Financial Performance

CONTENTS

Management's Discussion and Analysis

Forward-looking Statements		37
1	Executive Summary	38
2	Core Businesses and Strategy	44
3	Key Performance Drivers	53
4	Capabilities	55
5	Risks and Risk Management	62
6	Liquidity and Capital Resources	67
7	Changes in Financial Position	73
8	Discussion of Operations	75
9	Critical Accounting Estimates, Adoption of New Accounting Standards and Accounting Policy Developments	82
10	Outlook for 2015	88

Supplementary Information

Historical Financial Information	91
Additional Information	94
Auditor's Report on Annual Cost Study Contribution Analysis	95
Annual Cost Study Contribution Analysis	96
Notes to Annual Cost Study Contribution Analysis	97

Consolidated Financial Statements

Management's Responsibility for Financial Reporting	98
Independent Auditors' Report	99
Consolidated Statement of Financial Position	100
Consolidated Statement of Comprehensive Income	101
Consolidated Statement of Changes in Equity	102
Consolidated Statement of Cash Flows	103
Notes to Consolidated Financial Statements	104

Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the year ended December 31, 2014, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. This discussion should be read with the consolidated financial statements and accompanying notes for the year ended December 31, 2014, which were prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to March 12, 2015, unless otherwise noted.

Management is responsible for the information presented in the Annual Report. All references to "our" or "we" are references to management of Canada Post. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements.

Materiality

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of the financial information.

Forward-looking statements

This Annual Report, including this 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 forward-looking 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 5 – Risks and Risk Management page 62 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.

The forward-looking statements included in this Annual Report are made only as of March 12, 2015, and the Corporation does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

An overview of the Canada Post Group of Companies and a summary of 2014 financial results

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies employs about 65,000 people making it one of Canada's largest employers. In 2014, our employees delivered over nine billion pieces of mail, parcels and messages to 15.7 million addresses in urban, rural and remote locations across Canada. The Canada Post segment operates the largest retail network in Canada with almost 6,300 retail post offices. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Transport and has a single shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians. The Corporation provides quality postal services to all Canadians – rural and urban, individuals and businesses – 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 revenue, 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. Pursuant to 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 people who are blind. Canada Post also offers a discounted library materials rate to allow public and academic libraries to 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 exclusive privilege is losing its value in a digital world.

Around the world, posts are experiencing a structural shift in demand away from traditional mail to digital alternatives. Posts have responded to their changing environment in a number of ways, including restructuring operations, modernizing processing and delivery networks, reducing the number of owned postal outlets and their workforce, and enhancing their parcel services to take advantage of the growing e-commerce market. Some posts are also offering digital mail services to complement their physical mail products.

Change is also happening in Canada. With the increasing popularity of internet and mobile devices, Canada Post is facing a pivotal period in its history. Canadian households and businesses are relying far less on Lettermail™ services, which has led to a significant drop in Lettermail volumes. In fact, in 2014, we delivered 3.6 billion pieces of Domestic Lettermail, 1.4 billion (or 28%) less than we did in the peak year of 2006. Yet, the same internet is creating the largest opportunity for us to deliver more packages as Canadians are buying more and more items online. We announced the Five-point Action Plan in December 2013 to help us make the necessary changes to our business model and succeed in this highly competitive environment. The Action Plan is intended to build a new, flexible cost structure that will allow us to prepare for further Lettermail erosion and compete in a highly contested parcel market. It centres around five initiatives:

1. converting the one third of Canadian households, representing approximately five million addresses in 2013 that received their mail at the door, to community mailbox (CMB) delivery;
2. introducing a tiered pricing structure for Lettermail to better reflect the cost of serving various customer segments;
3. expanding access and convenience to postal services through franchises;
4. streamlining internal operations;
5. addressing the cost of labour.

These initiatives are the foundation of a strategy to help Canada Post return to profitability and ensure that the Corporation remains financially viable and self-sustaining. Once fully implemented, four of the five initiatives are expected to contribute an estimated $700 million to $900 million per year to the Corporation's bottom line. Progress of the Action Plan initiatives that began in 2014 is as follows.

Community mailboxes

We completed community mailbox installations for approximately 100,000 addresses across Canada. These installations were the first conversions of households, previously receiving mail at the door, to community mailbox delivery and part of a five-year national initiative that will involve roughly five million addresses. Canada Post followed a robust municipal engagement strategy, which included working with elected officials, municipalities and residents to ensure open communication, collaboration and consultation throughout the implementation. Residents were asked to provide feedback on factors such as the proximity of CMB locations, safety and accessibility. Implementation will accelerate in the next four years and consultations and conversions are under way and progressing well for some 900,000 conversions slated for 2015.

A new approach to Lettermail pricing

We introduced a tiered pricing structure for domestic and international letters March 31, 2014. Under the new structure, customers who wish to purchase a single domestic stamp pay full price, with discounts available for customers who buy stamps in booklets, coils and panes, for businesses that use postage meters or indicia, and for incentive Lettermail customers who meet volume and preparation requirements. The pricing for U.S., international and oversized Lettermail has also increased, falling in line with new domestic pricing levels. However, these services do not include different prices for single stamps.

Expanding convenience through postal franchises

In retail initiatives, our focus was on streamlining the network of corporate post offices where customer traffic patterns warranted, such as changing hours of operation and opening new dealer-managed (franchise) outlets to provide added convenience to customers.

Streamlining operations

To streamline internal operations, we made changes to the national mail processing network to improve efficiencies and reduce costs by extending the use of high-speed mail processing equipment. The changes involved consolidating Lettermail processing into larger plants within the major urban centres including the transfer of mail processing from plants in Ottawa, London and Saint John to plants in Montréal, Toronto and Halifax. As well, we officially opened our Pacific Processing Centre (PPC) near the Vancouver International Airport in Richmond, British Columbia to capitalize on the major growth of e-commerce across Canada. The PPC, a vital international gateway, links Canadian markets and merchants with the bustling economies of Asia and the Pacific Rim. The 700,000-square-foot plant is one of the most technologically advanced postal facilities in North America and includes some of our largest, fastest and most efficient mail-processing and package-sorting equipment.

Addressing the cost of labour

On the labour front, Canada Post signed new collective agreements with the Public Service Alliance of Canada/Union of Postal Communications Employees and the Association of Postal Officials of Canada. The agreements provide modest wage increases, and for existing employees, preserves job security provisions and the defined benefit pension plan. New employees now receive a lower starting annual wage rate and are eligible for a defined contribution pension plan.

In February 2014, the Government of Canada also provided relief to Canada Post from the requirement to make special payments to its Registered Pension Plan (RPP) during the period from 2014 to 2017 to allow Canada Post time to address the RPP's sustainability. During the relief period, Canada Post will work with its unions and other representatives of RPP members to restructure the Registered Pension Plan. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period.

Financial highlights

Despite the challenges faced by the postal industry, the Canada Post Group of Companies realized a profit before tax of $269 million in 2014, compared to a loss before tax of $58 million in 2013. The Canada Post segment realized a profit before tax of $194 million in 2014, compared to a loss before tax of $125 million in 2013. Financial results for 2014 were mostly influenced by the following factors.

Parcels growth

The increasing popularity of online shopping, especially in the business-to-consumer e-commerce delivery market, led to another year of strong Parcels growth. In 2014, revenue from our Parcels line of business increased by $120 million or 8.6% while Parcels volumes increased by 7 million pieces or 4.6% in 2014, compared to 2013. This included a very successful fourth quarter, propelled by a very successful holiday season, which boosted Parcels revenue and volumes by $41 million or 7.5% and 3 million pieces or 5.2% respectively compared to 2013.

Lettermail rate increases

Rate increases were introduced March 31, 2014, in a new tiered pricing structure for Lettermail. This commercial approach to pricing contributed to an increase in Domestic Lettermail revenue of $214 million in 2014, compared to 2013, despite mail-volume erosion.

Mail-volume erosion in Transaction Mail

Mail volumes continued to decline in 2014 for Transaction Mail, our largest line of business. With more Canadians managing their communications online, demand for Lettermail has drastically declined over the last number of years. In 2014, the Canada Post segment experienced a decline of 207 million pieces (5.4%) in Domestic Lettermail, compared to 2013. Canadian points of delivery have increased over the last eight years (by an average of 170,000 per year), resulting in higher costs due to the obligation to provide delivery service to more addresses. In 2014, the mail volume decline per address was 6.1%.

Lower employee benefit expenses

Employee benefit expenses dropped significantly in 2014 compared to 2013. The prior year's discount rates and other actuarial assumptions, as well as asset balances, are used to calculate the current year's employee benefit expenses. Strong pension asset returns of 16.9% in 2013 and an increase in discount rates as at December 31, 2013, (to 5.0%), partially offset by changes in mortality rates in 2013 (to reflect the fact that plan members are living longer), helped reduce our non-cash employee benefit expenses by over $180 million in 2014, compared to 2013.

Productivity improvements

We achieved productivity improvements and cost savings through a focus on various operational initiatives, the Five-point Action Plan, Postal Transformation and IT restructuring. As a result, in 2014, despite inflationary pressures, we were able to reduce costs of operations (excluding employee benefit costs, one-time project expenses and amortization) by $41 million, compared to 2013.

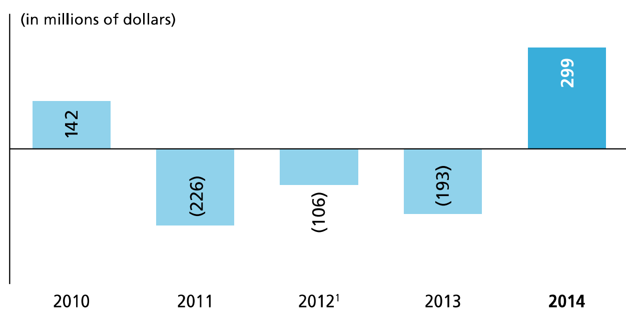
Size and volatility of pension and other post-employment benefits

The solvency deficit to be funded for the Canada Post Corporation Registered Pension Plan is estimated at $6.8 billion (using the three-year average solvency) as at December 31, 2014. Significant obligations of the RPP and other post-employment benefits continued to be a concern for the Corporation. The large size and volatility of these obligations compared to our cash position and profit put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one year 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. During 2014, this volatility negatively affected the Group of Companies' defined benefit plans, causing remeasurement losses of $1,879 million, net of tax, recorded in other comprehensive income (loss) and decreasing the Group of Companies' equity balance to negative $2.0 billion as at December 31, 2014. These remeasurement losses were mostly the result of a decrease in discount rates in 2014, partially offset by a change in assumptions for long-term post-retirement health care benefits to reflect the lower long-term health care cost trend. Without pension funding relief permitted by legislation, Canada Post would have been required to make special contributions to the RPP of approximately $1.3 billion in 2014.

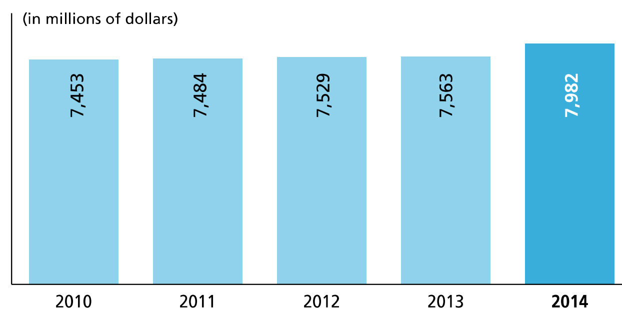
The Canada Post Group of Companies – 2014

The 2014 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

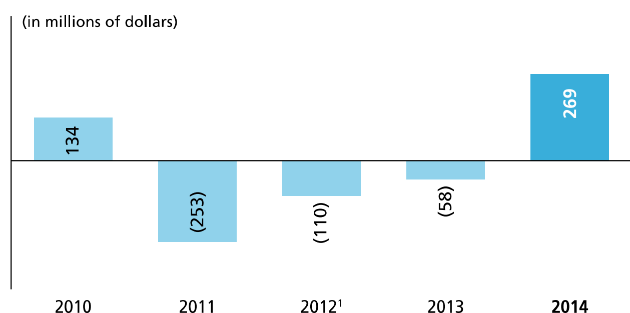
Consolidated profit (loss) from operations



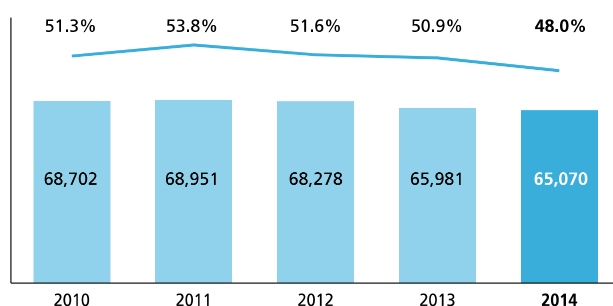
Consolidated revenue from operations



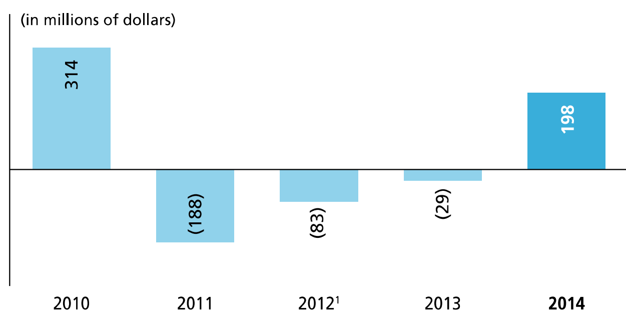
Consolidated profit (loss) before tax



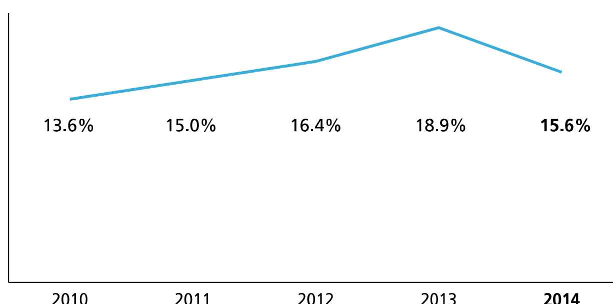
Labour as a percentage of revenue from operations combined with Number of employees[2]



Consolidated net profit (loss)



Employee benefits as a percentage of revenue from operations



1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.

The following table presents the Corporation's consolidated performance for the 2014 fiscal year compared to 2013.

(in millions of dollars)

Year ended December 31	2014	2013	Change	%	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 75.
Revenue from operations	7,982	7,563	419	5.5	Mainly due to growth in Parcels revenue and an increase in Lettermail revenue (due to the Domestic Lettermail rate action in the Canada Post segment), offset by volume erosion caused by electronic substitution, bill consolidation and intense competition in Canada Post's Transaction Mail and Direct Marketing lines of business.
Cost of operations	7,683	7,756	(73)	(0.9)	Mainly due to lower employee benefit costs and productivity improvements in the Canada Post segment.
Profit (loss) from operations	299	(193)	492	–	
Profit (loss) before tax	269	(58)	327	–	Mainly due to growth in Parcels revenue, an increase in Lettermail revenue (due to rate action and lower than expected erosion) and lower employee benefit costs in the Canada Post segment.
Tax expense (income)	71	(29)	100	–	
Net Profit (loss)	198	(29)	227	–	
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 67.
Cash and cash equivalents	677	468	209	44.6	Increase mainly due to cash provided by operating activities.
Cash provided by operating activities	592	326	266	81.6	Mainly driven by higher revenues and profits across the Group of Companies.
Cash used in investing activities	(359)	(134)	(225)	(165.7)	Mainly due to an increase in net acquisitions of securities and lower proceeds from the sale of capital assets in the Canada Post segment.
Cash used in financing activities	(24)	(22)	(2)	(12.4)	No material change.

Outlook 2015

For Canada Post, 2015 will be a critical year in transforming the business from a mail-centric model to a parcel-centric business. The key to this transformation will be the execution of the Five-point Action Plan. In particular, we will invest heavily in accelerating the conversion of households from door-to-door delivery to community mailboxes, continue to optimize the retail network, streamline operations and prepare for the next rounds of negotiations with the Canadian Union of Postal Workers. Transformation will also include continued investment in operational tools, equipment, processes and infrastructure to drive improvements in costs, service, and health and safety. These investments will build the foundation of a new postal system with a flexible cost structure that will prepare the Corporation for the persistent decline in mail volumes, lay the foundation to take advantage of the rise in e-commerce and allow Canada Post to compete in a highly contested parcel market.

Lettermail erosion is expected to continue in 2015. While Domestic Lettermail volumes dropped by 5.4% in 2014 compared to 2013, the amount of Lettermail erosion for 2015 is difficult to predict and represents a significant risk to the Corporation. Patterns in past digital disruptions, from film to digital cameras or from compact discs to downloads and streaming, show that volumes do not follow a smooth decline and can drop dramatically, often earlier than expected. We are working hard to address this challenge and ensure that we remain financially sustainable.

While the shift to electronic delivery is expected to cause Lettermail volumes to drop in 2015, it is also expected to drive more parcel volumes and revenue growth, especially in the business-to-consumer market. This will create opportunities for Canada Post and its subsidiaries as Canadians do more online shopping and increase their reliance on parcel delivery. Continuing to succeed in the parcel business will be crucial to the success of the Canada Post Group of Companies.

The Direct Marketing line of business, which generates about $1.2 billion or about 20% of Canada Post's revenue, continues to present a challenge to and an opportunity for growth. Direct mail, for example, represents just a fraction of Canada's $16 billion advertising market, but it holds the unique position of putting a company's message directly into the hands of prospective customers. As marketers and their clients look to stand out in a competitive digital marketing space, Canada Post sees growth potential in Direct Marketing and will work towards creating new product offerings that are better targeted and more personalized.

Employee benefit costs are expected to increase substantially in 2015 compared to 2014, mostly due to a decrease in 2014 discount rates, which will be used to calculate benefit plan costs in 2015. This increase in costs, combined with expected Lettermail erosion and more normal price increases, is forecasted to result in a loss in the Canada Post segment in 2015. Changes in discount rates can cause employee benefit costs to increase or decrease by hundreds of millions of dollars. This volatility demonstrates that Canada Post must continue to focus on fundamental changes that will ensure sustainable financial performance.

In 2015, Canada Post Corporation will continue to focus on addressing the sustainability of its Registered Pension Plan. Pension obligations are substantial compared to the financial position and income of the Corporation, and investment returns, discount rates and changes in other assumptions have caused considerable volatility. The Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments into the RPP until 2018. However, without structural change to address the volatility, swings in RPP solvency could lead to required payments beyond 2017 that would easily overwhelm any increase in cash from corporate earnings or cost savings and threaten the sustainability of the Corporation and the RPP. As a result, Canada Post will continue working with its unions and other representatives of RPP members to face these challenges and restructure the Registered Pension Plan.

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 in the business of connecting the people of Canada and enabling remote commerce across a vast and diverse nation. Our vision is to be a world leader in providing innovative physical and electronic delivery solutions, creating value for our customers, employees and all Canadians.

The Canada Post Group of Companies provides a full range of delivery, logistics, and fulfillment services to customers and, combined, has annual revenue of approximately $8 billion. The Group of Companies has the largest retail network in Canada with 7,000 retail locations, operates a fleet of 16,000 vehicles and employs some 65,000 people.

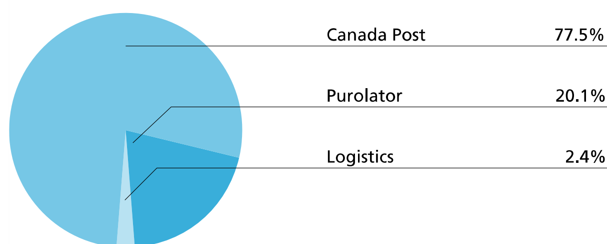
Our employees deliver over nine billion pieces of mail, parcels and messages each year to 15.7 million addresses in urban, rural and remote locations across Canada.

Canada Post is the largest segment of the Group of Companies with revenue of $6.2 billion in 2014. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, Admail™ products and periodicals.

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider with revenue of $1.7 billion in 2014.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions with revenue of $223 million in 2014.

Revenue by segment – 2014

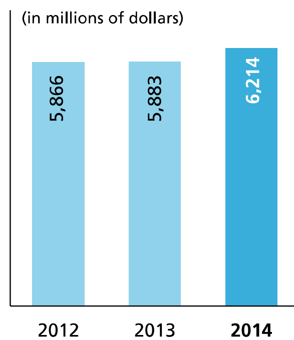


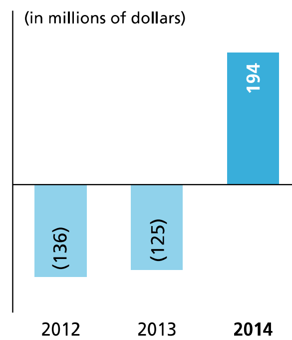
Revenue by segment	2012	2013	2014
Canada Post	77.6%	77.5%	77.5%
Purolator	20.4%	20.3%	20.1%
Logistics	2.0%	2.2%	2.4%

Canada Post segment

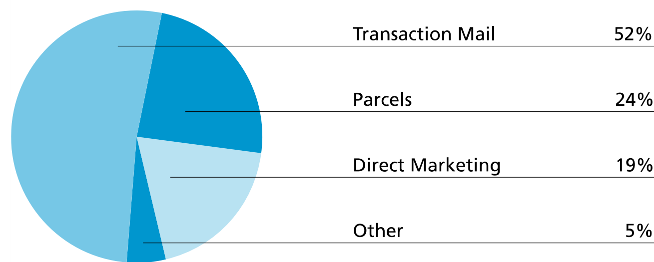
Canada Post operates Canada's largest retail network with almost 6,300 retail post offices, has a fleet of almost 12,000 vehicles and in 2014, delivered nine billion pieces of mail and parcels. With 51,000 employees, Canada Post provides service to 15.7 million addresses.

The Canada Post segment generated revenue of $6.2 billion and, after excluding intersegment revenue, represents 77.5% of the Group of Companies' 2014 consolidated revenue of $8 billion.





The following chart illustrates the distribution of Canada Post's revenue by line of business, as percentages of the segment's total.



Revenue by line of business	2012	2013	2014
Transaction Mail	51%	50%	52%
Parcels	22%	24%	24%
Direct Marketing	22%	21%	19%
Other	5%	5%	5%

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 is our line of business that generates the most revenue and includes three product categories, Domestic Lettermail™, Outbound Letter-post and Inbound Letter-post.

Transaction Mail accounts for $3.2 billion or 52% of Canada Post's 2014 operating revenue of $6.2 billion. Transaction Mail revenue increased by $238 million in 2014, compared to 2013, due to the strategic rate increase introduced for Lettermail that took effect March 31, 2014. The majority of Transaction Mail revenue is derived from traditional physical mail delivery services, with Domestic Lettermail accounting for 91%. However, Lettermail volumes are declining rapidly as Canadians are adopting digital alternatives. This decline is creating a profound effect on a business model founded on paper-based communications.

Customers include businesses and consumers, but the bulk of Lettermail is from businesses, mainly from four industry segments: financial institutions, telecommunications, government and utilities.

Parcels

The Parcels line of business offers Canadians a wide range of delivery services covering 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 of delivery, ranging from urgent-next-day to non-urgent delivery, where transit time is determined by the transportation mode of ground, air or both.

Parcels account for $1.5 billion or 24% of Canada Post's 2014 operating revenue of $6.2 billion. The Parcels line of business has been growing steadily over the last couple of years with the increased popularity of e-commerce. This has created new opportunities for Canada Post, especially in the business-to-consumer market, to benefit from an extensive retail network and expertise in delivery to Canadian addresses.

Customers include businesses, consumers, governments, posts and other delivery companies.

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary products: Addressed Admail™, Unaddressed Admail™ and Publications Mail™. The Addressed Admail product allows customers to personalize mailings and tailor promotional messages to specific consumers or prospects. The Unaddressed Admail product enables customers to reach specific neighbourhoods or regions across Canada. The Publications Mail service includes the distribution of periodicals, such as newspapers, magazines and newsletters.

Direct Marketing accounts for $1.2 billion or 19% of Canada Post's 2014 operating revenue of $6.2 billion. Canada Post has experienced challenges in trying to achieve growth in this competitive segment. There has been a lot of experimentation in the marketing industry as businesses have allocated more of their marketing spending to less costly digital alternatives in order to maximize returns of their advertising campaigns.

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 epost™ (an online bill-presentation service that allows users to receive, pay and manage bills in one place), mail redirection, data products, and commemorative stamps, gifts and coins.

The Other category accounts for almost $300 million or 5% of Canada Post's 2014 operating revenue of $6.2 billion.

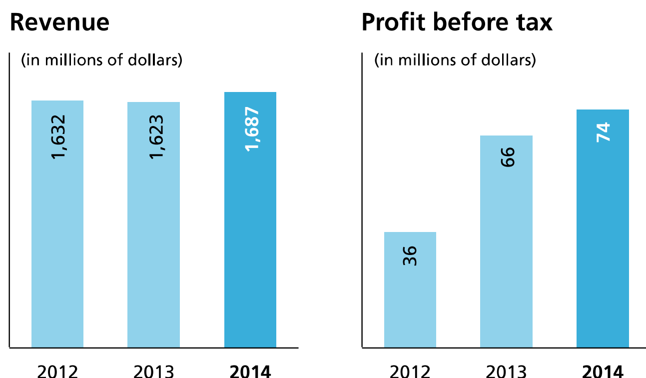
Customers include businesses, governments and consumers.

