. The contract assets are transferred to receivables when rights become unconditional, which occurs shortly after the reporting date due to the short parcel delivery cycle.

As at December 31 (in millions)	**2019**	2018
Receivables from contracts with customers	$ 969	$ 925
Other receivables	37	40
Contract assets	5	14
Total trade, other receivables and contract assets	**$ 1,011**	$ 979

As at December 31 (in millions)	**2019**	2018[1]
Contract liabilities included in:		
Deferred revenue (current)	152	153
Other liabilities (non-current)	4	5
Total	**$ 156**	$ 158

The following table includes a reconciliation of contract liabilities:

As at December 31 (in millions)	**2019**	2018[1]
Contract liabilities beginning of period	$ 158	$ 143
Revenue recognized included in Deferred revenue (current) and Other liabilities (non-current), beginning of the period	(154)	(138)
Increase due to cash received or amounts billed, excluding amounts recognized as revenue during the period	152	153
Contract liabilities end of period	**$ 156**	$ 158

1. Disclosure revised to exclude refund liabilities.

23. Other Operating Costs

For the year ended December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Non-labour collection, processing and delivery	$ 1,608	$ 1,557
Property, facilities and maintenance	275	261
Selling, administrative and other	612	538
Other operating costs	**$ 2,495**	$ 2,356

24. Investing and Financing Income (Expense)

For the year ended December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Interest income	$ 62	$ 49
Loss on sale of capital assets and assets held for sale	(2)	(6)
Other income	4	14
Investment and other income	**$ 64**	$ 57
Interest expense	$ (82)	$ (79)
Other expense	(12)	(14)
Finance costs and other expense	**$ (94)**	$ (93)
Investing and financing expense, net	**$ (30)**	$ (36)

25. Other Comprehensive Income

(in millions)	Items that may subsequently be reclassified to net profit (loss): Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Item never reclassified to net profit (loss): Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2017	$ 51	$ 3	$ 54		
Gains (losses) arising	$ (17)	$ 2	$ (15)	$ 545	$ 530
Income taxes	4	–	4	(137)	(133)
Net	$ (13)	$ 2	$ (11)	$ 408	$ 397
Accumulated balance as at December 31, 2018	$ 38	$ 5	$ 43		
Gains (losses) arising	$ 29	$ –	$ 29	$ 130	$ 159
Income taxes	(8)	–	(8)	(31)	(39)
Net	**$ 21**	**$ –**	**$ 21**	**$ 99**	**$ 120**
Accumulated balance as at December 31, 2019	**$ 59**	**$ 5**	**$ 64**		

26. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other government agencies and departments, and Crown corporations. The Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements:

(a) Government of Canada, its agencies and other Crown corporations

For the year ended December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Related party revenue	**$ 240**	$ 227
Compensation payments for programs		
Government mail and mailing of materials for persons who are blind	**$ 22**	$ 22
Payments from related parties for premises leased from the Corporation	**$ 8**	$ 8
Related party expenditures	**$ 24**	$ 22

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage (Note 2).

As at December 31 (in millions)	**2019**	2018
Due to/from related parties		
Included in trade and other receivables	**$ 15**	$ 13
Included in trade and other payables	**$ 10**	$ 9
Deferred revenue from related parties	**$ 2**	$ 1

For related party lease information, refer to Note 18 (a).

(b) Key management personnel compensation

Key management personnel (KMP) are defined as the Boards of Directors and members of the senior executive teams responsible for planning, controlling and directing the activities of the Group of Companies.

The remuneration of the KMP was as follows:

For the year ended December 31 (in millions)	**2019**	2018
Short-term employee benefits	$ 13	$ 11
Post-employment benefits	1	1
Total compensation	**$ 14**	$ 12

The KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.7 million (2018 – $0.5 million).

In addition to the amounts in the table, KMP remuneration relating to one-time termination benefits of $0.8 million was incurred in 2019 (2018 – $0.5 million). There were no transactions with the KMP other than compensation.

(c) Transactions with entities in which the KMP of the Canada Post Group of Companies has control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by the KMP of the Group of Companies. Affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2019, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $14 million (2018 – $14 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(d) Transactions with the Corporation's pension plans

During the year, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $12 million (2018 – $13 million). As at December 31, 2019, $13 million (2018 – $14 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 10 (i).

27. Segmented and Disaggregation of Revenue Information

(a) Operating segments • A description of the Group of Companies' operating segments can be found in the significant accounting policies (Note 3 [o]). The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3). Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities. With the exception of the information technology (IT) business unit delivering shared services on a cost-recovery basis, the terms and conditions of these transactions are comparable to those offered in the marketplace. On a consolidated basis, no external customer's purchases account for more than 10% of total revenue.

For the year ended December 31, 2019, the IT business unit earned intersegment revenue of $277 million (December 31, 2018 – $226 million), incurred cost of operations of $277 million (December 31, 2018 – $226 million), and earned net profit of nil (December 31, 2018 – nil). Total assets and liabilities at December 31, 2019, were $146 million and $97 million, respectively (December 31, 2018 – $130 million and $82 million, respectively – restated).