Purolator segment

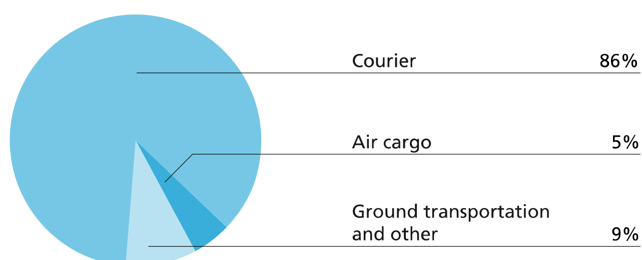
Purolator is Canada's leading integrated freight, parcel and logistics solutions provider. Celebrating over 50 years of delivering on its customers' promises, Purolator continues to expand its reach and renowned service levels and reliability to more people, more businesses and more places across the country and around the world. Purolator is focused on positioning itself for future growth and success. Purolator has an extensive service network in Canada that includes 170 operations facilities, 125 shipping centres, 595 authorized shipping agents and 250 drop boxes as well as two customer contact centres and 10 PostNet™ business centres.

In 2014, Purolator generated revenue of $1.7 billion, which after excluding intersegment revenue, represented 20.1% of the 2014 Group of Companies' consolidated revenue of $8 billion.

Benefiting from its industry-leading service and reliability, Purolator is able to focus on satisfying the needs of the business-to-business segment of the market through a broad array of services within, to and from Canada. This complements the Canada Post Group of Companies' service offerings and contributes to synergies within the Group of Companies.



Revenue by market – 2014



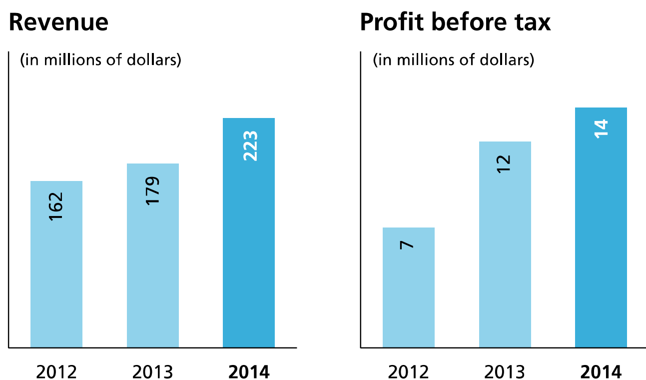
Revenue by market	2012	2013	2014
Courier	85%	86%	86%
Air cargo	6%	5%	5%
Ground transportation and other	9%	9%	9%

Logistics segment – SCI Group

Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI-White Glove Services), SCI Group 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.

SCI Group offers 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.

SCI Group generated revenue of $223 million, which, after excluding intersegment revenue, represented 2.4% of the 2014 Group of Companies' consolidated revenue of $8 billion.



2.2 Our business environment

Global trends

The global economy built some momentum in 2014, but entered the new year on a volatile note due largely to the unexpected sharp drop in oil prices along with continued troubles in the Eurozone and Russia and slowdowns in several emerging economies. It appears that ongoing growth in 2015 will rely on a continued U.S. recovery that is dependent on the stronger U.S. dollar driving consumer and capital spending in that country and increased U.S. demand for lower priced imports. Continued low oil prices will contribute to overall economic volatility and could lead to cutbacks in oil producing countries, which will further slow world economic growth.

The strong link between mail volumes and economic performance began to diminish in the late 1990s as consumers and businesses gained freer access to the internet. This trend has grown increasingly acute with the advent of more accessible and mobile digital communications platforms. The International Post Corporation (IPC) reports an average decline of more than 17% in mail volumes per household, from 2009 to 2013, among 36 participating postal administrations. Challenged to manage an increasingly expensive and expanding delivery network in an environment of decreasing volumes, many posts are pursuing creative solutions to manage costs. Some are redesigning their networks to respond to the rise in e-commerce requirements and the need for extended retail hours. Australia Post has introduced a strategy that focuses on creating a high quality parcels network with a global perspective, expanding the retail network of flagship superstores and developing a secure digital environment for all Australians. It is expanding its logistics offerings through the acquisition of a logistics provider and has built a strong international presence through partnerships with other posts. It has introduced flexible delivery options and 24/7 secure parcel lockers to address consumer convenience. Despite these efforts, it is forecasting a loss for the 2015 fiscal year. Other posts have made the case to their regulating bodies to change the conditions of their USO to match current market and financial realities. Beginning July 2015, New Zealand Post will reduce delivery to households in larger urban areas to every second day.

Some posts remain encumbered by status-quo policy choices in the face of overwhelming evidence that operating and policy reform is urgently needed. For example, the United States Postal Service has experienced a decline of more than 27 per cent in mail volume since 2006. It recorded net losses of $5.0 billion and $5.5 billion in fiscal years 2013 and 2014, and expects to continue to record similar losses without significant structural change.

Canada

Despite a positive result in 2014, Canada Post continues to face significant challenges that threaten its sustainability. Mail volumes continue to decline while the number of delivery points increases, resulting in a decline of 30% in the number of pieces of mail delivered per address between 2008 and 2014. The defined benefit pension deficit continues to put pressure on liquidity. Canada Post faces competitive challenges from an inflexible and high-cost structure that threaten long-term profitability in a growing e-commerce market. In December 2013, Canada Post released the Five-point Action Plan to address operational sustainability, while enabling the Corporation to refocus its attention on a growth agenda that will help ensure future profitability and its ability to fulfill the USO. In 2015, our attention will turn to growth strategies in direct marketing and e-commerce, and a retail strategy with a proactive focus on customer service.

Transaction Mail (excluding outbound)	2008	2009[1]	2010	2011	2012	2013	2014
Delivered volume percentage change	(1.6)%	(5.5)%	(3.9)%	(3.7)%	(6.1)%	(4.9)%	(5.0)%
Delivery addresses percentage change	1.4%	1.2%	1.0%	1.0%	1.0%	1.0%	1.2%
Mail volume percentage decline per address	(2.9)%	(6.7)%	(4.9)%	(4.6)%	(7.0)%	(5.9)%	(6.1)%

1. In 2010, a methodology change was implemented and 2009 was restated for comparability. Had 2008 been restated, the 2009 delivered volume percentage would have been (3.9)% and the mail volume percentage decline per point of delivery would have been (5.1)%.

2.3 Our strategy and strategic priorities

Canada Post

Canada Post is facing a monumental shift in its business, as the rise in digital communications has dramatically changed how Canadians use postal services. Digital platforms are rapidly replacing paper as the medium of choice to communicate, invoice, pay bills and advertise. This behavioural shift is putting downward pressure on our revenue, at a time when the number of addresses in the network are increasing each year, and our cost base is largely fixed.

Canada Post must adapt to the changing needs of Canadians by providing services our customers require. In this important role, Canada Post will be an essential enabler of communication and commerce, and offer the kinds of services that our customers require – where and when they want them.

In developing our strategy, we examined the changing needs of our customers, the options for the delivery of more parcels and less Lettermail, the competitive environment in which we operate, the need to permanently adjust our cost structure, the way we can manage rising costs associated with new addresses, and the volatility of the Canada Post Corporation Registered Pension Plan and its impact on cash.

Our strategic priorities will guide us to meet the emerging postal needs of Canadians, while addressing our financial challenges so that we can continue to remain financially self-sufficient. Our main strategic priorities consist of redefining postal service through the successful implementation of the Five-point Action Plan; becoming an e-commerce enabler by promoting the growth of our Parcels and Logistics business and expanding e-commerce activities; and developing winning marketing solutions by evolving direct mail to ensure relevance in the new digital and social media context.

Redefining postal service through the Five-point Action Plan

The postal service of the future will reflect and serve Canadians' new postal needs – one with a greater number of parcels and less Lettermail. On December 11, 2013, Canada Post announced its Five-point Action Plan to better serve all customers and return the Corporation to profitability. The announcement followed broad engagement with Canadians to identify how their needs and expectations were changing. In 2014, Canada Post began implementing the plan, which will form the foundation of a new postal system designed to serve Canadians' evolving postal needs and help the Corporation succeed in the digital age. Canada Post has begun making major changes in delivery, retail, operations, and pricing. Five initiatives form the basis of a sustainable business model to help Canada Post build the foundation of a new postal system. Implementation is expected to take five years to complete, and once fully implemented, four of the five initiatives are expected to contribute an estimated $700 million to $900 million per year to the Corporation's bottom line.

Community mailboxes

The size and the shape of mail is changing as Canadians are now receiving more parcels and fewer letters. At the same time, our customers are leading busier lives. Community mailboxes (CMB) address these realities by offering a safe, secure and close-to-home solution for customers to pick up their mail and parcels, at their convenience.

The conversion to CMBs is the most visible part of the Five-point Action Plan. Delivery, from postal facility to final destination, accounts for a significant portion of Canada Post's operating costs and CMB conversion will provide considerable savings, mostly from reductions in the number of delivery employees, as delivering to a community mailbox takes much less time than delivering to the door. Canadian households that still receive mail at the door, representing about five million addresses, are starting to be converted to community mailbox delivery. This conversion initiative will continue at an accelerated rate over the next four years with approximately 900,000 conversions slated for 2015. While this is a significant change for Canada Post's operations and for affected Canadians, it will standardize the mode of delivery across the country and will not affect the majority of Canadians – those who are already receiving delivery to CMBs or have centralized delivery to a lock-box within their apartment, condo, or retirement residence, rural Canadians with lot-line delivery or most businesses located in designated business zones.

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

A new approach to pricing

As part of the Five-point Action Plan, Canada Post introduced a new tiered pricing structure for domestic and international letters on March 31, 2014. This structure offers a more commercial approach that better reflects the cost of serving various customer segments, while encouraging the purchase of multiple stamps in a single transaction and recognizing the loyalty of consumers and small businesses that use the postal service most.

The 2014 rate action contributed to an increase in Domestic Lettermail revenue of $214 million compared to 2013 and was sufficient to overcome year-over year volume erosion of 5.4%. While the level of erosion was lower than expected in 2014, considering the new pricing structure, we know that future erosion for Lettermail will not follow a straight and predictable path. Long-term assumptions for significant Lettermail erosion remain high as commercial mailers seek to reduce costs and optimize digital technology. As a result, Canada Post is vulnerable to any changes in mailing behaviour of a small group of commercial customers.

More normal price increases are planned for 2015 and future price adjustments beyond 2015 will take into account the impact on customers, mail volumes and revenue.

Expanding convenience through postal franchises

Canada Post has the most extensive retail network in Canada with almost 6,300 postal outlets, which includes both corporate and dealer-operated post offices. While many Canadians are taking advantage of our online platform (canadapost.ca) to perform many day-to-day transactions, such as purchasing stamps, our retail network is still important to Canadians and key to fulfilling their desire for improved e-commerce parcel services.

The Corporation will strengthen its retail network by seeking new partnerships with retail businesses to open more dealer post offices – "the shop within a shop" – across Canada. These franchises are popular with customers because they are located where people do their shopping and are open at more convenient times than many corporate outlets. They provide our customers with more choices for picking up parcels and for returning them when needed. This is especially important for sensitive and high-value items, and parcels too large to fit in a CMB, as well as customers who want to collect parcels near work or a surprise gift for a member of the household.

Canada Post will streamline the network of traditional post offices by reducing hours or closing locations where traffic patterns warrant. Corporate post offices have a much higher cost structure than dealer post offices, and many do not generate enough revenue to support costs. Canada Post will also examine less expensive alternatives for serving customers who wish to perform standard parcel and stamp transactions, such as kiosks and a light version of our point-of-sale system for parcel pickups. All changes will honour the *Canadian Postal Service Charter*, the moratorium on closing rural post offices and collective agreements.

Streamlining operations

Lettermail volumes have been declining for years, while the number of parcels continues to grow. This has led to excess capacity in our processing functions, particularly for mail sortation and distribution. As fewer individuals send and receive traditional Lettermail, and more of the items we deliver originate in retail warehouses in larger centres, the existing structure of the network is becoming less suitable to mail traffic flows. To adapt to this new reality, we are realigning our operations network to improve efficiency while focusing on parcel growth. This began in 2010 with major investments as part of the Postal Transformation project, where aging sortation and delivery processes were aggressively replaced with more modern and cost-effective approaches driven by technology. The sortation equipment in place today is very fast and accurate and can sequence mail along the delivery personnel's line of travel for each route. Economies of scale are being realized by consolidating Lettermail processing into major plants within major urban centres to benefit from the use of cost-effective, high-speed automated mail processing equipment. There has also been a massive shift toward motorization, where many carriers now leave their depot with a fuel-efficient vehicle containing mail and parcels for delivery. This improvement provides a better end-customer experience, especially in the Parcels business, at a much lower cost. Canada Post will continue to transform its operations to meet the changing needs of Canadians, allowing it to realize significant annual savings, achieve efficiency improvements and better serve the growing parcel market.

Addressing the cost of labour

The future health of the business depends on the ability to be as cost-competitive and as operationally flexible as possible. This is essential in a highly competitive parcel market of an increasingly digital world. A realignment of labour costs to reflect changes to the business is crucial to our success. We plan to bring the cost of labour, as well as pension and employee benefit costs, in line with that of competitors through attrition and collective bargaining. With around 15,000 employees expected to retire or leave the Corporation over the next five years, we will have an opportunity to reduce the workforce by between 6,000 and 8,000 positions as we implement changes laid out in the Five-point Action Plan. We will continue to work with the unions to strengthen our competitiveness and sustainability, while trying to minimize the impact of changes on existing employees. Regulations introduced by the Government of Canada in February 2014 provide relief from the need to make special payments into the RPP for four years (from 2014 to 2017). This relief will give us time, as we work with our unions and other representatives of RPP members, to take necessary steps to permanently address the sustainability of the RPP. A leaner workforce will make us more flexible, more competitive, and more able to respond quickly to the changing marketplace.

Becoming an e-commerce enabler

The growth of e-commerce and the popularity of online shopping among Canadians is creating significant opportunities for Canada Post. While growth in Parcels alone will not offset Lettermail erosion, it is central to our future. We have made significant investments to develop our products, services and operations. This focus on innovation and convenience, our unparalleled market coverage, with almost 6,300 post offices across the country, and the development of new delivery services, such as FlexDelivery™ and same-day delivery, will help ensure that we are well-positioned to benefit from e-commerce growth and maintain our leadership position in this highly competitive business-to-consumer market. Concentrated efforts and investments in our scanning and tracking capabilities will also be a focus, as visibility of purchases throughout the shipping process is a key requirement for online shoppers. Positioning ourselves as the preferred provider for business-to-consumer deliveries in Canada, with an emphasis on improving relationships with e-commerce shippers and foreign posts to enhance the delivery experience and differentiate us from competition in residential delivery.

Developing winning marketing solutions

Canada Post's direct mail products (Addressed Admail and Unaddressed Admail) represent a small percentage (approximately 6%) of the Canadian advertising market. While print advertising, including direct marketing, has experienced a loss of market share because of the rise of internet and mobile advertising, direct mail remains an important part of a multimedia mix for large and small businesses. Recently, however, marketers have become increasingly doubtful of digital advertising and its soft metrics. This "digital doubt," coupled with two key market trends, is setting the stage for a resurgence in direct mail. The first trend, constant digital connectivity, has fundamentally changed how customers manage life, consume content and interact with brands – creating an expectation from customers that businesses know their preferences and provide them with a more personalized experience. The second trend is a convergence of offline and online channels into one seamless omni-channel shopping and buying interaction that is organized around a brand experience. In this digitally mature marketplace, marketers are finding that, while digital media is generating a lot of customer interaction, it is under-delivering on action. Therefore, Canada Post's direct mail products are uniquely positioned to take the lead in the next generation of direct marketing as they are affordable and provide customers with an excellent return on their investment. Their physical nature provides certain advantages that digital offerings cannot match and they can be targeted, allowing marketers to use data to personalize their messages and reach consumers at home. Direct marketing can also be a valuable part of a multimedia campaign. Our strategy will focus on reframing the direct mail value proposition for today's competitive market by innovating and redesigning our products to make them easier to use with simpler pricing.

Growing customer loyalty

Canada Post is one of the few organizations that can call all Canadians customers. Canada Post will focus on growing customer loyalty by managing digital and physical life cycles and developing a data-based, customer-centric view with the help of our online capabilities. We will also bring more and more services online to improve customer access to our products, better align our operations to meet customer needs and simplify our processes to make it easier for customers to do business with us.

Enhance our brand and promote our role as the trusted intermediary

Canada Post is one of the five most well-known companies in Canada. While the Canada Post brand is recognized for being trusted, providing quality service and value, it is in the midst of a significant and visible transformation. Our objective is to maintain our strength in attributes associated with serving the needs of Canadians and contributing positively to Canadian society; we also seek to develop our brand by expanding our e-commerce and digital offerings and moving the business forward, in order to be known as a more innovative, customer-centric and agile company.

Create an empowered, agile workforce to address evolving customer needs

The changes under way at Canada Post represent a fundamental shift for its workforce. For many employees, the daily experience they have known for a long time will change dramatically. Engaged employees are a critical element of a successful Corporation. In today's highly competitive environment, customers have choices that employees can influence. While we continue to transform our business, we are still focusing our efforts on employee engagement and putting initiatives in place to create an environment where employees feel empowered to use their experience and judgment to create solutions, identify efficiencies and opportunities, and manage customer needs.

Purolator

Purolator's long-term vision is to make Canada stronger by delivering on its customers' promises, and this mandate remains the driving force in its strategic direction – building enterprise capabilities to maintain courier market leadership and be the leading provider of integrated business-to-business (B2B) transportation and logistics solutions within, to and from Canada. Purolator's market proposition continues to focus on building innovative solutions, maintaining a superior and reliable network and delivering exceptional customer service.

Purolator's strategic initiatives are anchored on three strategic pillars:

- maintaining a sustainable operating model,
- protecting core markets,
- generating new profit streams.

Purolator's Operations Process Transformation strategy (PuroNext) is a major enterprise undertaking aimed at building on a leading and sustainable operating model that includes major investments in its data repository, workforce mobility technology and route optimization. These operational investments are a foundation to support value-added freight, courier and logistics services for customers, and enable overall customer experience improvement through data visibility and flexible service offerings.

To maintain its current market position and protect core markets, Purolator must continue to strengthen its ability to service the market, while continually improving the customer experience. Ongoing investment to expand Purolator's product portfolio in response to market shifts for courier and freight remains a priority. Customer-facing technology investments, such as commercial Web service capabilities for the B2B e-commerce market, a customer data visibility portal and mobile applications, are just a few key customer-focused strategies.

To generate new profit streams, Purolator Logistics, an initiative of the Canada Post Group of Companies that uses the logistics knowledge and experience of SCI, provides value-added service capabilities beyond transportation.

SCI Group

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

In 2015, SCI will continue to focus on profitable growth. This will come from targeted verticals such as retail, e-commerce, health care and technology, the growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives.

3 Key Performance Drivers

A discussion of our key achievements in 2014

As discussed in Section 2.3 – Our strategy and strategic priorities, our main strategic priorities are focused on refining postal service through the successful implementation of the Five-point Action Plan and pursuing growth opportunities that build on or complement our core assets and capabilities.

The Canada Post segment uses performance scorecards to monitor progress against strategic priorities and provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management.

Here, we summarize some of our key achievements in 2014.

Achieving leadership in e-commerce through excellence in home delivery

- We increased Parcels revenue to over $1.5 billion in 2014 (an increase of 8.6% over 2013), and Parcels revenue from our top 25 e-commerce customers grew by almost 30% over 2013.
- We enhanced end-to-end visibility between major plants within the Canada Post delivery network through the deployment of nesting in selected locations. Nesting is the linking of items to containers, containers to shipping units, and shipping units to trailers. We linked the barcode on the trackable item to the container's identification and scanned the containers on the transportation vehicle. This enhancement allows customers to see when their item departs and arrives between these major plants.
- We continued to enhance the convenience of the online shopping experience for shoppers and merchants with parcel Web Services. Launched in 2012, Web Services enable the integration of Canada Post shipping information into a merchant's website. In 2014, we had 250 new Web service integrations and over 3,000 customers integrated with Web Services, twice the amount we had in 2013, and merchants increased their shipping transactions with Canada Post.
- To meet merchant and shopper demand for same-day delivery in large urban centres, we expanded our Delivered Tonight service (from the Greater Toronto Area in 2013) to include the Greater Vancouver Area during the 2014 holiday shopping season. The service was available to over six million consumers and those shoppers who ordered products through participating online retailers earlier in the day had their order delivered to them that same evening.
- The FlexDelivery™ service was piloted with employees, their friends and family. The solution is a new delivery option that allows customers to have packages delivered to a post office of their choice – near their home, their office or anywhere in the country – for pickup at their convenience.
- We installed 377 additional parcel lockers in apartment buildings and condominiums across Canada. They allow parcels and packages to be delivered safely and securely even when residents are not home to receive them.
- We continued to build our presence in the e-commerce community through our parcel brand campaigns. Key themes were Delivering the Online World™ and holiday pickups and returns. The campaigns were supported by advertising across several media platforms, including television commercials, to promote our e-commerce leadership position and superior convenience for parcel delivery. In addition, on September 23, 2014, we hosted the third annual Canada Post E-commerce Innovation Awards™ at a sold-out event in Toronto to honour companies that have transformed the Canadian online retail sector.

Redefining postal service through the Five-point Action Plan

- We converted approximately 100,000 households in 11 municipalities, served by 13 depots and 2,886 CMB sites, from door-to-door delivery to CMB delivery. Conversions led to 130 route reductions and almost 300 route restructures.
- We introduced a new tiered pricing structure for domestic and international letters on March 31, 2014, which helped increase Canada Post's revenue by over $200 million, compared to 2013.
- We streamlined the network of corporate post offices and saved costs by changing hours of operation and closing over 45 corporate postal outlets, where customers were already well served by other more convenient locations. We also extended access to customers by establishing agreements with new retailers to sell Canada Post products.
- We completed mail processing transfers for three major plants and consolidated 15 distribution centre facilities into major plants.
- We carefully managed attrition, which allowed us to minimize the need for hiring staff and achieve labour savings, while respecting the provisions of our collective agreements. New collective agreements were negotiated with the Public Service Alliance of Canada/Union of Postal Communications Employees and the Association of Postal Officials of Canada to help address our labour costs, including pension, and help the Corporation adapt to changing postal needs of Canadians.

Implementing Postal Transformation

- We ended the multi-year $1.8 billion project of Postal Transformation. As of the end of the year, the project has achieved the annual cost savings target of $250 million ahead of schedule.
- We opened the Pacific Processing Centre in Richmond, British Columbia and transferred domestic and international operations from the Vancouver Mail Processing Plant and the Vancouver Parcel Delivery Centre.
- We installed and deployed two shipping sorters in Montréal and Richmond and one international sorter in Richmond. We also consolidated the last of the original 11 separate video encoding system work centres into two fully integrated coding centres in Richmond and Toronto.
- We replaced critical infrastructure, including three new and five retrofitted depots and implemented the new delivery model in 15 depots. We also completed sequencing extension restructures in 50 depots and volume restructures in 106 depots.

Delivering training and focusing on health and safety

- We reduced lost-time injury frequency by 6% over 2013. We continue to focus on maintaining a healthy and safe workplace by always raising safety awareness with our employees and introducing initiatives to identify and promptly address high-risk situations and activities.
- We delivered just under 705,000 hours of company-wide training on updated business practices, structures and equipment to front-line employees and supervisors and also focused on employees affected by change.

Enhancing service performance and customer experience

- We exceeded on-time service performance targets for international outbound distribution and improved our performance year-over-year for all parcel categories and Addressed Admail™.
- We surpassed our originating processing scanning targets, helping to support parcel growth from e-commerce.
- We achieved customer service-level targets for answering and responding to customer queries, while contact centre call volumes dropped by 5.2% over 2013. Initiatives, such as interactive voice response changes and website improvements have reduced track-status calls and redirected calls to online self-help and automated response services.
- We continued to expand the customer on-boarding process to enhance the customer experience, and we exceeded targets for all categories of on-boarding including complex, standard and omni-channel.

4 Capabilities

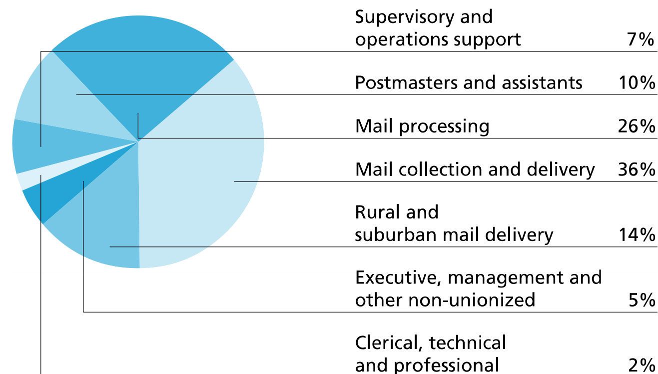
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with 65,000[1] people, including 14,000 among its subsidiaries. The workforce is diverse and is found in every urban, rural and remote community in the country.

Canada Post segment

Workforce by type of work – 2014



Employees play a vital role in the success of the Corporation and are key to delivering a positive, trusted and reliable customer experience.

Talent management and learning and development

Canada Post segment

In 2014, our human resources plan focused on leadership development, employee relations, training and workforce management. To support these initiatives, we expanded executive development, piloted a concept to improve our customer experience, launched a digital learning platform, and enhanced recruitment and attrition forecasting.

LEAD 2.0, our executive development program, was implemented for a third consecutive year as a means of strengthening the company's succession plan and facilitating cultural change. As we look forward to developing our middle management, a modified version of LEAD has been designed and will be tested in early 2015. Likewise, we launched a pilot to improve customer loyalty, starting in Nova Scotia and Calgary. This initiative aims to improve the employee and customer experience in support of our growth strategy. Early reviews have been positive and the concept will be expanded to new sites in 2015.

Training is also a key component of our human resources plan. As our Corporation transforms, our employees need to be prepared to assume new or modified roles. The launch of our new Pacific Processing Centre, for example, resulted in the delivery of over 78,000 hours of training for employees and their team leaders to ensure they were prepared for changing processes and equipment. Moreover, we invested heavily in technology in 2014 and have established digital learning classrooms in most of our plants and several depots. This investment will continue in 2015 as we implement digital learning in our remaining depots and increase the reach, effectiveness, efficiency and flexibility of our training programs.

In addition to training, the recruitment and selection process is instrumental to having the right talent that is capable of achieving our business goals. With a focus on the four designated groups (women, members of visible minorities, Aboriginal peoples and people with disabilities), we expanded our recruiting efforts to increase visibility of our job opportunities in these areas through strategic partnerships and targeted outreach. Our efforts were aligned with the commitment outlined in our 2012-14 Canada Post Employment Equity Plan. Furthermore, we continued to increase our use of social media to advertise and attract candidates and provide accessibility to our jobs on mobile devices. These efforts will be extended into 2015 with additional focus on strengthening our employment brand presence and attracting and retaining a diverse workforce. We also worked closely to match attrition with workforce reduction targets and achieve business goals, while minimizing the impact on people. This work will continue in 2015 and beyond.

1. Employment figures include full-time and part-time paid employees, and excludes temporary, casual and term employees.

Purolator

Purolator has a highly engaged workforce that takes pride in the organization. This was confirmed again by employees in the 2014 MyVoice employee engagement survey, which sampled both unionized and non-unionized employees. Feedback indicated that the organization made improvements in leadership communication and change management, which were raised as concerns in 2013. The improvements came as a result of targeted actions performed at multiple levels including presidential breakfast meetings, bi-annual town hall meetings, PuroPulse videos, and the establishment of the Organizational Change Management (OCM) office.

The significant change required by PuroNext (a five-year program of initiatives and investment for the future of Purolator) resulted in the need for the OCM office, created to coach and support employees through organizational transformation. It will engage employees and provide training and tools to ensure successful adoption of new processes and technology.

In 2014, the organization introduced the concept of shared goals. Identifying the right behaviours and ingraining them into the culture will be critical to the success of PuroNext. Also, in recognizing the importance of a well-integrated reward and recognition program, Purolator launched PuroRewards.

Purolator will adopt five new core competencies in 2015 as its cultural compass to motivate in delivering on customers' promises – change management, innovation, relationship management, communication and leadership. Sales specific competencies, which are aligned to core competencies and solutions selling, were also introduced to enable growth, increase market share and maintain customer focus.

Health and safety

Canada Post segment

Canada Post encourages a culture of health and safety and is committed to strengthening health and safety programs by identifying, preventing and controlling hazards, building safety leadership, and making continuous improvements. This strategy helped to reduce the number of injuries in 2014, dropping lost-time injury frequency by 6% on a year-over-year basis.

Slips, trips and falls and ergonomic injuries continue to be the most common causes of workplace injuries. The Corporation continues to raise awareness in the workplace and among home and business owners as such injuries are preventable. Coaching and leadership on safe practices related to the prevention of musculoskeletal injuries were a focus in both processing and delivery activities.

Several other initiatives have contributed to improving workplace health and safety. As our delivery model changes, safety remains at the forefront. Leadership safety action plans continue to target local safety issues and high-risk areas.

Activities designed to improve compliance with statutory health and safety requirements were also performed. Three hundred and sixty seven facilities with dock operations were assessed for compliance to statutory and corporate requirements. Gaps were identified and remedial measures implemented.

The safety management system continues to be enhanced to improve the overall management of safety priorities and programs throughout the Corporation. Focus in 2015 will be on the safe conversion of delivery from door-to-door to the community mailbox model.

Health and safety of rural and suburban mail carriers

Rural customers typically receive their mail in a rural mailbox (RMB) at their driveway entrance. These rural addresses represent about 5% of the 15.7 million addresses in Canada. Continued urbanization in Canada has increased the volume and speed of rural traffic and raised potential safety hazards for rural and suburban mail carriers.

To avoid potential repetitive strain injuries and address ergonomic concerns, we continue to deploy right-hand drive vehicles or reaching devices for those addresses where employees deliver mail through the passenger-side window of a vehicle.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
CUPW-UPO[2]	34,195	January 31, 2016
CUPW-RSMC[3]	7,211	December 31, 2015
CPAA[4]	5,512	December 31, 2014
APOC[5]	3,493	March 31, 2018
PSAC/UPCE[6]	1,307	August 31, 2016
Total	**51,718**	

1. All full-time and part-time employees including those on unpaid leave, as at December 31, 2014; excludes temporary, casual and term employees.
2. 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.
3. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.
4. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.
5. 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.
6. 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.

Pay equity update

In 2012, Canada Post commenced the complex process of reviewing tens of thousands of employee files in preparation for payments to eligible employees following the Supreme Court of Canada ruling in favour of the Public Service Alliance of Canada (PSAC). The parties subsequently signed a memorandum of agreement outlining the details of eligibility, calculation methodology, application of interest and payment process. Pay equity payments commenced in August 2013 and are ongoing. Canada Post is now working with the Canada Revenue Agency to reach remaining potentially eligible individuals whom the Corporation has been unable to contact. In addition, Canada Post will use other avenues to connect with eligible former employees.

Association of Postal Officials of Canada (APOC)

The previous collective agreement between Canada Post and APOC expired March 31, 2014. The Association represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees. Negotiations for a new collective agreement began in the first quarter of 2014 and an agreement was recently ratified. The new four-year agreement contains modest wage increases in the second and fourth years and no increases in the first and third years. For existing employees, the agreement also preserves job security provisions and the defined benefit pension plan. Employees hired after March 1, 2015, will receive a lower starting annual wage rate, less vacation, and will attain job security after 10 years of continuous employment with the Corporation. In addition, they will be eligible for a defined contribution pension plan in lieu of the defined benefit plan. Like the Public Service Alliance of Canada agreement finalized earlier in 2014, this agreement will help address our labour costs.

Canadian Postmasters and Assistants Association (CPAA)

The current collective agreement between Canada Post and CPAA expired December 31, 2014. Negotiations commenced in the first quarter of 2015. CPAA represents rural post office postmasters and assistants. The CPAA agreement provides for a final offer selection process as a means to resolve outstanding issues in place of a strike or lockout.

Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO)

Canada Post has two separate collective agreements with the Canadian Union of Postal Workers. During 2014, Canada Post continued to meet CUPW-UPO and discuss the Corporation's business and pension-related challenges. Canada Post and CUPW-UPO are now in the last year of the collective agreement, expiring January 31, 2016.

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

Canada Post and CUPW-RSMC are now in the final year of the four-year collective agreement, which will expire December 31, 2015.

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

On May 12, 2014, Canada Post and PSAC/UPCE signed a new collective agreement, which expires August 31, 2016. 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. The four-year collective agreement contains modest wage increases in the first two years and no increases in the final two years. For existing employees, the agreement also preserves job security provisions and the defined benefit pension plan. Employees hired after May 12, 2014, will receive a lower starting annual wage rate, less vacation, and will attain job security after 10 years of continuous employment with the Corporation. In addition, they will be eligible for a defined contribution pension plan in lieu of the defined benefit plan. This collective agreement will help us address our labour costs as we adapt to the changing postal needs of Canadians.

Purolator

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Teamsters[2]	8,727	December 31, 2016
		December 31, 2017
Other[3]	392	December 31, 2017
		January 31, 2015
Total	**9,119**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2014; excludes temporary, casual and term employees.
2. Teamsters represent employees in operations and clerical and administrative employees.
3. Other represents clerical and administrative employees.

The national collective agreement with the Canada Council of Teamsters for all hourly operations employees remains in force until December 31, 2016. All Teamsters clerical groups and the Union of Postal Communication Employees in British Columbia have renewed collective agreements, which expire December 31, 2017.

In 2013, the Communications, Energy and Paperworkers Union of Canada (CEP) (known in Quebec as the Syndicat canadien des employés des communications, de l'énergie et du papier [SCEP]) merged with the Canadian Auto Workers (CAW) to create a new union – Unifor. The agreement between Purolator and Unifor, which governs the employment relationship with administrative and clerical employees in Quebec, expires at the end of 2017.

Our agreement with the Canadian Office and Professional Employees Union, governing approximately seven clerical employees in Thunder Bay, expired January 31, 2015. Bargaining is expected to commence in early 2015.

Logistics – SCI Group

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Unifor – Toronto	265	December 31, 2019
Unifor – Laval	21	November 30, 2016
Total	**286**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2014; excludes temporary, casual and term employees.

On January 15, 2015, SCI and Unifor – Toronto signed a new collective agreement for five years, expiring December 31, 2019.

4.2 Our network and infrastructure

Canada Post's operating network is vast and complex and requires a coordinated effort between collection activities, mail processing plants, transportation links and delivery agents. In 2014, over nine billion pieces of mail and parcels were processed, which represents approximately 36 million items sorted and delivered daily. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. To process and deliver all the mail and parcels, our network includes the following:

- 21 mail processing plants
- 6,296 post offices, corporately owned or managed by authorized dealers
- 492 letter carrier depots
- 13,962 letter carrier routes
- 1,212 mail service carrier routes
- 26,404 street letter boxes
- 185,671 group and community mailbox sites
- 1.8 million post office boxes (including general delivery)
- 7,300 rural and suburban mail carrier routes

Key elements of the end-to-end network are mail processing and delivery, which have been undergoing significant modernization since 2009.

Our infrastructure transformation plan

In 2014, the Postal Transformation project was successfully brought to a close. The project was launched in 2008 to modernize outdated mail processing plants and equipment, automate manual sorting processes and consolidate delivery, and reduce costs while increasing productivity.

Operations at Canada Post have significantly improved as a result of Postal Transformation. Investments in high-speed, ergonomic multi-line optical character readers have increased the overall accuracy and reliability of our mail processing network. A new automated parcel sorting and container handling infrastructure introduced in all major centres has significantly improved parcel tracking and the customer experience. New systems, supported by a centralized network, automatically sort and sequence mail for an increased number of locations and allow for standardized sorting strategies. As well, we implemented a new delivery model focused on automated mail sequencing for letter carriers, motorization and consolidation of our delivery operations to improve efficiencies.

A total of approximately $1.8 billion was invested during the project, with approximately $105 million invested in 2014. At the end of the year, our total annualized benefits were $250 million, achieving our targeted savings ahead of schedule. As we transform our business from a mail centric model to a parcel centric business, the Five-point Action Plan will become the foundation of a new postal system by helping us to significantly reduce our costs and place us in a better position for growth.

Investing in our facilities, equipment and processes

The sustainability of our business requires investments in equipment and systems, and changes to our plants and depots to ensure our business continuity and prepare us for the future.

In 2014, we opened a new state-of-the-art processing centre in Richmond, British Columbia. This new facility offers the most efficient and sophisticated sorting and processing equipment in North America, allowing us to better serve and enable the e-commerce market in Canada, and the thriving markets of the Pacific Rim. We continued our work and collaboration with the Canadian Border Services Agency to modernize our exchange offices, which will carry on in 2015 to make the processing of international mail more efficient.

To benefit from the use of cost-effective, high-speed automated mail processing equipment, we began consolidating Lettermail™ processing into major urban centres. This included moving some mail processing from Ottawa to Montréal, London to Toronto, and Saint John to Halifax.

Given our focus on parcel growth, we are also continuing to modernize and increase capabilities for processing parcels of all sizes. In 2014, we completed the installation of new systems for parcel and container handling sorting systems in the Montréal and Richmond processing plants that offer fully automated capabilities and handle increasing parcel volumes from the growing e-commerce market. Packets and parcels flow through the plants where they are scanned, their size and weight confirmed, and then distributed to the correct sorting area and scanned again before being dispatched on trucks. As items are transported through the plants using automated conveyance, these upgraded systems reduce the requirement for material-handling equipment and offer significant improvements in ergonomics for our employees and reliability for our customers.

Investing in the delivery process

Canada Post delivers to 15.7 million addresses through door-to-door delivery, post office boxes, rural mailboxes and group and community mailboxes. To meet the challenge of a growing number of delivery points and improve productivity, we continued to bring the new delivery model to depots across the country. In 2014, we completed the implementation of the new delivery model in 15 of our depots including Vancouver and surrounding areas, the Greater Toronto Area and Thunder Bay.

Our investments in machine sequencing of the mail has substantially reduced the amount of manual sequencing by delivery agents and reduced the amount of detailed knowledge about addresses that delivery employees need to work efficiently. This has allowed our front-line delivery employees to focus more on the delivery of mail, parcels, packets and other products. As well, the new delivery model includes the increased use of motorization of full-service agents who deliver and pick up all products in a geographic area and increased their efficiency.

In 2014, through the implementation of the Five-point Action Plan, we converted approximately 100,000 addresses served by 13 depots in 11 communities from door-to-door delivery to CMBs. In 2015, we are ramping up conversions in different communities across Canada with approximately 900,000 addresses planned. The conversions will help standardize the mode of delivery across Canada, reduce our operating costs, while offering our customers a safe, secure and close-to-home solution for collecting their mail and parcels, at their convenience.

Capital investments

Capital asset expenditures in the Canada Post segment reached $234 million in 2014 and focused on the continued implementation of Postal Transformation, the Five-point Action Plan, the replacement of the existing asset base and facility upgrades.

The year-over-year decrease of $108 million was driven by the reduction of Postal Transformation spending as the project drew to completion and was partially offset by an increase in investment as we started community mailbox implementations under the Five-point Action Plan.

In 2015, we plan to invest $432 million in capital assets. A top priority will be implementing the Five-point Action Plan, with planned spending of $193 million in 2015 for the community mailbox and retail initiatives. We also plan to invest $95 million to replenish assets with the remaining $144 million planned for investments required to support strategic growth and transformation initiatives, and maintain critical components of our existing infrastructure. We will continue to closely monitor our financial position and change the pace of capital spending, if required, to mitigate the impact of any financial pressures.

Purolator

In 2014, Purolator invested $51 million of capital in a five-year strategic program – PuroNext, various elements of Purolator's IT transformation, and the Purolator International legacy migration project.

PuroNext is a five-year roadmap into Purolator's future and it consists of the following initiatives:

- operations process transformation
- Purolator logistics
- B2B e-commerce solutions
- express optimization
- standard LTL (less-than-truckload) freight services
- vertical solutions
- retail solutions.

In 2014, Purolator increased its investment in technology and infrastructure as it focused on enhancing online customer experience with the addition of new features such as commercial Web services and mobile solutions.

4.3 Sales channels

Retail network

Canadian consumers and businesses count on Canada Post's extensive retail network of approximately 6,300 post offices owned by the Corporation and others operated by private dealers in addition to thousands of private establishments known as stamp shops. The network of post offices operated by dealers has been highly successful in recent years as Canadians change the way they use the post office – offering convenient access, parking, longer hours of operations and located where customers shop.

From 2012 to 2014, we focused on operational excellence, particularly maximizing efficiencies within the post office network. We continued to invest in people, our customer facing systems and survey tools. Since 2014 customers are invited on their receipt to complete an online survey where they can offer feedback on a recent post office experience. In addition, using the point-of-sale system, we developed on-screen dashboards, complementary selling offers, screen prompts, direct shipment, real-time performance reporting and a sales focus program, which promotes the right products at the right time. Training videos and Web-based training modules were also introduced to support clerk knowledge and serving the customer. These enhancements promote greater value from each customer visit and drive overall performance from every store with a focus on developing a consistent positive customer experience, and supporting e-commerce.

To serve our rural clients, the retail network includes 3,700 locations in diverse and remote areas across Canada. When an unforeseen event affects the operation of a post office in a community, Canada Post ensures 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. Decisions are made on a case-by-case basis as we seek practical and sustainable solutions that satisfy the needs of the affected community.

The Retail business is evolving its focus, from generating revenue in the age of Lettermail to extending its market reach that complements Canada Post's community mailbox strategy in the competitive environment of parcel delivery. Dealer outlets offer a cost-effective way to reach and serve Canadians and are critical for our e-commerce strategy. They also provide a convenient parcel pickup solution with evening and weekend hours. Initiatives being explored to enhance the Retail business include lower cost dealer business models to allow longer hours of service and flagship stores, which may be used to pilot various customer offerings. High-speed internet and e-commerce have changed the role of the post office. As a result, we are committed to enhancing the customer experience by providing busy Canadians with the cost-effective and convenient services they demand.

Online network

Customers should be able to reach Canada Post through their channel of choice, be it in person, by telephone, on paper or online. Customers can choose to use the online channel, through the corporate website, and order-entry systems (Electronic Shipping Tools [EST and EST 2.0]), to conduct business transactions, find information, manage orders and interact with the Corporation. We aim to improve the online channel performance and heighten the customer experience across digital touch points by improving and simplifying the user experience of online channels, increasing commercialization of the Web, using online channels to support the physical network, and offering more products and services through our mobile app and the epost™ platform.

Commercial

Our commercial customers are served by our highly skilled sales force, which is structured to maximize opportunities around Web retailing, mail and our new and evolving digital suite of products. By selling our combined capabilities and business solutions – including direct marketing, courier and logistics, transportation management, fulfillment and inventory management – we are able to increase value to customers.

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 Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure.

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, 2014.

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, 2014, 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 is effective as at December 31, 2014. This process follows the best-practices 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, 2014, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5 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 a well-established and rigorous 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 the domestic and global postal industries continue to experience fundamental structural changes. An extensive enterprise risk and control assessment is conducted each year and is reported to senior management and the Audit Committee of the Board of Directors on a semi-annual basis. Significant changes to risks are also highlighted in the published quarterly financial reports.

5.1 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 strategic and operational risk and uncertainty facing the Corporation, along with associated mitigation strategies.

5.2 Strategic risks

Significant core volume declines

Canada Post is experiencing significant pressures on its volumes across its traditional lines of business. This is especially prevalent in Transaction Mail and Direct Marketing. Mail volume erosion is a fact of life for posts around the world. The availability of electronic delivery alternatives, combined with a greater level of comfort in their security and reliability mean that mail volume erosion is happening globally at an accelerated rate. Direct Marketing volumes continue to be pressured by the growth of digital alternatives and a diminishing Direct Marketing knowledge base within the advertising industry. Further acceleration in the rate of decline would have a substantial impact on the Corporation's cash flow and the capacity to maintain financial sustainability.

Risk mitigation

Canada Post is responding to the accelerated rate of volume decline through a combination of cost management, pricing changes, and diversification measures as well as service enhancements and revenue growth initiatives. Cost management is focused on the restructuring of our network. While we have gained significant operational efficiencies with the success of our Postal Transformation program, the ongoing drop in mail volumes is forcing us to explore further opportunities to modify our business model. In 2013, we unveiled the Five-point Action Plan to realign how we deliver and price postal services to meet Canadians' emerging needs, while reducing costs substantially. Beyond the Five-point Action Plan, we are pursuing growth and diversification by focusing on parcels and the rapidly growing e-commerce opportunity and by repositioning our direct mail offering.

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 over $20 billion in market value at December 31, 2014. The scale of the RPP, given its size relative to the Corporation's revenue and earnings, and funding volatility pose an ongoing risk to the Corporation's cash flows and ability to fund needed investments in modernization and growth. The RPP has three primary risk factors:

- continued low long-term interest rates, which serve to increase the pension obligation;
- lower-than-expected returns on assets, which would create a shortfall in assets available to meet the RPP's obligation;
- changes to non-economic factors, such as members' demographics.

As of December 31, 2014, the going-concern surplus is estimated at $0.5 billion, and the solvency deficit to be funded is estimated at $6.8 billion. The final actuarial valuations for the RPP will be filed by the end of June 2015 and results may differ significantly from these preliminary estimates as actuarial assumptions are being finalized.

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 page 68.

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. As a result of an asset-liability study, new asset classes have been introduced to enhance overall returns and lower volatility.

In February 2014, the Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments into the RPP for four years (from 2014 to 2017). This measure addresses the immediate need for additional liquidity. During the relief period, Canada Post will work with its unions and other representatives of RPP members to restructure the Registered Pension Plan in order to ensure its sustainability.

Successful implementation of the Five-point Action Plan

Canada Post has a mandate to fund operations with revenue from the sale of products and services, rather than become a burden on taxpayers. To achieve financial sustainability, Canada Post unveiled the Five-point Action plan. Once fully implemented, four of the five initiatives identified in this plan are expected to contribute an estimated $700 million to $900 million per year to the Corporation's bottom line. Successful implementation of the Five-point Action Plan is critical to the financial self-sufficiency of the Corporation.

Risk mitigation

Canada Post is committed to carefully and successfully implementing the Five-point Action Plan and will continue working with key stakeholder groups to understand and address potential concerns. The Strategic Initiatives Oversight Committee has been established to assist with the development and implementation of planned strategic transformation initiatives, including structural change.

Ability to execute a revenue growth and diversification strategy

To offset declining volumes in the core Lettermail™ business, Canada Post is focused on growing the e-commerce market. This sector presents challenges. Global competitors, who offer seamless cross-border capabilities and benefit from much lower labour costs, are intensifying the deployment in Canada of new cost-effective residential delivery models and further integration along the entire logistics supply-chain. Internally, the historical design of Canada Post's operational network has been focused around Lettermail rather than parcels.

Risk mitigation

Canada Post continues to strengthen its value proposition for the e-commerce segment through initiatives such as parcel lockers, Sunday delivery in the weeks leading to Christmas, the extension of the Delivered Tonight pilot to the Greater Vancouver Area in addition to the Greater Toronto Area, and other efforts to provide industry leading responsiveness and convenience for online shoppers. To support parcels volume growth, Canada Post is increasing parcel capacity in physical delivery and shifting its network design strategy to become more parcel-centric.

Labour agreements

Roughly 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex and rigid collective agreements remain a constraint on Canada Post's ability to compete in the marketplace and implement changes to its business model, including employee benefit plans. With collective agreements expiring almost every year, Canada Post finds itself continuously in negotiations with one or more of its unions; for example, a new agreement between Canada Post and APOC was recently ratified. Negotiations with employees represented by the CPAA will continue in 2015. New negotiations with employees represented by CUPW in two separate collective agreements (UPO and RSMC) will begin in 2015.

Risk mitigation

Canada Post's objective during collective bargaining is to protect its financial viability and sustainability, while limiting, as much as possible, the impact to current employees. The Corporation's approach for all its bargaining agents is to consistently work with them and ensure a shared understanding of the structural challenges facing the Corporation and reach settlements that balance employee expectations and cost containment. The Corporation will work with all its bargaining agents to ensure a smooth implementation of the Five-point Action Plan.

Information systems and information technology

Canada Post's information systems and information technology (IS/IT) is facing some internal and external challenges. The inevitable global trend toward an economy becoming more digital and connected will require even greater levels of internal agility and reactiveness to remain competitive. Externally, the growing threat of cyberattacks and increasing occurrences of personal data breaches due to malevolent acts reported worldwide are taken very seriously by the Corporation.

Risk mitigation

The new governance structure of Innovapost will help better align the IS/IT objectives with existing and future requirements of the Group of Companies. Canada Post is working closely with the Government of Canada to address the risk of cyberattacks. Business continuity and disaster recovery plans are also in place.

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.

Risk mitigation

The Corporation is addressing this risk through robust procurement processes including guidance from a fairness commissioner, the hiring of third-party and industry experts and extended windows for transition periods, when appropriate.

Brand

Canada Post is in the midst of significant transformation to ensure business viability and customer relevance for today and the future. Key to supporting the business strategy for transformation is maintaining a strong, clearly defined brand that reflects the strengths of the business, changing customer needs and an evolving marketplace. This will ensure that Canada Post maintains the strong customer perception of trust, relevance and reliability.

Risk mitigation

Canada Post is constantly innovating to provide new opportunities and better experiences, beyond its traditional line of Transaction Mail. The Corporation is transforming its business, launching new products and services to be a more valuable facilitator of connections. It is leading the way in redefining the postal industry to better serve customers.

5.3 Operational risks

Attrition

Canada Post continues to face a high rate of employee departures, with around 15,000 employees expected to retire or leave the Corporation over the next five years. There are three risks associated with attrition and overall talent management:

- a failure to attract, engage, train and retain top talent;
- ineffective management of key and vulnerable roles that could have an impact on business continuity;
- a lost opportunity to improve productivity and efficiency through voluntary attrition.