For the year ended and as at December 31, 2019
(in millions)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,683	$ 1,907	$ 309	$ –	$ 8,899
Intersegment revenue	65	27	37	(129)	–
Revenue from operations	$ 6,748	$ 1,934	$ 346	$ (129)	$ 8,899
Labour and employee benefits	$ 4,798	$ 885	$ 172	$ 112	$ 5,967
Other operating costs	1,828	801	113	(247)	2,495
Depreciation and amortization	309	84	38	(1)	430
Cost of operations	$ 6,935	$ 1,770	$ 323	$ (136)	$ 8,892
Profit (loss) from operations	$ (187)	$ 164	$ 23	$ 7	$ 7
Investment and other income	$ 107	$ 6	$ –	$ (49)	$ 64
Finance costs and other expense	(73)	(18)	(3)	–	(94)
Profit (loss) before tax	$ (153)	$ 152	$ 20	$ (42)	$ (23)
Tax expense (recovery)	(53)	39	5	–	(9)
Net profit (loss)	$ (100)	$ 113	$ 15	$ (42)	$ (14)
Total assets	$ 9,170	$ 1,392	$ 288	$ (323)	$ 10,527
Additions to capital assets	$ 458	$ 106	$ 24	$ 3	$ 591
Total liabilities	$ 9,678	$ 768	$ 182	$ (29)	$ 10,599

For the year ended and as at December 31, 2018
(in millions, Restated – Note 5)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,562	$ 1,829	$ 281	$ –	$ 8,672
Intersegment revenue	58	23	38	(119)	–
Revenue from operations	$ 6,620	$ 1,852	$ 319	$ (119)	$ 8,672
Labour and employee benefits	$ 4,882	$ 830	$ 163	$ 110	$ 5,985
Other operating costs	1,718	759	105	(226)	2,356
Depreciation and amortization	301	86	29	(3)	413
Cost of operations	$ 6,901	$ 1,675	$ 297	$ (119)	$ 8,754
Profit (loss) from operations	$ (281)	$ 177	$ 22	$ –	$ (82)
Investment and other income	$ 77	$ 2	$ 1	$ (23)	$ 57
Finance costs and other expense	(72)	(18)	(3)	–	(93)
Profit (loss) before tax	$ (276)	$ 161	$ 20	$ (23)	$ (118)
Tax expense	(74)	43	5	1	(25)
Net profit (loss)	$ (202)	$ 118	$ 15	$ (24)	$ (93)
Total assets	$ 8,989	$ 1,278	$ 246	$ (302)	$ 10,211
Additions to capital assets	$ 302	$ 45	$ 35	$ 5	$ 387
Total liabilities	$ 9,586	$ 649	$ 152	$ (2)	$ 10,385

(b) Geographic area revenue information

Revenue reported for geographical areas outside of Canada is, for the Corporation, based on the location of the foreign postal administration hiring the service, and based on the location of the customer hiring the service for the other segments and the business unit. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

For the year ended December 31 (in millions)	**2019**	2018 (Restated – Note 5)
Canada	$ 8,376	$ 8,175
United States	259	259
Rest of the world	264	238
Total revenue	**$ 8,899**	$ 8,672

(c) Products and services revenue information

Revenue reported for products and services is based on information available at the time of sale, such that stamps and meter revenue are reported separately, rather than being attributed to the lines of business.

For the year ended December 31, 2019 (in millions)	**Total revenue**	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed to products and services			
Transaction Mail	$ 1,926	$ (2)	$ 1,924
Parcels	4,927	(113)	4,814
Direct Marketing	1,065	–	1,065
Other revenue	494	(290)	204
	$ 8,412	**$ (405)**	**$ 8,007**
Unattributed revenue			
Stamp postage	$ 362	$ –	$ 362
Meter postage	530	–	530
	$ 892	**$ –**	**$ 892**
Total	**$ 9,304**	**$ (405)**	**$ 8,899**

For the year ended December 31, 2018 (in millions, Restated – Note 5)	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 1,899	$ (2)	$ 1,897
Parcels	4,593	(116)	4,477
Direct Marketing	1,098	(1)	1,097
Other revenue	451	(226)	225
	$ 8,041	$ (345)	$ 7,696
Unattributed revenue			
Stamp postage	$ 409	$ –	$ 409
Meter postage	567	–	567
	$ 976	$ –	$ 976
Total	$ 9,017	$ (345)	$ 8,672

(d) Sales channel revenue information

Sales channel revenue is reported for domestic revenue from commercial customers and for domestic retail from sales to consumers. International revenue includes revenue from the United States and the rest of the world as defined in Note 27 (b).

For the year ended December 31, 2019 (in millions)	**Total revenue**	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 6,341	$ (116)	$ 6,225
Retail	2,162	–	2,162
	$ 8,503	$ (116)	$ 8,387
International	$ 523	$ –	$ 523
Other	$ 278	$ (289)	$ (11)
Total	**$ 9,304**	**$ (405)**	**$ 8,899**

For the year ended December 31, 2018 (in millions, Restated – Note 5)	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial[1]	$ 6,141	$ (119)	$ 6,022
Retail[1]	2,145	–	2,145
	$ 8,286	$ (119)	$ 8,167
International	$ 497	$ –	$ 497
Other[1]	$ 234	$ (226)	$ 8
Total	$ 9,017	$ (345)	$ 8,672

1. Prior year revenue was reclassified due to a realignment of the reporting structure

28. Subsequent Events

The coronavirus disease (COVID-19), declared a pandemic in March 2020, did not have a material impact on the 2019 consolidated financial statements. However, it has the potential to significantly impact the Canadian and global economy and therefore our business in 2020 and, possibly, going forward. Canadian businesses and consumers may choose to use Canada Post differently, and our suppliers and partners will experience their own impacts. Our operations will depend on recommendations by the World Health Organization and the Public Health Agency of Canada, the Government of Canada's lead for COVID-19.

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For more information, visit our website at **canadapost.ca**.

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