Risk mitigation

The Corporation is managing attrition risks and opportunities. Canada Post is recruiting, developing and retaining the leadership talent needed to meet long-term objectives; developing training programs and knowledge-management tools to reduce risks associated with the outflow of knowledge, skill and experience; linking key and vulnerable positions to ongoing succession planning; and closely monitoring short and long-term operational requirements to ensure ongoing alignment with resource planning. Specific initiatives include a new executive leadership development program to prepare and develop those with potential to assume senior executive responsibilities, a middle-management development program, periodic meetings with new employees to identify issues, and a workforce planning framework to manage and monitor risk. In addition, the changes being implemented as part of the Five-point Action Plan will allow us to gradually reduce the workforce by between 6,000 and 8,000 positions, providing an additional opportunity to manage attrition.

Security and privacy

Canada Post is responsible for ensuring the security of Canadians' physical and digital mail. It is also responsible for protecting the privacy of customer and employee data that the Corporation may hold. Breaches of security or privacy could result in hardship for customers and employees and cause serious damage to the Corporation's reputation and brand. Fraudulent use of the Corporation's products and services could cause financial harm.

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. In addition to established security policies and guidelines, security clearance is required for all new employees and contractors. The Corporation regularly conducts threat risk assessments to ensure that the security and privacy interests of the Corporation, its customers and its employees are protected. Privacy impact assessments are conducted to ensure that new technologies, information systems and initiatives adequately protect privacy. Physical and electronic security measures, including high-security locks, cameras and electronic access controls, are in place to protect electronic and physical mail, postal facilities and information.

Maintaining operational excellence during business transformation

Over the next four years, Canada Post will implement the Five-point Action Plan. By that time, four of the five initiatives are expected to contribute an estimated $700 million to $900 million per year to the Corporation's bottom line. There is a risk in achieving expected benefits within this timeframe if the Corporation's efforts are delayed by various factors.

Risk mitigation

Measures will be implemented to ensure a sound approach throughout all stages of the deployment of the Five-point Action Plan. These include detailed execution plans, rigorous project management and active engagement of the entire Corporation and the Board of Directors to ensure that expected savings are achieved.

Business continuity

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, transportation network and IT infrastructure.

Risk mitigation

Postal Transformation has addressed critical infrastructure and equipment modernization and will continue to significantly reduce risk to the physical network. The Corporation has a business continuity management program in place to ensure the delivery of its critical physical and digital services. Business continuity plans are regularly tested and updated, taking into account changes to the business environment. Canada Post is strengthening its business continuity and disaster recovery linkages with Innovapost, under IT transformation. The Corporation and its partners continuously monitor threats to the business environment.

Health and safety

The health and safety of employees is a long-standing concern for Canada Post. As the Corporation evolves its operations to address the changing nature of its business, there is a risk that recent safety performance improvement will not be sustained as attention is focused on other initiatives. Issues concerning the delivery of mandated training to employees and supervisors also contribute to health and safety risks.

Risk mitigation

The Corporation is ensuring that health and safety training is provided to new and recently hired supervisors through improved delivery methodology. On-site occupational health and safety officers continue to focus on the coaching of safe practices for employees and supervisors. Leadership safety action plans are established to improve attention and focus throughout operations. A health and safety update is presented to the Human Resources and Compensation Committee, which is scheduled to meet three times in 2015. The same report is then submitted to the Board of Directors. For further information, see Health and safety in Section 4.1 page 56.

Service quality

As the Corporation shifts its focus toward the more competitive parcel market, and increasing international trade volumes depend more on non-domestic partners to deliver products, maintaining a high level of service quality remains a priority to ensure customer satisfaction and retention.

Risk mitigation

The implementation of a quality service management system has enhanced operations' ability to identify issues and root causes, and to resolve service problems. As the transformation of the network has evolved, operations and Postal Transformation teams have been fully reintegrated to improve management of the end-to-end network, facilitate the assessment and correction of issues, and meet key performance indicators. Further, responsibility for mail processing and delivery was separated to ensure better focus and accountability for each function. The modernization of our exchange offices in Richmond, and soon in Toronto and Montréal, will facilitate in-bound product flow.

Environmental sustainability

The possibility that customers and consumers could perceive Canada Post as not environmentally responsible could have negative consequences on its brand reputation and customer loyalty. This could accelerate erosion of mail volumes as customers migrate to electronic or other competing formats.

Risk mitigation

Canada Post continues to proactively and transparently disclose its environmental performance through the annual report on social responsibility. We have committed to register all new building projects for LEED™ (Leadership in Energy and Environmental Design) certification; 32 are registered to date, including the two mail processing facilities in Winnipeg and Richmond. In 2014, the Winnipeg Mail Processing Plant achieved an LEED silver rating. We are also replacing our existing delivery vehicles with more fuel-efficient ones, which now account for almost 50% of our fleet. We are committed to continuously improving the way we conduct our business by following leading environmental and ethical business practices.

Legal risk

Canada Post has determined that no provision needs to be made for the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

Air transportation procurement – Canadian North

On December 18, 2007, Canadian North filed a Statement of Claim alleging that Canada Post conducted an unfair procurement of air transportation services to remote northern communities for the Food Mail Program of the Government of Canada. The airline is seeking $75 million in damages and $1 million in punitive damages. The discovery process of gathering information related to the complaint is being completed, and the matter will be set for mediation and trial.

CPAA pay equity complaint

A complaint was filed with the Canadian Human Rights Commission alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*. On October 10, 2012, the Corporation received notice from the Commission that CPAA had requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief on December 10, 2012, in response to the Commission's request for submissions on the reactivation. The report of the Commission investigator was released December 8, 2014. The investigator found that, while agreements between the parties resolved any pay equity issues for the period subsequent to 1997, the prior period (1991-97) remains in issue and should be referred to tribunal without further investigation. The Corporation has made submissions challenging the report.

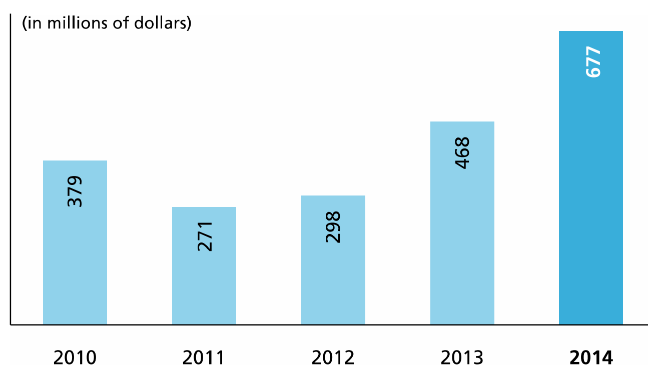
Data centre and application development services procurement – CGI

Through July 2014, the Corporation received notices from the Canadian International Trade Tribunal (CITT) that it had accepted for inquiry a number of complaints, both public and confidential, by CGI Information Systems and Management Consultants Inc. (CGI). The complaints concern the requests for proposals for data centre services and application development services conducted by Innovapost on behalf of the Group of Companies for the contracts awarded December 6, 2013, and February 18, 2014. CGI's public claims are that it was not provided with the documents and information it is entitled to receive pursuant to its debrief requests, that undisclosed criteria were used to evaluate CGI's bids, and that CGI's bids were improperly evaluated. After reviewing the filed responses and conducting oral hearings, the CITT made recommendations in respect of all public and confidential complaints made by CGI. Other than reimbursement by the Corporation to CGI of its complaint preparation costs, which were minimal, the CITT recommended that no other monetary relief be made to CGI by the Corporation. In November 2014, the Corporation received notice that CGI is appealing the CITT's recommendations in the data centre services matter and is not appealing the CITT's recommendations in the application development services matter.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents



The Group of Companies held cash and cash equivalents of $677 million as at December 31, 2014 – an increase of $209 million compared to December 31, 2013. The increase was mainly due to cash provided by operating activities. It was also supported by the temporary relief from making special payments to the Canada Post Corporation Registered Pension Plan obtained from the Government of Canada in February 2014. Without pension funding relief permitted by legislation, Canada Post would have been required to make special contributions to the RPP of approximately $1.3 billion in 2014.

6.2 Operating activities

(in millions of dollars)	2014	2013	Change
Cash provided by operating activities	592	326	266

Cash generated from operating activities was $592 million in 2014 – an increase of $266 million when compared to 2013. This cash flow improvement was primarily driven by higher revenue due to Domestic Lettermail™ price action and growth in Parcels.

6.3 Investing activities

(in millions of dollars)	2014	2013	Change
Cash used in investing activities	(359)	(134)	(225)

Cash used in investing activities increased by $225 million in 2014 compared to 2013, due to $116 million higher net acquisitions of investments and $202 million in lower proceeds from the sale of capital assets, partially offset by $93 million in lower acquisitions of capital assets. The 2013 investing activities included proceeds of $152 million from the sale of the Vancouver Mail Processing Plant.

Capital expenditures

(in millions of dollars)	2014	2013	Change
Canada Post	231	330	(99)
Purolator	26	23	3
Logistics	10	6	4
Innovapost and intersegment	(3)	(2)	(1)
Canada Post Group of Companies	264	357	(93)

The Canada Post Group of Companies decreased its capital expenditures by $93 million in 2014 when compared to 2013. The decrease in expenditures was mainly due to reduced spending on Postal Transformation in the Canada Post segment as the project wrapped up in 2014, partially offset by increases in capital expenditures in Purolator and Logistics.

6.4 Financing activities

(in millions of dollars)	2014	2013	Change
Cash used in financing activities	(24)	(22)	(2)

Cash used in financing activities increased by $2 million in 2014 when compared to 2013, primarily due to an increase in capital lease payments in the Purolator segment.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of over $20 billion as at December 31, 2014, 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 both the going-concern and solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act, 1985* (Act) requires Canada Post, as plan sponsor, to make special payments into the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, the Act requires Canada Post to make special payments into the RPP to eliminate this shortfall over five years.

In response to a letter to OSFI from certain bargaining agents (CUPW and PSAC) requesting that Canada Post be replaced in its function as Plan administrator, OSFI concluded that Canada Post, as Plan administrator, was to develop, in conjunction with bargaining agents and representatives of Plan members, a framework for communications and consultation in order to increase transparency and information distribution in respect of changes that could affect Plan benefits. Working with the bargaining agents and Plan member representatives, a framework for communications and consultation was developed, and a working group, composed of 12 representatives, was created. The main responsibility of the group will be to facilitate the exchange of information between the Corporation and the Plan members they represent.

Over the past few years, low solvency discount rates increased the RPP's solvency obligations and deficits significantly. Changes to pension legislation were implemented by the Government of Canada providing Crown corporations with funding relief on special solvency contributions if certain conditions are met. Under these regulations, the aggregate amount of the relief is limited to 15% of the fair value of plan assets. To enhance this relief, in February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations*. Under these regulations, the Corporation is exempt from making special contributions into its Registered Pension Plan from 2014 to 2017. This temporary measure recognized the operational challenges encountered by the Corporation and provided immediate relief. During the relief period, the Corporation will continue to restructure its operations and address the challenges of the Registered Pension Plan to ensure its sustainability. The Corporation is expected to resume special contributions in 2018 at the end of the temporary relief period.

The actuarial valuation for the RPP as at December 31, 2013, filed in June 2014, disclosed a going-concern deficit of $296 million (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.3 billion[1] (using the three-year average solvency ratio basis).

The current estimate of the financial position of the RPP as at December 31, 2014, is a going-concern surplus of approximately $0.5 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $6.8 billion[2] (using the three-year average solvency ratio basis). These preliminary estimates are subject to changes as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2014 will be filed by the end of June 2015 and results may differ significantly from these estimates.

The going-concern funded status improved during the year, mainly due to the strong return on investments of 10.9% (gross of administrative and management fees). Both the solvency deficit when using the market value of plan assets and the solvency deficit to be funded (using the three-year average solvency ratio basis) deteriorated during the year, mainly due to the negative effect of a decrease in the discount rate.

In 2014, the employer current service contributions to the defined benefit pension plan amounted to $251 million, compared to $258 million in 2013. Employer current service contributions for 2015 are estimated at $244 million. Without pension relief, the Corporation would have been required to make special payments of approximately $1.3 billion in 2014. The special payments without pension relief would amount to $1.4 billion in 2015 based on the latest estimate of the actuarial valuation as of December 31, 2014.

1. The solvency deficit when using market value of plan assets, as at December 31, 2013, was approximately $5.0 billion.
2. The solvency deficit when using market value of plan assets, as at December 31, 2014, was estimated at $6.9 billion.

On December 14, 2012, the *Jobs and Growth Act, 2012,* Bill C-45, was enacted, enabling changes to the public service pension plans. Consequently, effective January 1, 2013, the cap for the employees' share of current service costs was increased from 40% to 50%. The Board of Directors of Canada Post has approved changes to the RPP, and the Corporation moved to 50/50 cost sharing in 2014. CUPW filed a grievance in 2013 challenging the decision to raise the rate of employee contributions, alleging that it was a violation of the terms of the collective agreement. There were no developments on this grievance during 2014.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2014, remeasurement losses, net of tax, for the RPP amounted to $1,700 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 its financial obligations and its 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* (Acts) 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 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.

Liquidity

As at December 31, 2014, and during 2014, the liquidity required by the Canada Post Group of Companies to support its financial obligations and fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $1,209 million of unrestricted liquid investments on hand as at December 31, 2014, and $100 million of lines of credit established under its short-term borrowing authority approved by the Minister of Finance.

In February 2014, the Government of Canada introduced regulations that provide Canada Post with relief from making special pension payments to the Registered Pension Plan from 2014 to 2017. The Corporation expects to resume special payments in 2018, at the end of the temporary relief period. In addition, the Corporation has started implementing the initiatives included in the Five-point Action Plan to address the operational sustainability and help ensure the Corporation's profitability. Based on the temporary relief and the implementation of the Five-point Action Plan, Canada Post believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $157 million of unrestricted cash on hand and undrawn credit facilities of $126 million as at December 31, 2014, ensuring sufficient liquidity to support their 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 $1,055 million of borrowings as at December 31, 2014, the Canada Post segment had $1,445 million of its $2.5 billion external borrowing limit that had not been used. The borrowings of the Corporation's subsidiaries as at December 31, 2014, amounted to $79 million, resulting in consolidated borrowings of $1,134 million as at December 31, 2014. This represents a slight increase of $3 million over the 2013 year-end level of $1,131 million. The Corporation funded itself primarily through the use of cash-on-hand, funds generated from operations during 2014 and the pension plan funding relief permitted by legislation.

Dividend

The declaration, amount and payment of a dividend by Canada Post to the Government of Canada are subject to the Acts. The dividend is reviewed annually by Canada Post, and each year the Corporation is required to submit a dividend proposal as part of the Corporate Plan. As indicated in the 2014-18 Corporate Plan, the Corporation did not intend to pay a dividend in 2014, given its financial results and outlook and the capital investments required for the Five-point Action Plan. Canada Post has not paid a dividend to the Government of Canada since 2008.

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)

As at December 31	2014				
	Measured at fair value		Measured at amortized cost[1]		
	Available for sale	Fair value through profit or loss	Loans and receivables	Other financial liabilities	Total
Financial assets					
Cash and cash equivalents	–	677	–	–	677
Marketable securities	–	689	–	–	689
Trade and other receivables	–	–	795	–	795
Segregated securities	551	–	–	–	551
Total financial assets	**551**	**1,366**	**795**	**–**	**2,712**
Financial liabilities					
Non-interest bearing[2]	–	–	–	714	714
Risk management liabilities	–	1	–	–	1
Bonds	–	–	–	1,051	1,051
Other loans and borrowings	–	–	–	83	83
Total financial liabilities	**–**	**1**	**–**	**1,848**	**1,849**

1. The effective interest method is used to determine the amortized cost of these financial assets and liabilities.
2. 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 issued in 2010 to support Postal Transformation.

Market risk

Interest rate risk

The Group of Companies' investments consist of cash and cash equivalents, marketable securities and segregated securities, and are designated as fair value through profit or loss or available for sale.

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, 2014, (2013 – 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 increase or decrease the value of the segregated securities by $64 million (2013 – $58 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2014, and on other comprehensive income or loss.

Loans and borrowings of $1,134 million (2013 – $1,131 million) include fixed-rate debt with prepayment options and finance lease obligations.

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$), euro, British pound and yen, whereas payment is usually denominated in US$.

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 four 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. These forward contracts are not designated as hedges for accounting purposes. The total foreign exchange and foreign exchange derivative gains/losses included in revenues from operations amounted to nil in 2014 (2013 – $1 million loss). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2014, all other variables held constant, would have been an increase or decrease in net profit or loss for the year by $6 million (2013 – $4 million).

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 carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment 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.

There was no impairment loss on investments recognized during the year (2013 – nil), and impairment losses on trade and other receivables were $4 million (2013 – $3 million).

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. Liquidity is discussed further in Section 6.6 – Liquidity and capital resources page 69.

For further details on risk associated with financial instruments, see Note 24 to the consolidated financial statements page 135 and Section 6.6 Liquidity and capital resources page 69.

6.8 Contractual obligations and commitments

A summary of the Group of Companies' total contractual obligations and commitments to make future payments, excluding non-interest-bearing current liabilities, is presented below. For further details, see notes 19 and 24 (c) to the consolidated financial statements pages 133 and 138, respectively.

(in millions of dollars)	Total	Less than 1 year	1-5 years	More than 5 years
Bonds[1]	1,055	–	55	1,000
Interest on bonds	800	48	172	580
Finance lease obligations	90	25	59	6
Operating leases[2]	963	138	394	431
Total	**2,908**	**211**	**680**	**2,017**

1. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada. Bonds include two series issued in July 2010, with a nominal value of $500 million each maturing in July 2040 and July 2025, respectively, and $55 million of existing bonds maturing in March 2016. Interest is paid semi-annually with a coupon rate ranging from 4.08% to 10.35%.
2. Operating leases include the future minimum payment obligations associated with facilities, transportation equipment and other operating leases.

In addition, the Group of Companies has contractual arrangements with third-party suppliers approximating $900 million. These contractual arrangements extend to 2022 and allow for termination with penalties.

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 page 68.

6.9 Related party transactions

Government of Canada

The Corporation has a variety of transactions with related parties in the normal course of business and in support of the Government of Canada's public policies. Revenue earned from related parties for the year was $282 million (2013 – $290 million), the majority of which was from commercial contracts relating to postal services provided to the Government of Canada. Included in this amount was compensation from the Government of Canada for parliamentary mail services and mailing of materials for the blind sent free of postage, which amounted to $22 million (2013 – $22 million).

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 for the years ended December 31, 2014, and 2013, were $10 million and $11 million, respectively, and included compensation related to short-term employee benefits and post-employment benefits. See Note 23 to the consolidated financial statements page 134 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 under these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities. Refer to Note 18 to the consolidated financial statements page 131 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, 2014, and December 31, 2013

(in millions of dollars)

ASSETS	2014	2013	Change	%	Explanation of change
Cash and cash equivalents	677	468	209	44.6	Refer to Section 6 – Liquidity and Capital Resources page 67.
Marketable securities	689	570	119	20.8	Mainly due to the investment of cash in short-term investments for higher returns.
Trade and other receivables	795	779	16	2.1	Mainly due to increased receivables in the SCI Group.
Income tax receivable	1	6	(5)	(79.5)	Primarily due to the receipt of the prior year's expected refund for Purolator.
Other assets	98	92	6	6.7	Mainly due to an increase in prepaid expenses in the Canada Post segment.
Total current assets	**2,260**	**1,915**	**345**	**18.0**	
Property, plant and equipment	2,676	2,707	(31)	(1.2)	Mainly due to depreciation exceeding acquisitions in the Canada Post segment.
Intangible assets	117	129	(12)	(9.5)	Mainly due to amortization of software assets exceeding acquisitions.
Segregated securities	551	510	41	8.1	Mainly due to unrealized gains for Canada Post.
Pension benefit assets	141	177	(36)	(20.6)	Mainly due to actuarial losses partially offset by payments.
Deferred tax assets	1,706	1,093	613	56.1	Mainly due to the increase of temporary differences resulting from remeasurement losses recognized in other comprehensive income for Canada Post's Registered Pension Plan and other post-employment benefits.
Goodwill	130	130	(0)	(0.3)	No material change.
Other assets	3	6	(3)	(27.4)	No material change.
Total non-current assets	**5,324**	**4,752**	**572**	**12.0**	
Total assets	**7,584**	**6,667**	**917**	**13.8**	

(in millions of dollars)

LIABILITIES	2014	2013	Change	%	Explanation of change
Trade and other payables	583	620	(37)	(6.1)	Mainly due to decreased trade payables in the Canada Post segment.
Salaries and benefits payable and related provisions	487	580	(93)	(16.0)	Primarily due to the issuance of pay equity payments.
Provisions	71	81	(10)	(11.9)	Mainly attributable to a decrease in other corporate provisions and the settlement of a 2013 lease retirement obligation in 2014 in the Canada Post segment.
Income tax payable	52	1	51	–	Primarily due to an expected tax liability for the Canada Post segment.
Deferred revenue	133	145	(12)	(8.0)	Mainly due to a reduction in stamp deferrals related to the 2014 stamp rate increases.
Loans and borrowings	22	23	(1)	(5.3)	No material change.
Other long-term benefit liabilities	65	71	(6)	(7.2)	No material change.
Total current liabilities	**1,413**	**1,521**	**(108)**	**(7.1)**	
Loans and borrowings	1,112	1,108	4	0.3	No material change.
Pension, other post-employment and other long-term benefit liabilities	7,037	4,382	2,655	60.6	Mainly due to actuarial losses in the Canada Post segment mostly as a result of a decrease in discount rates, partially offset by a return on assets in excess of interest income on plan assets.
Deferred tax liabilities	2	3	(1)	(40.5)	No material change.
Provisions	2	2	0	25.5	No material change.
Other liabilities	29	16	13	92.4	Primarily due to the MoneyGram® contract extension in the Canada Post segment.
Total non-current liabilities	**8,182**	**5,511**	**2,671**	**48.5**	
Total liabilities	**9,595**	**7,032**	**2,563**	**36.5**	

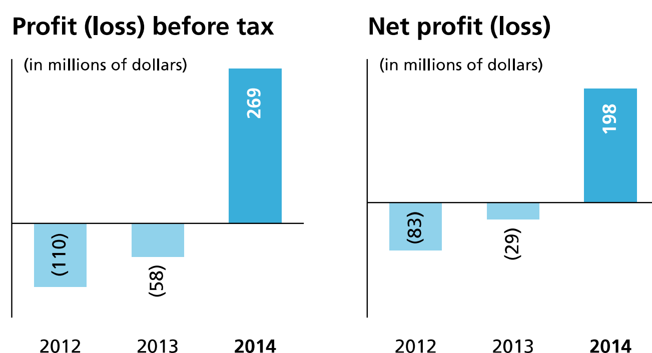
(in millions of dollars)

EQUITY	2014	2013	Change	%	Explanation of change
Contributed capital	1,155	1,155	0	0.0	
Accumulated other comprehensive income	54	18	36	205.8	Mainly due to net unrealized gains on available-for-sale financial assets in the Canada Post segment.
Accumulated deficit	(3,244)	(1,564)	(1,680)	(107.9)	Mainly due to net actuarial losses from post-employment plans remeasurement.
Equity of Canada	**(2,035)**	**(391)**	**(1,644)**	**(420.4)**	
Non-controlling interests	24	26	(2)	(7.9)	
Total equity	**(2,011)**	**(365)**	**(1,646)**	**(450.5)**	
Total liabilities and equity	**7,584**	**6,667**	**917**	**13.8**	

8 Discussion of Operations

A detailed discussion of our financial performance in 2014

8.1 Consolidated trends



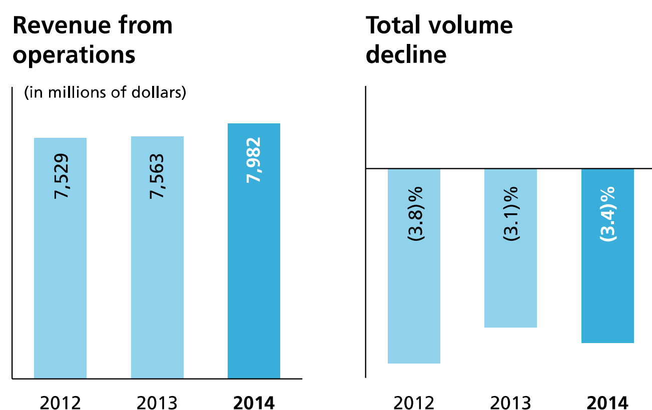
8.2 Consolidated results from operations

Consolidated results

(in millions of dollars)	2014	2013	Change	%
Revenue from operations	7,982	7,563	419	5.5
Cost of operations	7,683	7,756	(73)	(0.9)
Profit (loss) from operations	**299**	**(193)**	**492**	**–**
Investing and financing income (expense), net	(30)	135	(165)	–
Profit (loss) before tax	**269**	**(58)**	**327**	**–**
Tax expenses (income)	71	(29)	100	–
Net profit (loss)	**198**	**(29)**	**227**	**–**
Other comprehensive income (loss)	(1,843)	2,279	(4,122)	–
Comprehensive income (loss)	**(1,645)**	**2,250**	**(3,895)**	**–**

The Canada Post Group of Companies had a profit before tax of $269 million in 2014, an improvement of $327 million when compared to 2013. The significant improvement was primarily driven by Domestic Lettermail™ rate action, growth in Parcels revenue, productivity improvements and a reduction in the post-employment benefits expense, partially offset by an increase in expenses related to the investment and the sale of the Vancouver Mail Processing Plant in January 2013 in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.7.

Consolidated revenue from operations



Revenue from operations totalled $7,982 million in 2014 and increased considerably year-over-year by $419 million or 5.5%. Domestic Lettermail rate action in the Canada Post segment, strong growth in Parcels revenue in the Canada Post and Purolator segments, and SCI revenue growth were sufficient to offset volume erosion, caused by electronic substitution, bill consolidation and competition in Canada Post's Transaction Mail and Direct Marketing lines of businesses.

Consolidated cost of operations

Cost of operations decreased by $73 million or 0.9% in 2014 compared to 2013, primarily from lower employee benefit costs and productivity improvements in the Canada Post segment and continued cost containment initiatives across the Canada Post Group of Companies.

Consolidated investing and financing income (expense), net

Net investing and financing expenses were $30 million in 2014, compared to income of $135 million in 2013. The change was primarily due to higher gains on disposal of real estate assets, including the Vancouver Mail Processing Plant, in 2013 in the Canada Post segment.

Consolidated tax expense (income)

The consolidated tax expense for 2014 increased by $100 million compared to 2013, primarily driven by higher profits across the Group of Companies.

Consolidated other comprehensive income (loss)

The consolidated other comprehensive loss amounted to $1,843 million in 2014, mainly due to remeasurement losses on pension and other post-employment plans primarily as a result of a lower discount rate, partially offset by a change in assumptions for long-term post-retirement health care benefits to reflect the lower long-term health care cost trend. Volatility, caused by fluctuations in pension plan investment returns and changes to the discount rates used to measure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income.

8.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	2010	2011	2012[1]	2013	2014
Canada Post	33	(329)	(157)	(269)	204
Purolator	79	76	39	65	80
Logistics	11	7	7	10	14
Other	19	20	5	1	1
Canada Post Group of Companies	**142**	**(226)**	**(106)**	**(193)**	**299**

1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

Segmented results – Profit (loss) before tax

(in millions of dollars)	2010	2011	2012[1]	2013	2014
Canada Post	56	(327)	(136)	(125)	194
Purolator	76	73	36	66	74
Logistics	11	7	7	12	14
Other	(9)	(6)	(17)	(11)	(13)
Canada Post Group of Companies	**134**	**(253)**	**(110)**	**(58)**	**269**

1. The amounts for 2012 were restated as a result of the implementation of new or revised accounting standards in 2013.

8.4 Canada Post segment

The Canada Post segment recorded a profit before tax of $194 million in 2014, an improvement of $319 million when compared to 2013. This improvement was mainly attributable to Domestic Lettermail rate action, growth in Parcels revenue, a reduction in post-employment benefits expense and productivity improvements. The improvement was partially offset by expenses relating to increased investment and the sale of the Vancouver Mail Processing Plant in 2013, which generated a gain on sale of $109 million.

Canada Post summary

(in millions of dollars)	2014	2013	Change	%
Revenue from operations	6,214	5,883	331	5.6
Cost of operations	6,010	6,152	(142)	(2.3)
Profit (loss) from operations	**204**	**(269)**	**473**	**–**
Investing and financing income (expense), net	(10)	144	(154)	–
Profit (loss) before tax	**194**	**(125)**	**319**	**–**

Revenue from operations

Canada Post generated revenue from operations of $6,214 million in 2014 – an increase of $331 million or 5.6% when compared to 2013. The introduction of a new tiered pricing structure for Lettermail that took effect March 31, 2014, contributed to an increase in Transaction Mail revenue by $238 million over 2013. As well, continued strong performance in Parcels, driven by the surging business-to-consumer e-commerce market, helped Canada Post generate revenue increases of $120 million over 2013. These increases were partially offset by declines from volume erosion in Transaction Mail and Direct Marketing due to electronic substitution, bill consolidation and intense competition.

Revenue and volumes by line of business

	Revenue (in millions of dollars / trading day adjusted percentage)				Volume (in millions of pieces / trading day adjusted percentage)			
	2014	**2013**	**Change**	**%**	**2014**	**2013**	**Change**	**%**
Transaction Mail								
Domestic Lettermail™	2,902	2,688	214	7.9	3,617	3,824	(207)	(5.4)
Outbound Letter-post	145	157	(12)	(7.1)	79	92	(13)	(14.0)
Inbound Letter-post	156	120	36	30.1	234	228	6	2.5
Total Transaction Mail	**3,203**	**2,965**	**238**	**8.0**	**3,930**	**4,144**	**(214)**	**(5.2)**
Parcels								
Domestic Parcels	1,054	969	85	8.7	117	107	10	9.2
Outbound Parcels	220	209	11	5.2	11	11	0	2.0
Inbound Parcels	218	193	25	13.2	37	40	(3)	(6.9)
Other	17	18	(1)	(6.0)	–	–	–	–
Total Parcels	**1,509**	**1,389**	**120**	**8.6**	**165**	**158**	**7**	**4.6**
Direct Marketing								
Addressed Admail™	569	586	(17)	(2.8)	1,105	1,174	(69)	(5.9)
Unaddressed Admail™	397	398	(1)	(0.5)	3,434	3,439	(5)	(0.1)
Publications Mail™	212	231	(19)	(8.2)	346	382	(36)	(9.5)
Business Reply Mail™ and Other Mail	25	25	(0)	(1.9)	22	24	(2)	(5.3)
Other	1	1	(0)	(13.8)	–	–	–	–
Total Direct Marketing	**1,204**	**1,241**	**(37)**	**(3.0)**	**4,907**	**5,019**	**(112)**	**(2.2)**
Other Revenue	298	288	10	3.6	–	–	–	–
Total	**6,214**	**5,883**	**331**	**5.6**	**9,002**	**9,321**	**(319)**	**(3.4)**

Transaction Mail

Total Transaction Mail revenue amounted to $3,203 million in 2014. Transaction Mail revenue was made up of the following three product categories: Domestic Lettermail ($2,902 million), Outbound Letter-post ($145 million) and Inbound Letter-post ($156 million).

Total 2014 Transaction Mail revenue increased by $238 million or 8.0% compared to 2013 due to higher rates introduced for Lettermail that took effect March 31, 2014. These increases were partially offset by volume erosion as volumes declined by 214 million pieces or 5.2% compared to 2013. Year-over-year changes are broken down by product category as follows:

- Domestic Lettermail revenue increased by $214 million or 7.9%, while volumes declined by 207 million pieces or 5.4% compared to 2013. Increases in revenue were driven from the stamp rate action in 2014 and lower-than-planned volume erosion. Decreases in volumes were primarily driven by erosion due to electronic substitution. Demand for Lettermail continues to steadily drop given the continued increase in use of digital alternatives by households and businesses, the implementation of pay-for-paper initiatives by some of our largest customers, especially in the banking and telecommunications segments, and the highly competitive environment.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) decreased by $12 million or 7.1%, while volumes decreased by 13 million pieces or 14% compared to the previous year. The declines were due to a drop in demand in commercial and retail channels as well as the discontinuance of southbound Registered Mail™ in the first quarter of 2014.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) totalled $156 million and increased by $36 million or 30.1% compared to 2013. Overall inbound volumes grew by almost 6 million pieces or 2.5% due to increasing international volumes, particularly Asia-Pacific countries, which also helped grow revenue along with price increases, exchange rate gains and quality of service payments.

Parcels

Total Parcels revenue was $1,509 million in 2014 and was made up of the following four product categories: Domestic Parcels ($1,054 million), Outbound Parcels ($220 million), Inbound Parcels ($218 million), and Other ($17 million).

Total 2014 Parcels revenue increased by $120 million or 8.6% and volumes increased by 7 million pieces or 4.6% compared to 2013. The increases reflects the strength of the fast growing business-to-consumer e-commerce delivery market as customers continue to order more products online. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue, the largest product category, increased by $85 million or 8.7%, and volumes increased by 10 million pieces or 9.2% over 2013. This was propelled by a strong performance from our major commercial customers. Growth also reflects Canada Post's strong delivery performance. To remain competitive, Canada Post continues to work with commercial customers to offer innovative services like FlexDelivery™ and Delivered Tonight.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) increased by $11 million or 5.2% compared to 2013, due to higher average revenue per piece, volumes migrating from traditional outbound packet streams to Tracked Packet™ and an increase in southbound Xpresspost™ revenue due to migration from the discontinued southbound Registered Mail stream.
- Inbound Parcels revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering their parcels in Canada) increased by $25 million or 13.2%, while volumes dipped by 3 million pieces or 6.9% compared to 2013. Revenue growth was due to increased packet volumes mostly from Asia Pacific countries as well as exchange rate gains and other supplemental and quality of service revenue.
- Other Parcels revenue declined by $1 million or 6% compared to 2013.

Direct Marketing

Total Direct Marketing revenue amounted to $1,204 million in 2014. Direct Marketing revenue was made up of the following four product categories: Addressed Admail ($569 million), Unaddressed Admail ($397 million), Publications Mail ($212 million), and Business Reply Mail and Other Mail ($26 million).

Total 2014 Direct Marketing revenue decreased by $37 million or 3.0% and volumes decreased by 112 million pieces or 2.2% compared to 2013 as revenue and volumes dropped in all four product categories. Year-over-year changes by product category are summarized as follows:

- Addressed Admail revenue declined by $17 million or 2.8% and volumes decreased by 69 million pieces or 5.9% compared to 2013. The declines were caused by commercial customers, especially in the financial, retail and telecommunications segments, reducing their marketing expenditures and redirecting some of them to other media channels.
- Unaddressed Admail revenue decreased by $1 million or 0.5% compared to the previous year while volumes decreased by 5 million pieces or 0.1%. The declines were caused by commercial customers reducing their marketing expenditures and redirecting some of them to other media channels.
- Publications Mail revenue declined by $19 million or 8.2% and volumes declined by 36 million pieces or 9.5% compared to 2013. The revenue decline was caused by volume erosion due to a decline in mail publication subscriptions.
- Business Reply Mail and Other Mail experienced declines in revenue of $0.5 million or 2.2% and volume of 2 million pieces or 5.3% compared to 2013.

Other Revenue

Other Revenue totalled $298 million in 2014 – an increase of $10 million or 3.6% when compared to 2013. The revenue increase was mainly due to the strong performance in the Mail Redirection program, data products, and gains on exchange, partially offset by lower consumer product revenue.

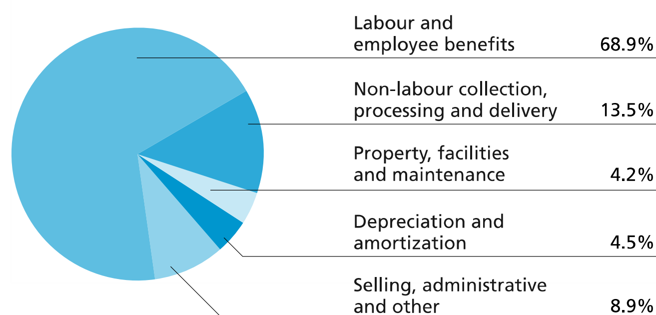
Cost of operations

In 2014, the Canada Post segment's cost of operations totalled $6,010 million – a decrease of $142 million or 2.3% when compared to 2013.

					Cost as % of Revenue from operations	
(in millions of dollars)	2014	2013	Change	%	2014	2013
Labour	3,063	3,128	(65)	(2.0)	49.3	53.2
Employee benefits	1,076	1,257	(181)	(14.4)	17.3	21.4
Total labour and employee benefits	**4,139**	**4,385**	**(246)**	**(5.6)**	**66.6**	**74.2**
Non-labour collection, processing and delivery	815	794	21	2.8	13.2	13.5
Property, facilities and maintenance	251	248	3	0.8	4.0	4.2
Selling, administrative and other	535	467	68	14.6	8.6	7.9
Total other operating costs	**1,601**	**1,509**	**92**	**6.1**	**25.8**	**25.6**
Depreciation and amortization	270	258	12	4.3	4.3	4.4
Total	**6,010**	**6,152**	**(142)**	**(2.3)**	**96.7**	**104.6**

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 68.9% of the total cost of operations in 2014, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2014



Cost of operations	2012	2013	2014
Labour and employee benefits	70.6%	71.3%	68.9%
Non-labour collection, processing and delivery	13.4%	12.9%	13.5%
Property, facilities and maintenance	3.8%	4.0%	4.2%
Depreciation and amortization	4.2%	4.2%	4.5%
Selling, administrative and other	8.0%	7.6%	8.9%

Labour

Labour costs decreased by $65 million or 2% when compared to 2013. The decrease was primarily due to productivity improvements, reflecting corporate investments in Postal Transformation and the Five-point Action Plan, partially offset by regular annual wage increases.

Employee benefits

(in millions of dollars)	2014	2013	Change	%
Pension expense	387	588	(201)	(34.2)
Post-employment health benefits	140	163	(23)	(14.2)
Other post-employment and other long-term benefits	125	93	32	34.9
Interest on segregated assets	(21)	(21)	0	0.8
Total post-employment and other long-term benefits	**631**	**823**	**(192)**	**(23.3)**
Active employee benefits	440	427	13	3.0
Other	5	7	(2)	(33.6)
Employee benefits	**1,076**	**1,257**	**(181)**	**(14.4)**

Employee benefits decreased by $181 million or 14.4% when compared to 2013, as detailed below:

- The non-cash pension expense decreased by $201 million or 34.2% in 2014 due to an increase in the discount rate from 4.4% to 5.0%, and higher asset balances resulting from strong returns on plan assets experienced in 2013.
- The non-cash post-employment health benefits expense decreased by $23 million or 14.2%, mainly due to the 2014 non-recurring accounting gains for past service credits resulting from negotiated changes to the plan arrangement. There was no such gain in 2013.
- Other post-employment and other long-term benefit expenses increased by $32 million or 34.9% due to 2014 actuarial losses on other long-term benefits resulting from a decrease in discount rates.
- The benefits expense for active employees increased by $13 million or 3.0% in 2014, when compared to 2013, primarily due to an increase in the premium rates attributed to statutory deductions and an increase in temporary relief employees during the holiday season.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $21 million or 2.8% in 2014 when compared to 2013, primarily due to higher international settlements, automotive services and transportation expenses, partially offset by lower rural mail delivery expenses.

Property, facilities and maintenance

The cost of facilities increased by $3 million or 0.8% in 2014 compared to 2013, mainly due to utilities, maintenance and repairs cost increases.

Selling, administrative and other

Selling, administrative and other expenses increased by $68 million or 14.6% for 2014 when compared to 2013. This increase was mainly due to increases in expenses relating to the implementation of the Five-point Action Plan and IT transformation.

Depreciation and amortization

The depreciation and amortization expense increased by $12 million to $270 million, a 4.3% increase compared to 2013. This increase was primarily the result of a change in accounting estimates for security equipment to reduce the depreciation period for this asset group from 20 years to seven. This change was made to better reflect the useful life of such assets as a result of technological developments in recent years.

Investing and financing income (expense), net

Net investing and financing expense for 2014 was $10 million compared to income of $144 million in 2013. The negative variance of $154 million was primarily due to higher gains in 2013 from the disposal of real-estate assets, including a $109 million gain on the sale of the Vancouver Mail Processing Plant in the first quarter of 2013.

8.5 Purolator segment

The Purolator segment contributed $74 million to the 2014 consolidated profit before tax, an increase of $8 million when compared to 2013.

Purolator summary

(in millions of dollars)	2014	2013	Change	%
Revenue from operations	1,687	1,623	64	4.0
Cost of operations	1,607	1,558	49	3.2
Profit from operations	**80**	**65**	**15**	**22.7**
Investing and financing income (expense), net	(6)	1	(7)	–
Profit before tax	**74**	**66**	**8**	**11.3**

Revenue from operations

Revenue from operations increased by $64 million or 4.0% in 2014 compared to 2013, mostly driven by improved yield and increased Purolator International revenue.

Cost of operations

The costs of operations increased by $49 million or 3.2% when compared to 2013, mostly due to IT and air transportation transition costs, as well as inflationary pressures.

8.6 Logistics segment

The Logistics segment includes the consolidated financial results of SCI Group.

Logistics summary

(in millions of dollars)	2014	2013	Change	%
Revenue from operations	223	179	44	25.3
Cost of operations	209	169	40	24.1
Profit from operations	**14**	**10**	**4**	**47.3**
Investing and financing income (expense), net	0	2	(2)	(99.9)
Profit before tax	**14**	**12**	**2**	**19.6**

SCI Group

SCI's financial performance improved in 2014, with profit before tax of $14 million, an increase of $2 million when compared to 2013.

Revenue from operations increased by $44 million compared to 2013. The revenue increase was driven mainly by new services and volume growth from current clients and acquisition of new clients.

The cost of operations increased by $40 million in 2014 when compared to 2013. This increase in cost was primarily due to volume growth and new business.

8.7 Consolidated results to plan

Consolidated results compared to 2014 Corporate Plan

(in millions of dollars)	2014 Results	2014 Plan	Change	%
Revenue from operations	7,982	7,802	180	2.3
Cost of operations	7,683	8,058	(375)	(4.7)
Profit (loss) from operations	**299**	**(256)**	**555**	**–**
Investing and financing income (expense), net	(30)	(18)	(12)	(66.7)
Profit (loss) before tax	**269**	**(274)**	**543**	**–**

The Canada Post Group of Companies' profit before tax of $269 million in 2014 was much better than planned for 2014 due to higher-than-expected revenue and lower-than-expected cost of operations. Revenue surpassed plan by $180 million mainly due to lower-than-expected Lettermail erosion in the Canada Post segment, as well as increased growth in parcels in both the Canada Post and Purolator segments. Cost of operations were much lower than plan by $375 million, mainly due to lower employee benefit costs in the Canada Post segment. This was due to higher-than-expected discount rates at December 31, 2013, and higher-than-expected pension asset balances (due to a strong return of 16.9% in 2013) in the Registered Pension Plan. Previous year's discount rates and asset balances are used to calculate 2014 employee benefit expenses. Costs were also lower due to continued cost-containment activities across the Canada Post Group of Companies.

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 2014 and future years

9.1 Critical accounting estimates

Our significant accounting policies are described in Note 2 to the consolidated financial statements page 105. 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 both current and future periods. Refer to notes 2 and 3 to the consolidated financial statements pages 105 and 111, respectively, for additional detail on significant accounting policies and critical accounting estimates and judgments.

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 estimates of the periods of service provided by the assets, and are provided in Note 2 to the consolidated financial statements page 105. The useful lives of capital assets are assessed annually for continued appropriateness. Due to the long lives of many of the assets, changes to the estimates of useful lives could result in a material impact to the consolidated financial statements.

At the end of each reporting period, capital assets with finite useful lives are assessed for any indication of impairment. If an indication of impairment exists, the Group of Companies determines the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Intangible assets included in capital assets, which are not yet available for use, are tested annually for impairment, even if no indication of impairment exists.

When necessary, determining the asset's 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. If future conditions were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Group of Companies could potentially experience future material impairment charges in respect of capital assets.

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. A change in future cash flows or discount rates could have a significant impact on the outcome of the goodwill impairment test. For assumptions related to goodwill impairment testing, refer to Note 13 to the consolidated financial statements page 128.

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 will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Closely tied to the concept of a provision is a contingent liability, which 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 the obligation, or a reliable estimate of the obligation cannot be made. As such, a contingent liability is not recognized and is instead 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 and make various assumptions. Such judgments include 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 the obligation and whether a reliable estimate of the obligation can be made. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood of outflows, the timing of outflows, and the discount rate to use. Should the actual amount or timing of the outflows deviate from the assumptions made by management, there could be a significant impact on the consolidated results of operation, financial position and liquidity. Further information on the Group of Companies' provisions and contingent liabilities are provided in notes 16 and 18, respectively, to the consolidated financial statements pages 129 and 131.

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. The Group of Companies believes the accounting estimates below, used to measure its employee defined benefits plans, are critical accounting estimates because the amounts are based on complex actuarial calculations using several assumptions and, given the magnitude of these estimates, 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 defined benefit obligations depends on various assumptions. These assumptions bear the risk of change as they require significant judgment and have inherent uncertainties that management may not be able to control. The assumptions are determined by management and are reviewed by the Canada Post Group of Companies' actuaries. Below are descriptions of the significant assumptions used:

- **Discount rates –** The Canada Post Group of Companies' discount rate assumptions, which are set annually at the measurement date, 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 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, which is based on pricing and yield information for high-quality AA-rated corporate bonds. The selected discount rate will have a cash flow pattern that resembles that of the plan being valued. The actuaries determine the future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.

- **Medical costs –** The medical costs assumptions are used in the measurement of certain non-pension defined benefit plans. The claims cost assumption used is derived from actual claims experience. Other assumptions such as health trend factors or provincial coverage are supported by third-party studies.

- **Mortality assumptions –** The mortality rates used to determine the defined benefit obligations are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM) dated February 2014, more specifically the CPM 2014 Public Sector Mortality Table with the CPM improvement scale B, adjusted for experience, if applicable. 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.

As a result of applying these actuarial assumptions, remeasurement gains or losses on the defined benefit plans arise from the difference between actual and expected experience and changes in the actuarial assumptions. For pension and other post-employment benefit plans, remeasurement gains or losses are recognized in other comprehensive income or loss and are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. For the other long-term benefit plans, the actuarial gains or losses are recognized in net profit or loss.

Notes 10 (e) and (f) to the consolidated financial statements include the remeasurement and actuarial gains or losses components recognized in the statement of comprehensive income.

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 follows:

(in millions of dollars)	Annual pension expense	Defined pension obligation
Discount rate sensitivity		
0.5% increase in discount rates	(133)	(1,918)
0.5% decrease in discount rates	130	2,091
Consumer price index sensitivity		
0.25% increase in consumer price index	54	847
0.25% decrease in consumer price index	(52)	(819)
Mortality tables sensitivity		
10% increase in mortality tables	(24)	(468)
10% decrease in mortality tables	26	477

The Corporation's principal health care plan is sensitive to the following assumptions:

(in millions of dollars)	Annual health care expense	Defined health care obligation
Discount rate sensitivity		
0.5% increase in discount rates	(4)	(189)
0.5% decrease in discount rates	4	215
Health care cost trend rates sensitivity		
1% increase in health care cost trend rates	35	510
1% decrease in health care cost trend rates	(26)	(390)
Mortality tables sensitivity		
10% increase in mortality tables	(4)	(73)
10% decrease in mortality tables	4	82

For complete details on the pension, other post-employment and other long-term benefit plans for the Group of Companies, see Note 10 to the consolidated financial statements beginning page 119.

Income taxes

The Group of Companies is subject to income tax in numerous jurisdictions and significant judgment is required in determining the provision for income tax. There are many transactions and 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 the additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

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. The timing of the reversal of the temporary differences may take many years, and the related deferred tax is calculated using the tax rate substantively enacted for the period of reversal that is applied to the temporary difference. The carrying values of these deferred tax balances are based on the amounts of assets and liabilities recorded in the consolidated financial statements and, therefore, are subject to accounting estimates that are inherent in those balances. The Group of Companies has significant deductible temporary differences and related deferred tax assets. See Note 11 to the consolidated financial statements page 126.

The tax bases of assets and liabilities as well as tax losses carried forward are computed based on the applicable income tax legislation, regulations and interpretations, all of which, in turn, are subject to interpretation. In computing deferred tax assets and deferred tax liabilities, assumptions are made about their respective timing of reversal and future results of operations. These assumptions also affect classification between current tax expense or current tax income and deferred tax expense or deferred tax income. It is reasonable to expect that the composition of deferred tax assets and deferred tax liabilities may change from period to period because of the significance of these uncertainties. 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 tax adjustments would neither result in an immediate cash outflow nor affect the Group of Companies' immediate liquidity.

9.2 Adoption of new accounting standards

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretation Committee that are mandatory for accounting periods beginning on or after January 1, 2014. The following interpretation adopted by the Group of Companies on January 1, 2014, did not have an impact on the Corporation's consolidated financial statements:

IFRIC 21 "Levies" • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," as well as accounting for a levy whose timing and amount is certain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation and excludes outflows of resources within the scope of other standards, including IAS 12 "Income Taxes," and fines or other penalties imposed for breaches of the legislation.

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 financial statements of the Group of Companies in the future. The Group of Companies will continue to monitor any additional changes required or available (through early adoption where permitted) during 2015, as new amended standards are issued by the IASB.

Standard or amendment	Effective for annual periods beginning on or after
Annual Improvements to IFRS – 2010-2012 Cycle	July 1, 2014
Annual Improvements to IFRS – 2011-2013 Cycle	July 1, 2014
Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions	July 1, 2014
Amendments to IFRS 11 "Joint Arrangements" – Accounting for Acquisitions of Interest in Joint Operations	January 1, 2016
Annual Improvements to IFRS – 2012-2014 Cycle	January 1, 2016
Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements"	January 1, 2016
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2017
IFRS 9 "Financial Instruments"	January 1, 2018

(a) Annual Improvements to IFRS – 2010-2012 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2012 cycle. They are to be applied for annual periods beginning on or after July 1, 2014, with the exception of the IFRS 3 amendment that is effective for business combinations with an acquisition date on or after July 1, 2014. Earlier application is permitted. The Group of Companies is not expecting any impacts from the adoption of these amendments.

(b) Annual Improvements to IFRS – 2011-2013 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2011-2013 cycle. They are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Group of Companies is not expecting any impacts from the adoption of these amendments.

(c) Amendments to IAS 19 "Employee Benefits" – Defined Benefit Plans: Employee Contributions • The amendments to IAS 19 provide additional guidance for employee contributions for defined benefit plans. The amendments clarify the requirements for contributions from employees or third parties that are linked to service. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required for the gross benefit. The amendments are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The extent of the impact of the adoption of the amendments to IAS 19 has not yet been determined.

(d) Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRS except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted. The extent of the impact of the adoption of the amendments to IFRS 11 has not yet been determined.

(e) Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments are as follows: IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations” clarifies the accounting for changes in methods of disposal; IFRS 7 “Financial Instruments: Disclosures” (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 “Employee Benefits” clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 “Interim Financial Reporting” clarifies the meaning of disclosure of information elsewhere in the interim financial report. These annual improvements are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The extent of the impact of the adoption of the annual improvements has not yet been determined.

(f) Disclosure Initiative – Amendments to IAS 1 “Presentation of Financial Statements” (IAS 1) • The IASB issued amendments to IAS 1 to provide additional guidance to assist entities to apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted. The extent of the impact of the adoption of the amendments to IAS 1 has not yet been determined.

(g) IFRS 15 “Revenue from Contracts with Customers” (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2017, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted. The extent of the impact of the adoption of IFRS 15 has not yet been determined.

(h) IFRS 9 “Financial Instruments” (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 “Financial Instruments: Recognition and Measurement” (IAS 39). IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted. The extent of the impact of the adoption of IFRS 9 has not yet been determined.

10 Outlook for 2015

Our prospects for 2015

10.1 Economic outlook

The global economy grew at a moderate but uneven pace in 2014, before ending the year with the unexpected sharp drop in oil prices that has carried over into 2015. Economic volatility from the unpredictability of oil prices can now be added to the list of challenges facing global growth in 2015:

- Return of uncertainty in the Eurozone may result in recession for weaker economies.
- International restrictions on Russia, combined with low oil prices, may drive it into recession as well.
- The economic slowdown of China and other emerging economies continues.
- Geo-political crises still have an impact in the Middle East and Eastern Europe.

A strengthening U.S. recovery is expected to carry the world economy in 2015. Strong global performance will rely on the stronger U.S. dollar, which will drive consumer and capital spending, and increased U.S. demand for lower priced imports, including energy to overcome challenges facing the rest of the world. Recent developments in oil prices are contributing to overall economic volatility and could lead to cutbacks in oil producing countries that will further slow world economic growth.

Canada's economy rebounded from a weather-induced poor first quarter in 2014 to close the year with a 2.5% growth rate. The 2014 performance was led by a strong export market, particularly in the energy sector, that has benefited from the U.S. recovery compounded by a Canadian dollar currently below 90 cents U.S. Domestically, high household debt and unimpressive employment figures may discourage consumers from spending their gains from lower gas prices. In an election year, it is unlikely that the federal government will return to spending. Continued strengthening of the U.S. economy will be necessary if Canada is to achieve modest growth expectations of 2.2% in 2015 and 2016. Inflation returned to the 2% level in 2014, however, it is expected to be below 1% in 2015 due to falling energy prices. In response, the Bank of Canada has reduced its overnight rate by 0.25% to mitigate the impact of a falling consumer price index (CPI) on economic growth. In the long term, economists expect both core and total CPI to return to the Bank of Canada's target level of 2%. The uncertain pace of economic recovery will continue to have an impact on the rate of mail volume erosion, while recent announcements of physical retail closures will likely stimulate further the growth of an expanding Canadian e-commerce market. In a changing retail environment it is more vital than ever to offer cost-effective, customer-focused shipping options to remain competitive.

The major banks have again reduced their expectations for increasing long term bond yields. Continued low long term rates will have the effect of maintaining pressure on Canada Post's pension liability, possibly after the relief period from solvency deficit payments.

In 2014, the number of Canadian households increased by 1%. Housing starts are expected to continue to add an average 180,000 addresses to the delivery network each year, increasing cost pressure on the network as mail volumes continue to erode.

	2014	2015	2016	2017	2018
Economic (% change)					
Real gross domestic product (GDP)	2.5	2.2	2.2	2.0	1.7
Inflation (consumer price index [CPI])	1.9	0.8	2.1	2.0	2.0
Demographic (% change)					
Total population growth	1.1	0.9	1.0	1.0	1.0
Household growth	1.2	1.2	1.1	1.1	1.1

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 from Statistics Canada projections.

10.2 Canada Post Group of Companies outlook

Canada Post

For Canada Post, 2015 will be a critical year in transforming the business from a mail-centric model to a parcel-centric business. The key to this transformation will be the execution of the Five-point Action Plan. In particular, we will invest heavily in accelerating the conversion of households from door-to-door delivery to community mailboxes, continue to optimize the retail network, streamline operations and prepare for the next rounds of negotiations with the Canadian Union of Postal Workers. Transformation will also include continued investment in operational tools, equipment, processes and infrastructure to drive improvements in costs, service, and health and safety. These investments will build the foundation of a new postal system with a flexible cost structure that will prepare the Corporation for the persistent decline in mail volumes, lay the foundation to take advantage of the rise in e-commerce and allow Canada Post to compete in a highly contested parcel market.

Lettermail™ erosion is expected to continue in 2015. While Domestic Lettermail volumes dropped by 5.4% in 2014 compared to 2013, the amount of Lettermail erosion for 2015 is difficult to predict and represents a significant risk to the Corporation. Patterns in past digital disruptions, from film to digital cameras or from compact discs to downloads and streaming, show that volumes do not follow a smooth decline and can drop dramatically, often earlier than expected. We are working hard to address this challenge and ensure that we remain financially sustainable.

While the shift to electronic delivery is expected to cause Lettermail volumes to drop in 2015, it is also expected to drive more parcel volumes and revenue growth, especially in the business-to-consumer market. This will create opportunities for Canada Post and its subsidiaries as Canadians do more online shopping and increase their reliance on parcel delivery. Continuing to succeed in the parcel business will be crucial to the success of the Canada Post Group of Companies.

The Direct Marketing line of business, which generates about $1.2 billion or about 20% of Canada Post's revenue, continues to present a challenge to and an opportunity for growth. Direct mail, for example, represents just a fraction of Canada's $16 billion advertising market, but it holds the unique position of putting a company's message directly into the hands of prospective customers. As marketers and their clients look to stand out in a competitive digital marketing space, Canada Post sees growth potential in Direct Marketing and will work towards creating new product offerings that are better targeted and more personalized.

Employee benefit costs are expected to increase substantially in 2015 compared to 2014, mostly due to a decrease in 2014 discount rates, which will be used to calculate benefit plan costs in 2015. This increase in costs, combined with expected Lettermail erosion and more normal price increases, is forecasted to result in a loss in the Canada Post segment in 2015. Changes in discount rates can cause employee benefit costs to increase or decrease by hundreds of millions of dollars. This volatility demonstrates that Canada Post must continue to focus on fundamental changes that will ensure sustainable financial performance.

In 2015, Canada Post Corporation will continue to focus on addressing the sustainability of its Registered Pension Plan (RPP). Pension obligations are substantial compared to the financial position and income of the Corporation, and investment returns, discount rates and changes in other assumptions have caused considerable volatility. The Government of Canada introduced regulations that provide relief to Canada Post from the need to make special payments into the RPP until 2018. However, without structural change to address the volatility, swings in RPP solvency could lead to required payments beyond 2017 that would easily overwhelm any increase in cash from corporate earnings or cost savings and threaten the sustainability of the Corporation and the RPP. As a result, Canada Post will continue working with its unions and other representatives of RPP members to face these challenges and restructure the Registered Pension Plan.

Purolator

In 2015, Purolator will continue to be customer focused and driven to create value for its stakeholders. Purolator will focus its efforts on profitable growth in all lines of business, continue to investigate areas of efficiencies and maintain cost controls as efforts are made to strengthen its core business and grow in new markets.

Logistics

In 2015, SCI will continue to focus on growing revenue and profit. This improvement will come from the annualization of revenue from new clients obtained in 2014, growth of contract logistics and transportation services, and operational savings driven by continuous improvement initiatives. As well, SCI is working with Canada Post and Purolator on several initiatives that would capitalize on existing capabilities within the Group of Companies.

Historical Financial Information

(unaudited, in millions of Canadian dollars)	**2014**	2013	2012[1]	2011	2010
OPERATIONS					
Revenue from operations	**7,982**	7,563	7,529	7,484	7,453
Cost of operations	**7,683**	7,756	7,635	7,710	7,311
Profit (loss) from operations	**299**	(193)	(106)	(226)	142
Percentage of revenue from operations	**3.7 %**	(2.6) %	(1.4) %	(3.0) %	1.9 %
Investing and financing income (expense), net	**(30)**	135	(4)	(27)	(8)
Profit (loss) before tax	**269**	(58)	(110)	(253)	134
Tax expense (income)	**71**	(29)	(27)	(65)	(180)
Net profit (loss)	**198**	(29)	(83)	(188)	314
Other comprehensive income (loss)	**(1,843)**	2,279	(906)	(1,148)	(1,457)
Comprehensive income (loss)	**(1,645)**	2,250	(989)	(1,336)	(1,143)
Net profit (loss) attributable to					
Government of Canada	**194**	(32)	(85)	(191)	310
Non-controlling interests	**4**	3	2	3	4
	198	(29)	(83)	(188)	314
Comprehensive income (loss) attributable to					
Government of Canada	**(1,644)**	2,242	(985)	(1,334)	(1,146)
Non-controlling interests	**(1)**	8	(4)	(2)	3
	(1,645)	2,250	(989)	(1,336)	(1,143)
Return on (adjusted book) equity of Canada[2]	**10.3 %**	(1.8) %	(4.6) %	(9.7) %	16.2 %
STATEMENT OF FINANCIAL POSITION					
Assets					
Current	**2,260**	1,915	1,704	1,946	2,303
Segregated securities	**551**	510	560	553	499
Capital assets	**2,793**	2,836	2,798	2,544	2,288
Pension benefit assets	**141**	177	83	93	112
Deferred tax assets	**1,706**	1,093	1,808	1,472	1,054
Other assets	**133**	136	141	136	136
Total assets	**7,584**	6,667	7,094	6,744	6,392
Liabilities and equity					
Current	**1,413**	1,521	1,554	1,522	1,295
Pension, other post-employment and other long-term benefit liabilities	**7,037**	4,382	7,007	5,719	4,255
Other liabilities	**1,145**	1,129	1,147	1,134	1,136
Non-controlling interests	**24**	26	19	24	27
Equity of Canada	**(2,035)**	(391)	(2,633)	(1,655)	(321)
Total liabilities and equity	**7,584**	6,667	7,094	6,744	6,392
ACQUISITION OF CAPITAL ASSETS					
Land and buildings	**55**	61	102	105	122
Other capital assets	**238**	312	510	470	313
	293	373	612	575	435

1. The 2012 comparative figures were restated as a result of the adoption of new or revised International Financial Reporting Standards (IFRS) in 2013, as issued by the International Accounting Standards Board (IASB).
2. Under IFRS, the calculation of return on equity of Canada is adjusted by removing the impact of other comprehensive income (loss) non-reclassifying items from reported equity.

Historical Financial Information

	2014	% Change	2013	% Change	2012	% Change	2011	% Change	2010
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS[1] (unaudited, in millions of Canadian dollars / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail™	**2,902**	**7.9 %**	2,688	(0.7) %	2,707	(4.2) %	2,813	(0.6) %	2,843
Outbound Letter-post (to other postal administrations)	**145**	**(7.1) %**	157	(12.4) %	179	6.7 %	167	(5.5) %	177
Inbound Letter-post (from other postal administrations)	**156**	**30.1 %**	120	(4.8) %	126	1.4 %	124	5.0 %	118
Canada Post segment	**3,203**	**8.0 %**	2,965	(1.6) %	3,012	(3.3) %	3,104	(0.7) %	3,138
Elimination of intersegment	**(3)**		(3)		(3)		(4)		(4)
Canada Post Group of Companies	**3,200**	**8.0 %**	2,962	(1.6) %	3,009	(3.3) %	3,100	(0.7) %	3,134
Parcels									
Domestic Parcels	**1,054**	**8.7 %**	969	7.6 %	901	6.3 %	844	(5.7) %	899
Outbound Parcels (to other postal administrations)	**220**	**5.2 %**	209	3.1 %	203	4.6 %	193	(1.2) %	196
Inbound Parcels (from other postal administrations)	**218**	**13.2 %**	193	11.5 %	173	12.7 %	153	11.3 %	138
Total mail	**1,492**	**8.8 %**	1,371	7.4 %	1,277	6.9 %	1,190	(3.1) %	1,233
Other	**17**	**(6.0) %**	18	(6.4) %	19	(29.4) %	27	(9.2) %	29
Canada Post segment	**1,509**	**8.6 %**	1,389	7.2 %	1,296	6.1 %	1,217	(3.2) %	1,262
Purolator segment	**1,683**	**3.7 %**	1,623	(0.6) %	1,632	0.6 %	1,615	8.6 %	1,493
Logistics segment	**223**	**25.3 %**	179	9.7 %	162	17.7 %	138	(7.2) %	149
Elimination of intersegment	**(138)**		(117)		(127)		(126)		(113)
Canada Post Group of Companies	**3,277**	**6.7 %**	3,074	3.7 %	2,963	3.8 %	2,844	2.3 %	2,791
Direct Marketing									
Addressed Admail™	**569**	**(2.8) %**	586	(2.7) %	602	0.0 %	600	0.4 %	599
Unaddressed Admail™	**397**	**(0.5) %**	398	(1.7) %	405	0.9 %	400	0.8 %	399
Publications Mail™	**212**	**(8.2) %**	231	(4.1) %	241	(4.2) %	251	(1.0) %	254
Business Reply Mail™ and Other mail	**25**	**(1.9) %**	25	(8.2) %	28	(6.8) %	29	(4.4) %	31
Total mail[2]	**1,203**	**(3.0) %**	1,240	(2.8) %	1,276	(0.7) %	1,280	0.1 %	1,283
Other	**1**	**(13.8) %**	1	7.8 %	1	(17.4) %	1	37.3 %	1
Canada Post segment / Group of Companies	**1,204**	**(3.0) %**	1,241	(2.8) %	1,277	(0.7) %	1,281	0.2 %	1,284
Other revenue									
Canada Post segment	**298**	**3.6 %**	288	2.5 %	281	8.0 %	259	6.0 %	245
Purolator segment	**4**	**– %**	0	– %	(0)	77.9 %	(0)	93.9 %	(1)
Innovapost and elimination of intercompany[2]	**(1)**		(2)		(1)		0		0
Canada Post Group of Companies	**301**	**4.8 %**	286	2.6 %	280	7.5 %	259	6.3 %	244
Revenue from operations									
Canada Post segment	**6,214**	**5.6 %**	5,883	0.3 %	5,866	(0.3) %	5,861	(0.8) %	5,929
Purolator segment	**1,687**	**4.0 %**	1,623	(0.5) %	1,632	0.6 %	1,615	8.7 %	1,492
Logistics segment	**223**	**25.3 %**	179	9.7 %	162	17.7 %	138	(7.2) %	149
Innovapost and elimination of intercompany[2]	**(142)**		(122)		(131)		(130)		(117)
Canada Post Group of Companies	**7,982**	**5.5 %**	7,563	0.4 %	7,529	0.2 %	7,484	0.8 %	7,453

1. Prior years' revenues may be restated due to realignments in the reporting structure.
2. A change in the Corporation's governance structure triggered a change in its operating segments, resulting in Innovapost not being separately reported as an operating segment.

Historical Financial Information

	2014	**% Change**	2013	% Change	2012	% Change	2011	% Change	2010
LINE OF BUSINESS DIMENSIONS									
VOLUME[1] (unaudited, in millions of pieces / trading day adjusted percentage)									
Transaction Mail									
Domestic Lettermail	**3,617**	**(5.4) %**	3,824	(4.8) %	4,015	(6.4) %	4,270	(3.6) %	4,449
Outbound Letter-post (to other postal administrations)	**79**	**(14.0) %**	92	(18.1) %	112	0.4 %	111	(12.1) %	127
Inbound Letter-post (from other postal administrations)	**234**	**2.5 %**	228	(7.5) %	247	(1.0) %	249	(4.5) %	261
Canada Post segment	**3,930**	**(5.2) %**	4,144	(5.3) %	4,374	(5.9) %	4,630	(3.9) %	4,837
Elimination of intersegment	**(3)**		(4)		(5)		(4)		(5)
Canada Post Group of Companies	**3,927**	**(5.2) %**	4,140	(5.2) %	4,369	(5.9) %	4,626	(3.9) %	4,832
Parcels									
Domestic Parcels	**117**	**9.2 %**	107	6.9 %	100	6.0 %	94	(2.4) %	97
Outbound Parcels (to other postal administrations)	**11**	**2.0 %**	11	(2.8) %	11	2.6 %	11	(7.8) %	12
Inbound Parcels (from other postal administrations)	**37**	**(6.9) %**	40	(5.6) %	42	9.4 %	38	11.3 %	34
Canada Post segment	**165**	**4.6 %**	158	2.8 %	153	6.7 %	143	0.4 %	143
Purolator segment	**133**	**(0.7) %**	133	(3.6) %	139	(1.9) %	141	0.3 %	141
Elimination of intersegment	**(3)**		(2)		(2)		(1)		(1)
Canada Post Group of Companies	**295**	**1.9 %**	289	(0.3) %	290	2.2 %	283	0.3 %	283
Direct Marketing									
Addressed Admail	**1,105**	**(5.9) %**	1,174	(6.3) %	1,252	(2.4) %	1,278	(3.3) %	1,327
Unaddressed Admail	**3,434**	**(0.1) %**	3,439	0.9 %	3,408	(1.7) %	3,453	(5.0) %	3,652
Publications Mail	**346**	**(9.5) %**	382	(6.3) %	409	(5.6) %	431	(2.9) %	445
Business Reply Mail and Other mail	**22**	**(5.3) %**	24	(11.6) %	27	(10.6) %	30	(6.8) %	33
Canada Post segment / Group of Companies	**4,907**	**(2.2) %**	5,019	(1.5) %	5,096	(2.2) %	5,192	(4.5) %	5,457
Total volume									
Canada Post segment	**9,002**	**(3.4) %**	9,321	(3.1) %	9,623	(3.8) %	9,965	(4.1) %	10,437
Purolator segment	**133**	**(0.7) %**	133	(3.6) %	139	(1.9) %	141	0.3 %	141
Elimination of intersegment	**(6)**		(6)		(7)		(5)		(6)
Canada Post Group of Companies	**9,129**	**(3.4) %**	9,448	(3.1) %	9,755	(3.8) %	10,101	(4.1) %	10,572
EMPLOYMENT[2]									
Canada Post segment	**51,365**	**(2.0) %**	52,433	(4.1) %	54,668	(2.7) %	56,212	(1.2) %	56,917
Purolator segment	**11,389**	**(2.1) %**	11,633	(2.9) %	11,986	0.2 %	11,962	9.0 %	10,979
Logistics segment[3]	**1,437**	**29.8 %**	1,107	21.4 %	912	17.4 %	777	(3.6) %	806
Innovapost business unit[4]	**879**	**8.8 %**	808	13.5 %	712		N/A		N/A
Canada Post Group of Companies[3, 4]	**65,070**	**(1.4) %**	65,981	(3.4) %	68,278	(1.0) %	68,951	0.4 %	68,702
MAIL NETWORK									
Post offices	**6,296**	**(0.3) %**	6,317	(1.0) %	6,380	(1.2) %	6,460	(0.6) %	6,499
Points of delivery (in thousands)	**15,677**	**1.2 %**	15,495	1.0 %	15,338	1.0 %	15,181	1.0 %	15,028
Pickup points (in thousands)[5]	**925**	**(0.8) %**	933	(1.3) %	946	(1.7) %	962	(1.5) %	976

1. Prior years' volumes 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. In 2012, Logistics employee counts were restated to exclude casuals.
4. Innovapost employee count is included in the Canada Post Group of Companies, further to the acquisition of control over Innovapost in March 2012.
5. Includes rural mailboxes (RMBs), which are collection points for customers with this mode of delivery.

Additional Information

In 2009 the Government of Canada approved a five-year financial framework for the Corporation that sets out financial performance targets from 2010 to 2014 (see Note 17 to the consolidated financial statements page 130). With the conversion to IFRS by all Canadian publicly accountable entities, a revised financial framework based on IFRS was approved as part of the Canada Post 2012-2016 Corporate Plan by the Governor in Council on March 12, 2012.

The following chart presents the financial ratios calculated in accordance with IFRS for five years from 2010 to 2014 under the revised financial framework:

Consolidated ratios (unaudited)		Financial framework	**2014**	2013	2012*	2011	2010
Profitability							
EBITDA margin[1]		5.0-7.5 %	**7.9 %**	3.8 %	3.2 %	0.9 %	5.7 %
Return on adjusted book equity[2]		0-5 %	**10.3 %**	(1.8) %	(4.6) %	(9.7) %	16.2 %
Leverage							
Total debt to EBITDAR[3]		2.5-4.0 x	**2.8 x**	5.0 x	5.7 x	9.6 x	3.9 x
Total debt to adjusted book capital[4]		45-65 %	**51.8 %**	55.4 %	55.2 %	55.5 %	53.2 %
Liquidity							
(EBITDAR – capex) ÷ interest[5]		1.0-2.5 x	**5.7 x**	3.3 x	1.3 x	(1.8) x	2.5 x
Dividend payout							
Dividend payout ratio[6]	2010-2012	0-20 %			0.0 %	0.0 %	0.0 %
	2013-2014	15-20 %	**0.0 %**	0.0 %			

Based on IFRS

Ratio definitions

1. Earnings before interest, taxes, depreciation and amortization ÷ revenue
2. Net profit (loss) attributable to Government of Canada ÷ [(adjusted book equity$_E$ of Canada beginning of year + adjusted book equity$_E$ of Canada end of year) ÷ 2]
3. (Total debt + long-term financial obligations$_A$) ÷ (earnings before interest, taxes, depreciation and amortization with adjustment for operating leases$_B$)
4. (Total debt + long-term financial obligations$_A$) ÷ (total debt + long-term financial obligations$_A$ + adjusted book equity$_E$ of Canada)
5. (Earnings before interest, taxes, depreciation and amortization with adjustment for operating leases$_B$ - capex$_C$) ÷ interest$_D$
6. Dividend paid ÷ prior year net profit (loss)

Notes

A. Long-term financial obligations include decommissioning obligations, obligation to repurchase shares (Purolator) and capitalization of operating leases.
B. Operating leases are removed from earnings and capitalized using a factor of 7.0x.
C. Capex refers to estimated maintenance capital, which includes all capital purchases and finance leases, but excludes approximately $62 million (2013 – $227 million; 2012 – $338 million; 2011 – $127 million; 2010 – $37 million) of capital purchases for Postal Transformation.
D. Interest includes imputed interest on capitalized operating leases (calculated as 1/3 of lease expense).
E. Adjusted book equity is reported equity with the impact of other comprehensive income (loss) non-reclassifying items removed.

* The 2012 comparative figures were restated as a result of the adoption of new or revised IFRS in 2013, as issued by the IASB.

Auditor's Report on Annual Cost Study Contribution Analysis

To the Board of Directors of Canada Post Corporation

We have audited the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information (together "the financial information"). We have also audited management's assertion regarding whether the competitive grouping of services have been cross-subsidized using revenues from exclusive privilege services for the year ended December 31, 2014. The financial information has been prepared by management in accordance with the basis of preparation described in Note 1 to the financial information.

Management's Responsibility for the Annual Cost Study Contribution Analysis
Management is responsible for the preparation of the financial information in accordance with the basis of preparation in Note 1 to the financial information and for the conclusion whether the competitive grouping of services has been cross-subsidized using revenues from exclusive privilege services. This includes determining that the basis of preparation is an acceptable basis for the preparation of the financial information in the circumstances. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the financial information that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation of the financial information 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.

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

Opinion
In our opinion:
(a) the Annual Cost Study Contribution Analysis of Canada Post Corporation for the year ended December 31, 2014 is prepared, in all material respects, in accordance with the basis of preparation described in Note 1 to the financial information; and
(b) Canada Post Corporation did not cross-subsidize its competitive services with revenues from exclusive privilege services, as defined in the Annual Cost Methodology described in Note 2, for the year ended December 31, 2014.

Basis of Accounting and Use
Without modifying our opinion, we draw attention to Note 1 to the financial information, which describes the basis of preparation for the financial information. The financial information is prepared to demonstrate, in accordance with the Annual Cost Methodology, that the competitive grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As a result, the financial information and management's conclusion may not be suitable for another purpose.

Other Matters
We have not audited, reviewed or performed any procedures on the validity of the Annual Cost Methodology described in Note 2 to the financial information or on Canada Post Corporation'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.

Chartered Professional Accountants, Licensed Public Accountants

March 12, 2015
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, 2014
(in millions of Canadian dollars)

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

The following analysis is based on the assignment of 62% 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	$ 3,429	$ 2,487	$ 24	$ 274	$ 6,214
Long-run incremental costs	(1,831)	(1,734)	(21)	(161)	(3,747)
Long-run incremental contribution	**$ 1,598**	**$ 753**	**$ 3**	**$ 113**	**$ 2,467**
	47 %	30 %	11 %	41 %	40 %
Unallocated fixed costs					$ (2,263)
Contribution before the undernoted items					**$ 204**
Investment and other income					40
Finance costs and other expense					(50)
Profit before tax – Canada Post segment					**$ 194**

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, 2014

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, 2014.

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. 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 since 1989 in Part II of Schedule III of the *Financial Administration Act.* The Auditor General of Canada and KPMG LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2014, 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 Transport.

President and Chief Executive Officer

Chief Financial Officer

March 12, 2015

Independent Auditors' Report

To the Minister of Transport

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Canada Post Corporation, which comprise the consolidated statement of financial position as at December 31, 2014, 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 a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

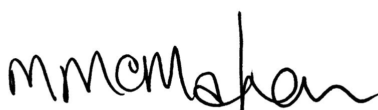
Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Canada Post Corporation as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

As required by the *Financial Administration Act*, we report that, in our opinion, the accounting principles in International Financial Reporting Standards have been applied on a basis consistent with that of the preceding year.

Further, in our opinion, the transactions of Canada Post Corporation and its wholly owned subsidiaries that have come to our notice during our audit of the consolidated financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly owned subsidiaries and the directives issued pursuant to section 89 of the *Financial Administration Act*.



Marian McMahon, CPA, CA
Assistant Auditor General
for the Auditor General of Canada

March 12, 2015
Ottawa, Canada

Chartered Professional Accountants
Licensed Public Accountants

Consolidated Statement of Financial Position

As at December 31 (in millions of Canadian dollars)	**Notes**	**2014**	2013
Assets			
Current assets			
Cash and cash equivalents	**6**	**$ 677**	$ 468
Marketable securities	**6**	**689**	570
Trade and other receivables	**24**	**795**	779
Income tax receivable		**1**	6
Other assets	**7**	**98**	92
Total current assets		**2,260**	1,915
Non-current assets			
Property, plant and equipment	**8**	**2,676**	2,707
Intangible assets	**8**	**117**	129
Segregated securities	**6**	**551**	510
Pension benefit assets	**10**	**141**	177
Deferred tax assets	**11**	**1,706**	1,093
Goodwill	**13**	**130**	130
Other assets		**3**	6
Total non-current assets		**5,324**	4,752
Total assets		**$ 7,584**	$ 6,667
Liabilities and equity			
Current liabilities			
Trade and other payables	**14**	**$ 583**	$ 620
Salaries and benefits payable and related provisions	**16**	**487**	580
Provisions	**16**	**71**	81
Income tax payable		**52**	1
Deferred revenue		**133**	145
Loans and borrowings	**15**	**22**	23
Other long-term benefit liabilities	**10**	**65**	71
Total current liabilities		**1,413**	1,521
Non-current liabilities			
Loans and borrowings	**15**	**1,112**	1,108
Pension, other post-employment and other long-term benefit liabilities	**10**	**7,037**	4,382
Deferred tax liabilities	**11**	**2**	3
Provisions	**16**	**2**	2
Other liabilities		**29**	16
Total non-current liabilities		**8,182**	5,511
Total liabilities		**9,595**	7,032
Equity			
Contributed capital		**1,155**	1,155
Accumulated other comprehensive income		**54**	18
Accumulated deficit		**(3,244)**	(1,564)
Equity of Canada		**(2,035)**	(391)
Non-controlling interests		**24**	26
Total equity		**(2,011)**	(365)
Total liabilities and equity		**$ 7,584**	$ 6,667
Contingent liabilities	**18**		
Commitments	**19**		

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

Approved on behalf of the Board of Directors:

Chairperson of the Board of Directors

Chairperson of the Audit Committee

Consolidated Statement of Comprehensive Income

For the year ended December 31 (in millions of Canadian dollars)	**Notes**	**2014**	2013
Revenue from operations		**$ 7,982**	$ 7,563
Cost of operations			
Labour		**3,829**	3,847
Employee benefits, including (gains) losses from plan amendments	**9**	**1,247**	1,428
		5,076	5,275
Other operating costs	**20**	**2,279**	2,166
Depreciation and amortization	**8**	**328**	315
Total cost of operations		**7,683**	7,756
Profit (loss) from operations		**299**	(193)
Investing and financing income (expense)			
Investment and other income	**6, 21**	**23**	182
Finance costs and other expense	**15, 21**	**(53)**	(47)
Investing and financing income (expense), net		**(30)**	135
Profit (loss) before tax		**269**	(58)
Tax expense (income)	**11**	**71**	(29)
Net profit (loss)		**$ 198**	$ (29)
Other comprehensive income (loss)			
Items that will not be reclassified to net profit (loss)			
Remeasurements of defined benefit plans, net of tax	**12**	**$ (1,879)**	$ 2,313
Items that may be reclassified subsequently to net profit (loss)			
Unrealized gains (losses) on available-for-sale financial assets, net of tax	**12**	**36**	(34)
Other comprehensive income (loss)		**(1,843)**	2,279
Comprehensive income (loss)		**$ (1,645)**	$ 2,250
Net profit (loss) attributable to			
Government of Canada		**$ 194**	$ (32)
Non-controlling interests		**4**	3
		$ 198	$ (29)
Comprehensive income (loss) attributable to			
Government of Canada		**$ (1,644)**	$ 2,242
Non-controlling interests		**(1)**	8
		$ (1,645)	$ 2,250

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

Consolidated Statement of Changes in Equity

For the year ended December 31, 2014 (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, 2013	**$ 1,155**	**$ 18**	**$ (1,564)**	**$ (391)**	**$ 26**	**$ (365)**
Net profit	**–**	**–**	**194**	**194**	**4**	**198**
Other comprehensive income (loss)	**–**	**36**	**(1,874)**	**(1,838)**	**(5)**	**(1,843)**
Comprehensive income (loss)	**–**	**36**	**(1,680)**	**(1,644)**	**(1)**	**(1,645)**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Balance at December 31, 2014	**$ 1,155**	**$ 54**	**$ (3,244)**	**$ (2,035)**	**$ 24**	**$ (2,011)**

For the year ended December 31, 2013 (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, 2012	$ 1,155	$ 52	$ (3,840)	$ (2,633)	$ 19	$ (2,614)
Net profit (loss)	–	–	(32)	(32)	3	(29)
Other comprehensive income (loss)	–	(34)	2,308	2,274	5	2,279
Comprehensive income (loss)	–	(34)	2,276	2,242	8	2,250
Transactions with shareholders – Dividend	–	–	–	–	(1)	(1)
Balance at December 31, 2013	$ 1,155	$ 18	$ (1,564)	$ (391)	$ 26	$ (365)

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

Consolidated Statement of Cash Flows

For the year ended December 31 (in millions of Canadian dollars)	Notes	2014	2013
Cash flows from operating activities			
Net profit (loss)		**$ 198**	$ (29)
Adjustments to reconcile net profit (loss) to cash provided by operating activities:			
Depreciation and amortization	**8**	**328**	315
Pension, other post-employment and other long-term benefit expense	**10**	**701**	900
Pension, other post-employment and other long-term benefit payments	**10**	**(524)**	(535)
Gain on sale of capital assets and assets held for sale	**21**	**(9)**	(168)
Tax expense (income)	**11**	**71**	(29)
Net interest expense	**21**	**35**	30
Change in non-cash operating working capital:			
Increase in trade and other receivables		**(14)**	(72)
(Decrease) increase in trade and other payables		**(38)**	81
Decrease in salaries and benefits payable and related provisions		**(93)**	(119)
Decrease in provisions		**(9)**	(10)
Net (increase) decrease in other non-cash operating working capital		**(18)**	12
Other income not affecting cash, net		**(7)**	(27)
Cash provided by operations before interest and tax		**621**	349
Interest received		**35**	34
Interest paid		**(51)**	(51)
Tax paid		**(13)**	(6)
Cash provided by operating activities		**592**	326
Cash flows from investing activities			
Acquisition of securities		**(1,151)**	(1,191)
Proceeds from sale of securities		**1,039**	1,195
Acquisition of capital assets		**(264)**	(357)
Proceeds from sale of capital assets		**17**	219
Cash used in investing activities		**(359)**	(134)
Cash flows from financing activities			
Payments on finance lease obligations		**(23)**	(21)
Dividend paid to non-controlling interests		**(1)**	(1)
Cash used in financing activities		**(24)**	(22)
Net increase in cash and cash equivalents		**209**	170
Cash and cash equivalents, beginning of year		**468**	298
Cash and cash equivalents, end of year		**$ 677**	$ 468

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

Notes to Consolidated Financial Statements

(December 31, 2014)

1	Incorporation, Business Activities and Directives	105
2	Basis of Presentation and Significant Accounting Policies	105
3	Critical Accounting Estimates and Judgments	111
4	Application of New and Revised International Financial Reporting Standards	113
5	Regulation of Customer Postage Rates	115
6	Cash and Cash Equivalents, Marketable Securities and Segregated Securities	116
7	Other Assets	116
8	Capital Assets	117
9	Employee Benefits	118
10	Pension, Other Post-employment and Other Long-term Benefit Plans	119
11	Income Taxes	126
12	Other Comprehensive Income (Loss)	127
13	Goodwill	128
14	Trade and Other Payables	128
15	Loans and Borrowings	128
16	Provisions	129
17	Capital Management	130
18	Contingent Liabilities	131
19	Commitments	133
20	Other Operating Costs	133
21	Investing and Financing Income (Expense)	133
22	Interests in Other Entities	134
23	Related Party Transactions	134
24	Financial Instruments and Risk Management	135
25	Segmented Information	140

1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* (Act) in 1981, Canada Post Corporation (Corporation) is a Crown corporation included in Part II of Schedule III to 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 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 Act, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada. Other lines of business not covered by the exclusive privilege include Parcels and Direct Marketing products and services.

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 on 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.

In December 2013, the Corporation was also issued an order pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board's approval of its negotiating mandates with respect to collective agreements that expire in 2014 or later, and before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council. Appropriate Treasury Board approvals were obtained, as required.

2. Basis of Presentation and Significant Accounting Policies

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 12, 2015.

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, which is the functional currency of the Corporation.

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, unless otherwise indicated.

(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."

(b) Financial instruments • Upon initial recognition, all financial assets are classified based on the nature and purpose of financial instruments, or designated by the Group of Companies as (i) financial assets at fair value through profit or loss, (ii) held to maturity investments, (iii) loans and receivables, or (iv) available-for-sale financial assets. All financial liabilities are classified or designated as (i) financial liabilities at fair value through profit or loss, or (ii) other financial liabilities.

Financial instruments are initially recognized at fair value and subsequent measurement depends on the classification of the financial instrument. 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.

2. Basis of Presentation and Significant Accounting Policies (continued)

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

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

(b.1) **Cash equivalents and marketable securities** are managed on a fair value basis and their performance is actively monitored. 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 with maturities of three to 12 months from the date of acquisition and are recognized at the settlement date. Changes in fair value are recognized as they occur. These investments are principally used to manage cash flow requirements, while maximizing return on investment.

Interest income, changes in fair value and realized gains and losses are recorded in investment and other income.

(b.2) **Segregated securities** are intended to be held for an indefinite period of time and consist of investments that may be sold to fund specific restricted benefit plans (Note 6 [a]). These securities are recognized at the settlement date and changes in fair value are recognized as they occur. Interest income and realized gains and losses on sale of investments are included in employee benefit expense. Changes in fair value are included in other comprehensive income or loss until the investment is sold, impaired or otherwise derecognized.

The Corporation's investment policy restricts the type of investments to debt securities; therefore, impairment of segregated securities is recognized when there is a significant increase in counterparty credit risk. When segregated securities are impaired, the unrealized changes in fair value recorded in other comprehensive income or loss are reclassified to employee benefit expense recorded within net profit or loss. The cumulative loss that is removed from accumulated other comprehensive income or loss and recognized in employee benefit expense is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in employee benefit expense.

(b.3) **Risk management financial assets and liabilities** are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will settle 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 have not been designated as hedges for accounting purposes.

(b.4) **Trade and other receivables** are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment. Where the time value of money is not significant due to short-term settlement, trade and other receivables are recorded at the original invoice amount, less allowances for doubtful accounts.

Trade and other receivables that are known to be uncollectible are written off when identified. An allowance for doubtful accounts is established when there is objective evidence that the Group of Companies will not be able to collect all amounts due according to the original terms of trade and other receivables. The amount of the allowance is the difference between the receivable's recorded amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.5) **Trade and other payables and salaries and benefits payable** include financial liabilities as well as obligations created by statutory requirements imposed by governments, which are not financial liabilities. After initial recognition at fair value, other 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, other financial liabilities are carried at payment or settlement amounts.

(b.6) **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. Interest expense on loans and borrowings is recognized in finance costs and other expense.

2. Basis of Presentation and Significant Accounting Policies (continued)

(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.

Assets acquired under finance leases are initially recorded at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments, as determined at the inception of the lease.

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 and amortization are 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	5 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 contracts	Straight-line	Term of contract plus period of renewal options, maximum of 5 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

Capital assets held under finance leases are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group of Companies will obtain ownership by the end of the lease term.

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

2. Basis of Presentation and Significant Accounting Policies (continued)

(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. In such cases, the carrying amount of the asset is increased to its recoverable amount, subject to an upper limit. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized during the period. After any such reversal, depreciation or amortization is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

(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. If subsequently the asset's fair value less costs to sell increases, the gain is recognized, however, only to the extent of cumulative impairment losses already recognized for that particular asset. The gain or loss on the sale of a capital asset held for sale is realized at the time the asset is disposed of by sale.

(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. Any borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare for their intended use, are capitalized as part of the cost of those assets until such time as they are substantially ready for use. All other borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

2. Basis of Presentation and Significant Accounting Policies (continued)

(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 recognition • 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 Addressed Admail™, Unaddressed Admail™ and Publications Mail™, such as newspapers and periodicals. 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.

Revenue is recognized when the service has been rendered, goods have been delivered or work has been completed. Revenue from meter customers for which services have not been rendered prior to year end is deferred based on a sampling methodology that closely reflects the meter-resetting practices of customers. Payments received in advance are deferred until services are rendered or products are delivered. Deferred revenue is also recorded when resellers are billed for postal product shipments prior to the Group of Companies' rendering related services to customers.

The Group of Companies may enter into arrangements with subcontractors 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.

Consideration given to a customer is recorded as a reduction of revenue, unless an identifiable and separable benefit is received by the Group of Companies, in which case the fair value of the benefit is recognized as an expense.

(h) Incentive and lease inducements • Lease inducements are deferred and are amortized on a straight-line basis over the initial fixed lease term. Amortization of incentives and lease inducements are presented as reductions of other operating costs. The current portion of any deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in non-current other liabilities.

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

(i.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.

(i.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 annually 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-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. 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.

2. Basis of Presentation and Significant Accounting Policies (continued)

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.

(i.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.

(i.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.

(j) 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.

Scientific research and experimental development (SR&ED) tax credits are recorded as a reduction of the current cost of operations or property, plant and equipment, when there is reasonable assurance that the SR&ED tax credit will be realized.

(k) Foreign currency translation

(k.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).

(k.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 at the dates of the transactions. 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 at the dates of transactions. The resulting translation adjustments are 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.

2. Basis of Presentation and Significant Accounting Policies (continued)

(l) Leases • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Group of Companies. A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the Group of Companies. All other leases are classified as operating leases.

Assets held under a finance lease are recognized as assets of the Group of Companies at their fair value at the inception of the lease or, if lower, at the present value of minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is recorded as a finance lease obligation included in loans and borrowings. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net profit or loss under finance costs and other expense.

Rent payable under operating leases is recognized in net profit or loss on a straight-line basis over the term of the respective lease.

(m) 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 transaction mail, parcel delivery services and direct marketing, as well as other products and services. The Purolator segment derives its revenues 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.

3. 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 a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis and further re-examined as at the reporting date. 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 considered to be remote.

3. Critical Accounting Estimates and Judgments (continued)

(a.3) Leases – The Canada Post Group of Companies as lessee • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Group of Companies. Factors used by management in determining whether a lease is a finance or an operating lease include, but are not limited to, whether there is a transfer of ownership at the end of the lease term, whether the lease term is for the major part of the economic life of the leased asset and whether at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset.

(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) 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 2 (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 2 (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.2) 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 2 (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 13.

(b.3) Deferred revenue • The Group of Companies estimates deferred revenue at the end of the reporting period relating to parcels deposited but not yet delivered, stamps distributed to dealers but not yet resold to customers, and meters filled but not yet used by customers. 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.

(b.4) 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 the 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 made. 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.

3. Critical Accounting Estimates and Judgments (continued)

(b.5) 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. A description of the Group of Companies' provisions is included in Note 16.

(b.6) 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.

4. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations effective January 1, 2014

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that were mandatory for accounting periods beginning on or after January 1, 2014.

The following interpretation adopted by the Group of Companies January 1, 2014, did not have an impact on the Corporation's consolidated financial statements.

IFRIC 21 "Levies" • This IFRIC addresses the accounting for a liability to pay a levy within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets," as well as accounting for a levy whose timing and amount is certain. A levy is defined as an outflow of resources embodying economic benefits that is imposed by governments in accordance with legislation and excludes outflows of resources within the scope of other standards, including IAS 12 "Income Taxes," and fines or other penalties imposed for breaches of the legislation.

(b) Standards and amendments not yet in effect

The following standards and amendments issued by the IASB have been assessed as having a possible effect on the Group of Companies in the future. The Group of Companies is determining the impact, if any, of the standards and amendments on its consolidated financial statements.

Annual Improvements to IFRS – 2010-2012 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2010-2012 cycle. The standards and topics covered by the amendments were as follows: IFRS 2 "Share-based Payment" addressing the definition of vesting condition; IFRS 3 "Business Combinations" providing additional guidance on accounting for contingent consideration in a business combination; IFRS 8 "Operating Segments" providing additional guidance on the aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; IFRS 13 "Fair Value Measurement" providing additional guidance on short-term receivables and payables; IAS 16 "Property, Plant and Equipment" addressing the revaluation method for proportionate restatement of accumulated depreciation; IAS 24 "Related Party Disclosures" providing guidance on key management personnel and IAS 38 "Intangible Assets" addressing the revaluation method for proportionate restatement of accumulated amortization. These annual improvements are to be applied for annual periods beginning on or after July 1, 2014, with the exception of the IFRS 3 amendment that is effective for business combinations with an acquisition date on or after July 1, 2014. Earlier application is permitted. The Group of Companies is not expecting any impacts from the adoption of these amendments.

4. Application of New and Revised International Financial Reporting Standards (continued)

Annual Improvements to IFRS – 2011-2013 Cycle • The IASB issued these annual improvements in response to non-urgent issues addressed during the 2011-2013 cycle. The standards and topics covered by the amendments were as follows: IFRS 1 "First-time Adoption of International Financial Reporting Standards" addressing the meaning of effective IFRS; IFRS 3 "Business Combinations" addressing scope exceptions for joint ventures; IFRS 13 "Fair Value Measurement" providing additional guidance on the scope of portfolio exception and IAS 40 "Investment Property" providing clarification on classifying property as investment or owner-occupied property. These annual improvements are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted. The Group of Companies is not expecting any impacts from the adoption of these amendments.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions • The amendments to IAS 19 provide additional guidance for employee contributions to defined benefit plans. The amendments clarify the requirements for contributions from employees or third parties that are linked to service. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognize such contributions as a reduction in the service cost in the period in which the related service is rendered instead of attributing the contributions to the periods of service. If the amount of the contributions is dependent on the number of years of service, an entity is required to attribute those contributions to periods of service using the same attribution method required for the gross benefit. The amendments are to be applied for annual periods beginning on or after July 1, 2014. Earlier application is permitted.

Amendments to IFRS 11 "Joint Arrangements"– Accounting for Acquisitions of Interest in Joint Operations • The IASB issued amendments to provide guidance on the accounting for acquisitions of interests in joint operations in which the activity constitutes a business. The amendments require the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 "Business Combinations" (IFRS 3), to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in this IFRS, and disclose the information required by IFRS 3 and other IFRS for business combinations. The amendments are to be applied prospectively for annual periods beginning on or after January 1, 2016. Early application is permitted.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount or timing of revenue recognized. IFRS 15 is to be applied for annual periods beginning on or after January 1, 2017, using one of the following methods: retrospective or modified retrospective with the cumulative effect of initially applying the standard as an adjustment to opening equity at the date of initial application. Early application is permitted.

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement" (IAS 39). IFRS 9 is to be applied retrospectively for annual periods beginning on or after January 1, 2018. Early application is permitted.

Annual Improvements to IFRS – 2012-2014 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2012-2014 cycle. The standards and topics covered by the amendments were as follows: IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" clarifies the accounting for changes in methods of disposal; IFRS 7 "Financial Instruments: Disclosures" (IFRS 7) clarifies the application of the disclosure requirements to servicing contracts and addresses the applicability of the offsetting amendments to IFRS 7 to condensed interim financial statements; IAS 19 "Employee Benefits" clarifies the requirements to determine the discount rate in a regional market sharing the same currency; and IAS 34 "Interim Financial Reporting" clarifies the meaning of disclosure of information elsewhere in the interim financial report. These annual improvements are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

Disclosure Initiative – Amendments to IAS 1 "Presentation of Financial Statements" (IAS 1) • The IASB issued amendments to IAS 1 to provide additional guidance to assist entities to apply judgment when meeting the presentation and disclosure requirements in IFRS. The amendments clarify that materiality applies to the whole financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendments clarify that entities should use professional judgment in determining where and in what order information is presented in the financial statements. The amendments are to be applied for annual periods beginning on or after January 1, 2016. Earlier application is permitted.

5. 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*. 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 requires that proposed rate changes 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 December 21, 2013, Canada Post published proposed changes to the regulations, which included a new rate structure for Lettermail, in the *Canada Gazette*. Following a 30-day representation period, the Board of Directors approved the regulations on February 5, 2014, and they were subsequently approved by the Governor in Council on March 6, 2014. The new rate structure took effect March 31, 2014, under which stamps for letters weighing 0 to 30 grams that are sold in booklets, coils or panes cost less than stamps sold individually ($0.85 versus $1). Approval from the Government of Canada was also sought for increases to the remaining regulated Domestic Lettermail products and U.S. and international Letter-post items. New rates for these items also took effect on March 31, 2014.

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.

Under the provisions of the Act, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for mailing of materials for the blind. The Government of Canada provides compensation to the Corporation in respect of these services (Note 23 [a]).

The fact that postage rates for certain products and services are subject to regulation does not affect the application of IFRS to these consolidated financial statements.

Revenue from products and services charged to customers at regulated rates comprises 15% (2013 – 28%) of the Canada Post segment revenue (Note 25). Under the Lettermail pricing restructure implemented in 2014, small businesses and consumers that pay for postage by way of postage meters have access to lower, commercial (non-regulated) postage rates. As a result, revenue previously reported as revenue charged at regulated rates is now being reported as commercial revenue.

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	2014		2013	
Cash and cash equivalents				
Cash	$ 457	68 %	$ 324	69 %
Money market instruments issued by				
Government of Canada	10	1 %	8	2 %
Provincial governments	23	3 %	14	3 %
Financial institutions	84	13 %	30	6 %
Corporations	103	15 %	92	20 %
Total cash and cash equivalents	**$ 677**	**100 %**	$ 468	100 %
Marketable securities				
Money market instruments issued by				
Government of Canada	$ 132	19 %	$ 99	17 %
Provincial governments	259	38 %	193	34 %
Financial institutions	136	20 %	134	24 %
Corporations	162	23 %	144	25 %
Total marketable securities	**$ 689**	**100 %**	$ 570	100 %
Segregated securities				
Cash	$ 10	2 %	$ 9	2 %
Bonds issued by				
Government of Canada	114	21 %	103	20 %
Provincial governments	211	38 %	193	38 %
Corporations	216	39 %	205	40 %
Total segregated securities	**$ 551**	**100 %**	$ 510	100 %

The remaining term to maturity at December 31, 2014, is 12 months or less with the exception of segregated bond securities that, if held to maturity, have terms expiring over a 28-year period.

All money market instruments and bonds held as at December 31, 2014, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2014, was 1.2% for money market instruments (2013 – 1.2%) and 2.8% for bonds (2013 – 3.6%).

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.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $13 million (2013 – $10 million). Interest income and gains and losses on segregated securities amounted to $21 million (2013 – $21 million).

7. Other Assets

As at December 31	2014	2013
Prepaid expenses	$ 89	$ 82
Assets held for sale	9	10
Total other assets	**$ 98**	$ 92

The Group of Companies has several properties classified as held for sale, the majority of them from the Purolator segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds.

8. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2012	$ 309	$ 1,726	$ 266	$ 1,278	$ 403	$ 430	$ 888	$ 175	$ 5,475
Additions	11	50	6	111	35	15	29	76	333
Reclassified as held for sale	(11)	(20)	–	–	–	–	–	–	(31)
Retirements	–	(10)	(6)	(93)	(5)	(7)	(25)	–	(146)
Transfers (nets to nil with Note 8 [b])	–	39	3	4	–	2	–	(49)	(1)
December 31, 2013	$ 309	$ 1,785	$ 269	$ 1,300	$ 433	$ 440	$ 892	$ 202	$ 5,630
Additions	5	50	5	58	49	20	44	27	258
Reclassified as held for sale	(1)	(4)	–	–	–	–	–	–	(5)
Retirements	–	(9)	(11)	(70)	(5)	(6)	(57)	–	(158)
Transfers (nets to nil with Note 8 [b])	–	159	–	12	3	4	–	(177)	1
December 31, 2014	**$ 313**	**$ 1,981**	**$ 263**	**$ 1,300**	**$ 480**	**$ 458**	**$ 879**	**$ 52**	**$ 5,726**
Accumulated depreciation									
December 31, 2012	$ –	$ 873	$ 182	$ 704	$ 191	$ 307	$ 563	$ –	$ 2,820
Depreciation	–	61	18	69	38	37	37	–	260
Reclassified as held for sale	–	(15)	–	–	–	–	–	–	(15)
Retirements	–	(8)	(6)	(92)	(4)	(7)	(25)	–	(142)
Transfers	–	(1)	1	–	–	–	–	–	–
December 31, 2013	$ –	$ 910	$ 195	$ 681	$ 225	$ 337	$ 575	$ –	$ 2,923
Depreciation	–	61	16	83	42	43	37	–	282
Reclassified as held for sale	–	(2)	–	–	–	–	–	–	(2)
Retirements	–	(9)	(11)	(65)	(5)	(6)	(57)	–	(153)
December 31, 2014	**$ –**	**$ 960**	**$ 200**	**$ 699**	**$ 262**	**$ 374**	**$ 555**	**$ –**	**$ 3,050**
Carrying amounts									
December 31, 2013	$ 309	$ 875	$ 74	$ 619	$ 208	$ 103	$ 317	$ 202	$ 2,707
December 31, 2014	**$ 313**	**$ 1,021**	**$ 63**	**$ 601**	**$ 218**	**$ 84**	**$ 324**	**$ 52**	**$ 2,676**

As at December 31, 2014, the Group of Companies held assets under finance leases in three asset classes: sales counters, office furniture and equipment with net book value of $2 million (2013 – $5 million); vehicles with net book value of $71 million (2013 – $62 million); and plant equipment with net book value of $9 million (2013 – $13 million).

During 2014, capitalized borrowing costs related to Postal Transformation amounted to $2 million (2013 – $10 million), with a capitalization rate of 4.3% (2013 – 4.3%).

8. Capital Assets (continued)

(b) Intangible assets

	Software	Software under development	Customer contracts and relationships	Total
Cost				
December 31, 2012	$ 610	$ 22	$ 30	$ 662
Additions	6	34	–	40
Transfers (nets to nil with Note 8 [a])	24	(23)	–	1
December 31, 2013	$ 640	$ 33	$ 30	$ 703
Additions	45	(10)	–	35
Retirements	(30)	–	–	(30)
Transfers (nets to nil with Note 8 [a])	2	(3)	–	(1)
December 31, 2014	**$ 657**	**$ 20**	**$ 30**	**$ 707**
Accumulated amortization				
December 31, 2012	$ 494	$ –	$ 25	$ 519
Amortization	53	1	1	55
December 31, 2013	$ 547	$ 1	$ 26	$ 574
Amortization	46	–	–	46
Retirements	(30)	–	–	(30)
December 31, 2014	**$ 563**	**$ 1**	**$ 26**	**$ 590**
Carrying amounts				
December 31, 2013	$ 93	$ 32	$ 4	$ 129
December 31, 2014	**$ 94**	**$ 19**	**$ 4**	**$ 117**

9. Employee Benefits

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

For the year ended December 31	**2014**	2013
Active and other employee benefits	$ 567	$ 549
Pension, other post-employment and other long-term benefit expense (Note 10 [e])	680	879
Employee benefits, including (gains) losses from plan amendments	**$ 1,247**	$ 1,428

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, on negotiated benefit rates. These plans provide for retirement pension, 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, dental and 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 and dental coverage for employees receiving long-term disability benefits. Under short-term disability or injury-on-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. In February 2014, the Corporation received approval 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 the 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, adding to the funding risk faced by plan sponsors.

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

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 strategy remains appropriate in challenging economic environments. The investment strategy also incorporates 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 at times (Note 10 [h]).

(c) Net defined benefit liability

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

As at December 31		**2014**		2013
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 21,132	$ 3,363	$ 20,995	$ 3,571
Current service cost	368	108	471	121
Interest cost	1,049	170	921	159
Employee contributions	244	–	211	–
Benefits paid	(875)	(151)	(832)	(146)
Actuarial losses (gains) (Note 10 [f])	3,505	116	(635)	(342)
(Gains) losses from plan amendments	–	(29)	1	–
Balance, end of year	$ 25,423	$ 3,577	$ 21,132	$ 3,363
Fair value of plan assets				
Balance, beginning of year	$ 20,219	$ –	$ 17,570	$ –
Interest income on plan assets	1,004	–	771	–
Return on plan assets, excluding interest income on plan assets	1,095	–	2,131	–
Employer regular contributions	298	–	306	–
Employer special contributions	66	–	74	–
Employee contributions	244	–	211	–
Other administration costs	(12)	–	(12)	–
Benefits paid	(875)	–	(832)	–
Balance, end of year	$ 22,039	$ –	$ 20,219	$ –
Net defined benefit liability	**$ 3,384**	**$ 3,577**	$ 913	$ 3,363

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

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no decrease in the pension benefit assets and no increase in the pension benefit liabilities required as at December 31, 2014 and December 31, 2013.

A reconciliation of the net defined benefit liability follows:

As at December 31	2014		2013	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	$ 913	$ 3,363	$ 3,425	$ 3,571
Remeasurements of defined benefit plans (Note 10 [e])	2,410	98	(2,766)	(319)
Benefits paid directly to beneficiaries	–	(151)	–	(146)
Employer regular contributions paid	(298)	–	(306)	–
Employer special contributions paid	(66)	–	(74)	–
Defined benefit expense (Note 10 [e])	425	267	634	257
Net defined benefit liability, end of the year	**$ 3,384**	**$ 3,577**	$ 913	$ 3,363

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

As at December 31	**2014**	2013
Pension benefit assets	**$ 141**	$ 177
Pension benefit liabilities	$ 3,525	$ 1,090
Other post-employment and other long-term benefit liabilities	3,577	3,363
Total pension, other post-employment and other long-term benefit liabilities	$ 7,102	$ 4,453
Current other long-term benefit liabilities	**$ 65**	$ 71
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 7,037**	$ 4,382

(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 24 for the Group of Companies follows:

As at December 31, 2014

	Level 1		**Level 2**		**Level 3**		**Total**	
Cash and short-term securities	$ 233	1 %	$ 243	1 %	$ –	– %	$ 476	2 %
Fixed income	24	– %	6,505	30 %	–	– %	6,529	30 %
Equities	12,538	58 %	109	– %	–	– %	12,647	58 %
Real estate	–	– %	–	– %	1,457	7 %	1,457	7 %
Private equity	–	– %	–	– %	418	2 %	418	2 %
Infrastructure	–	– %	–	– %	311	1 %	311	1 %
Derivatives	–	– %	13	– %	–	– %	13	– %
Total investment assets	**$ 12,795**	**59 %**	**$ 6,870**	**31 %**	**$ 2,186**	**10 %**	**$ 21,851**	**100 %**
Non-investment assets less liabilities							$ 188	
Fair value of plan assets							**$ 22,039**	

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

As at December 31, 2013

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 210	1 %	$ 430	2 %	$ –	– %	$ 640	3 %
Fixed income	105	1 %	5,632	28 %	–	– %	5,737	29 %
Equities	11,614	58 %	136	1 %	–	– %	11,750	59 %
Real estate	–	– %	–	– %	1,374	7 %	1,374	7 %
Private equity	–	– %	–	– %	251	1 %	251	1 %
Infrastructure	–	– %	–	– %	275	1 %	275	1 %
Derivatives	1	– %	1	– %	2	– %	4	– %
Total investment assets	$ 11,930	60 %	$ 6,199	31 %	$ 1,902	9 %	$ 20,031	100 %
Non-investment assets less liabilities							$ 188	
Fair value of plan assets							$ 20,219	

Total plan assets included $1,873 million (2013 – $1,540 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $153 million (2013 – $146 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 costs components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31			**2014**			2013
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 368	$ 108	$ 476	$ 471	$ 121	$ 592
Interest cost	1,049	170	1,219	921	159	1,080
Interest income on plan assets	(1,004)	–	(1,004)	(771)	–	(771)
Actuarial losses (gains) (Note 10 [f])[1]	–	18	18	–	(23)	(23)
Other administration costs	12	–	12	12	–	12
(Gains) losses from plan amendments	–	(29)	(29)	1	–	1
Defined benefit expense (Note 10 [c])	425	267	692	634	257	891
Defined contribution expense	9	–	9	9	–	9
Total expense	434	267	701	643	257	900
Return on segregated securities	–	(21)	(21)	–	(21)	(21)
Component included in employee benefits expense (Note 9)	**$ 434**	**$ 246**	**$ 680**	$ 643	$ 236	$ 879
Remeasurement losses (gains):						
Return on plan assets, excluding interest income on plan assets	$ (1,095)	$ –	$ (1,095)	$ (2,131)	$ –	$ (2,131)
Actuarial losses (gains) (Note10 [f])	3,505	98	3,603	(635)	(319)	(954)
Component included in other comprehensive income (loss) (Note 10 [c])	**$ 2,410**	**$ 98**	**$ 2,508**	$ (2,766)	$ (319)	$ (3,085)

1. Remeasurements for other long-term benefit plans are recognized in net profit or loss in the period in which they arise.

During the year, the Corporation signed a new collective agreement with employees represented by the Public Service Alliance of Canada and ratified a collective agreement with the employees represented by the Association of Postal Officials of Canada. The new terms and conditions led to modifications of the post-employment health plan arrangements. The resulting gains from plan amendments of $5 million and $24 million, respectively, were recorded in net profit (loss).

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

(f) Actuarial losses (gains)

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

For the year ended December 31	**2014**			2013		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial losses (gains) on other long-term benefit obligations:						
Actuarial gains arising from changes in demographic assumptions	$ –	$ (7)	$ (7)	$ –	$ (1)	$ (1)
Actuarial losses (gains) arising from changes in financial assumptions	–	27	27	–	(21)	(21)
Actuarial gains arising from experience adjustments	–	(2)	(2)	–	(1)	(1)
Actuarial losses (gains) included in net profit (loss) (Note10 [e])	**$ –**	**$ 18**	**$ 18**	$ –	$ (23)	$ (23)
Actuarial losses (gains) on defined benefit obligations:						
Actuarial losses arising from changes in demographic assumptions	$ –	$ 5	$ 5	$ 1,775	$ 287	$ 2,062
Actuarial losses (gains) arising from changes in financial assumptions	3,599	92	3,691	(2,368)	(610)	(2,978)
Actuarial (gains) losses arising from experience adjustments	(94)	1	(93)	(42)	4	(38)
Actuarial losses (gains) included in other comprehensive income (loss) (Note 10 [e])	**$ 3,505**	**$ 98**	**$ 3,603**	$ (635)	$ (319)	$ (954)
Total actuarial losses (gains) (Note 10 [c])	**$ 3,505**	**$ 116**	**$ 3,621**	$ (635)	$ (342)	$ (977)

(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	**2014**		2013	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	4.0 %	4.1 %	5.0 %	5.1 %
Consumer price index	2.25 %	2.25 %	2.25 %	2.25 %
Defined benefit expense:				
Discount rate	5.0 %	5.1 %	4.4 %	4.5 %
Consumer price index	2.25 %	2.25 %	2.25 %	2.25 %
Health care cost trend rate[1]	N/A	5.5 %	N/A	7.3 %

1. For 2014, the health care cost trend rate was 5.5%, decreasing progressively to a rate of 4.5% by 2029. For 2013, the health care cost trend rate was 7.3%, decreasing progressively to a rate of 4.9% by 2029.

As disclosed in Note 2 (i.2), the plans' significant assumptions are assessed and revised as appropriate. During the year, the Corporation also revised its actuarial assumption with respect to the health care cost trend rate as a result of actual experience and current information that indicates health care costs are expected to be lower than previously assumed over the long term. The revised weighted-average health care cost trend rate decreased by approximately 180 basis points and resulted in a reduction of the Corporation's post-employment health plan liability of $295 million, with a corresponding decrease in pre-tax other comprehensive loss.

In addition to the significant actuarial assumptions in the table above, the mortality tables are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM), more specifically the CPM 2014 Public Sector Mortality Tables with the CPM improvement scale B, adjusted for experience. Mortality tables represent the probability of death within a year for plan members of various ages.

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

The average life expectancies based on the mortality tables and improvement scale used in the measurement of the defined benefit obligations for the significant plans were as follows:

As at December 31	**2014**	2013
Life expectancy at age 60 at December 31, 2014, and 2013 (in years):		
Males	27	27
Females	29	29
Life expectancy at age 60 at December 31, 2034, and 2033 (in years):		
Males	28	28
Females	30	30

(h) Sensitivity analysis

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

As at December 31, 2014

	Pension benefit plans	**Other benefit plans**	**Total**
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,010)	$ (279)	$ (2,289)
0.5% decrease in discount rates	$ 2,198	$ 317	$ 2,515
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 850	$ 39	$ 889
0.25% decrease in CPI	$ (821)	$ (37)	$ (858)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (478)	$ (65)	$ (543)
10% decrease in mortality tables	$ 488	$ 76	$ 564
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 516	$ 516
1% decrease in health care trend rates	N/A	$ (395)	$ (395)

As at December 31, 2013

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	$ (1,532)	$ (248)	$ (1,780)
0.5% decrease in discount rates	$ 1,663	$ 280	$ 1,943
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 654	$ 30	$ 684
0.25% decrease in CPI	$ (623)	$ (28)	$ (651)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (332)	$ (53)	$ (385)
10% decrease in mortality tables	$ 362	$ 61	$ 423
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	$ (351)	$ (351)

The above sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on the above 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 the above sensitivity are consistent with those used to determine the pension and other benefit plan obligations and with the methods used in 2013.

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 12 to 23, 16 to 18, and 5 to 8 years, respectively.

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

(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	2014	2013
Benefits paid directly to beneficiaries for other benefit plans	$ 151	$ 146
Employer regular contributions to pension benefit plans	298	306
Employer special contributions to pension benefit plans	66	74
Cash payments for defined benefit plans	515	526
Contributions to defined contribution plans	9	9
Total cash payments	**$ 524**	$ 535

Over the past few years, low solvency discount rates increased the pension plans' solvency obligations and deficits significantly. Changes to pension legislation were implemented by the Government of Canada providing Crown corporations with funding relief on special solvency contributions if certain conditions are met. Under these regulations, the aggregate amount of the relief was limited to 15% of the fair value of plan assets.

In February 2014, the Government of Canada introduced the *Canada Post Corporation Pension Plan Funding Regulations.* Under these regulations, the Corporation is exempt from making special contributions into its registered pension plan from 2014 to 2017. Temporary measures were implemented to address the operational challenges encountered by the Corporation and provided immediate relief on its liquidities. During the relief period, the Corporation will continue to restructure its operations and will start addressing the pension plan in order to ensure its sustainability. The Corporation is expected to resume special contributions in 2018 at the end of the temporary relief period.

Without relief, an additional $1.3 billion in special contributions would have been required by the Corporation in 2014. Based on the latest estimate of the Canada Post Corporation Registered Pension Plan's funding position as of December 31, 2014, the special contributions without pension relief would be $1.4 billion in 2015.

(j) Future expected contributions

In 2015, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $357 million, including the Canada Post Corporation Registered Pension Plan regular contributions estimated at $244 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 (loss) and other comprehensive income or loss (OCI), were as follows:

	December 31, 2013	**Recognized in net profit**	**Recognized in OCI**	**December 31, 2014**
Net deferred tax assets (liabilities)				
Capital assets	$ (47)	$ (6)	$ –	$ (53)
Salaries and benefits payable and related provisions	84	(37)	–	47
Pension, other post-employment and other long-term benefit liabilities	1,029	50	629	1,708
Other	24	(10)	(12)	2
Net deferred tax assets	$ 1,090	**$ (3)**	**$ 617**	**$ 1,704**

	December 31, 2012	Recognized in net loss	Recognized in OCI	December 31, 2013
Net deferred tax assets (liabilities)				
Capital assets	$ (25)	$ (22)	$ –	$ (47)
Salaries and benefits payable and related provisions	82	2	–	84
Pension, other post-employment and other long-term benefit liabilities	1,707	94	(772)	1,029
Other	42	(30)	12	24
Net deferred tax assets	$ 1,806	$ 44	$ (760)	$ 1,090

As presented in the consolidated statement of financial position:

As at December 31	**2014**	2013
Deferred tax assets	**$ 1,706**	$ 1,093
Deferred tax liabilities	**2**	3
	$ 1,704	$ 1,090

As at December 31, 2014, the Corporation recognized a deferred tax asset of $1,665 million on its deductible temporary differences. This is based on management's assessment that all available evidence, such as profitability information derived from long-term forecasted operating results, suggests that their realization is probable.

Deferred tax liabilities have not been 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, 2014, was $193 million (2013 – $219 million).

11. Income Taxes (continued)

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

For the year ended December 31	**2014**	2013
Current tax expense (income) relating to		
Current tax expense	$ 68	$ 12
Adjustments for prior years	–	3
	68	15
Deferred tax expense (income) relating to		
Origination and reversal of temporary differences	2	(43)
Adjustments for prior years	1	(1)
	3	(44)
Tax expense (income)	**$ 71**	$ (29)

The tax expense differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2013 – 25%) to profit (loss) before tax. The reasons for the differences were as follows:

For the year ended December 31	**2014**	2013
Profit (loss) before tax	$ 269	$ (58)
Federal tax at Corporation's statutory rate	67	(15)
Subsidiaries' provincial tax less federal tax abatement	2	1
Effect of non-taxable portion of gain on sale of capital assets	(1)	(14)
Other	3	(1)
Tax expense (income)	**$ 71**	$ (29)

The federal statutory tax rate remained at 25% for 2013 and 2014, which is the applicable long-term federal statutory tax rate.

12. Other Comprehensive Income (Loss)

	Items that will not be reclassified to net profit (loss)	Items that may be reclassified subsequently to net profit (loss)	
	Remeasurements of defined benefit plans	Unrealized gains (losses) on available-for-sale financial assets	Other comprehensive income (loss)
For the year ended December 31, 2014			
Amount arising during year	$ (2,508)	$ 48	$ (2,460)
Income taxes	629	(12)	617
Net	**$ (1,879)**	**$ 36**	**$ (1,843)**
For the year ended December 31, 2013			
Amount arising during year	$ 3,085	$ (46)	$ 3,039
Income taxes	(772)	12	(760)
Net	$ 2,313	$ (34)	$ 2,279

13. 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			**2014**	2013
	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% (2013 – 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% (2013 – 16%), which is based on Purolator's weighted-average cost of capital.

14. Trade and Other Payables

As at December 31	**2014**	2013
Trade payables	$ 120	$ 145
Accruals and other payables	243	255
Payables to foreign postal administrations	115	123
Outstanding money orders	26	30
Taxes payable	79	67
Total	**$ 583**	$ 620

Market, credit and liquidity risks relating to trade and other payables are disclosed in Note 24.

15. Loans and Borrowings

As at December 31		**2014**		2013
	Fair value	**Carrying value**	Fair value	Carrying value
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,3]	$ 638	$ 498	$ 554	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,3]	585	498	533	498
Non-redeemable bonds maturing March 2016, interest at 10.35%, payable semi-annually on March 15 and September 15[2,3]	61	55	65	55
Finance lease obligations, maturing in 2015, net of implicit interest at rates varying from 5.7% to 7.5%[4]	4	4	6	6
Finance lease obligations, maturing on various dates from 2015 through 2020, net of implicit interest at rates varying from 3.3% to 5.5%[5]	79	79	74	74
Total loans and borrowings	**$ 1,367**	**$ 1,134**	$ 1,232	$ 1,131
Current loans and borrowings	**$ 22**	**$ 22**	$ 23	$ 23
Non-current loans and borrowings	**$ 1,345**	**$ 1,112**	$ 1,209	$ 1,108

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. There are no prepayment terms associated with this debt.
3. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
4. Finance lease obligations relate to the Corporation's computer refresh program and are repayable in monthly instalments.
5. The leasing facility of a subsidiary, which allows for borrowings of up to $125 million to acquire capital assets, requires on a quarterly basis the funded debt to income before interest, tax and amortization covenant ratio to be equal to, or less than, 2.5:1. The subsidiary is in compliance with this covenant.

15. Loans and Borrowings (continued)

A subsidiary has an unsecured three-year term revolving line of credit to borrow a maximum of $50 million on a committed basis and an additional $25 million on an uncommitted basis. There was no amount drawn under this facility as at December 31, 2014, or December 31, 2013. This credit facility contains two financial covenant requirements. On a quarterly basis the subsidiary's funded debt to income before interest, tax and amortization covenant ratio must be equal to or less than 2.5:1 and the interest coverage ratio must be equal to or greater than 4:1. The subsidiary was in compliance with both covenants as at December 31, 2014.

Interest expense on loans and borrowings amounted to $49 million (2013 – $41 million).

Future principal repayments on loans and borrowings, excluding finance lease obligations, were as follows:

As at December 31	**2014**	2013
2016	$ 55	$ 55
2025	500	500
2040	500	500
	$ 1,055	$ 1,055

Finance lease obligations at December 31, 2014, were as follows:

	Minimum payments	**Unamortized interest expense**	**Present value of minimum payments**
Not later than one year	$ 25	$ 3	$ 22
Later than one year and not later than five years	59	4	55
Later than five years	6	–	6
Finance lease obligations	**$ 90**	**$ 7**	**$ 83**
Current finance lease obligations	**$ 25**	**$ 3**	**$ 22**
Non-current finance lease obligations	**$ 65**	**$ 4**	**$ 61**

Finance lease obligations at December 31, 2013, were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 25	$ 2	$ 23
Later than one year and not later than five years	57	4	53
Later than five years	4	–	4
Finance lease obligations	$ 86	$ 6	$ 80
Current finance lease obligations	$ 25	$ 2	$ 23
Non-current finance lease obligations	$ 61	$ 4	$ 57

16. Provisions

The following table presents the movement in provisions for the year ended December 31, 2014:

	Claims	Other	Total
Balance at December 31, 2013	$ 52	$ 31	$ 83
Additional provisions recognized	10	33	43
Provisions used during the year	(9)	(37)	(46)
Reduction from remeasurement of provisions	(5)	(2)	(7)
Balance at December 31, 2014	**$ 48**	**$ 25**	**$ 73**
Current provisions	**$ 47**	**$ 24**	**$ 71**
Non-current provisions	**$ 1**	**$ 1**	**$ 2**

Claims
The provision for claims is management's best estimate of the probable cash outflows related to legal claims, 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.

16. Provisions (continued)

Other
The December 31, 2014, and 2013 balances for the other provisions category consist of a number of items, including decommissioning obligations associated with asbestos removal and site restoration costs for properties that have planned renovations or are planned to be disposed of by sale. Decommissioning obligations associated with disposals are expected to be transferred to the prospective purchasers of the properties on the date of sale, planned within the next year. The estimated cash outflows were discounted at a risk-free interest rate of 1.0% (2013 – between 0.9% and 1.1%). The Corporation estimates that the undiscounted cash outflows required to transfer its recognized decommissioning obligations approximated $1 million (2013 – $2 million), the present value of which was $1 million at December 31, 2014 (2013 – $2 million).

A provision for severance is also included in this category and represents management's best estimate of the probable cash outflows related to severance payments. The timing of cash outflows for severance payments is current.

The remaining items making up the December 31, 2014, balance in the other provisions category include lease retirement obligations for significant leases, which are legal obligations to restore leased premises to their original state at the termination of the leases, other corporate provisions and tax provisions. With the exception of lease retirement obligations, the timing of cash outflows relating to these remaining items is current. The cash outflows relating to lease retirement obligations are expected to occur over the next five years.

Claims and other provisions are not recognized when the Group of Companies does not have sufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation is possible rather than probable. Disclosures regarding contingent liabilities for these items can be found in Note 18.

Pay equity
On November 17, 2011, the Supreme Court of Canada upheld the decision of the Canadian Human Rights Tribunal (Tribunal) rendered in October 2005, which concluded that the Corporation had participated in "systemic discrimination" in the setting of wages for a group of Public Service Alliance of Canada (PSAC) members and ordered payment to compensate the found wage gap at a discount of 50%. The complaint was originally filed by PSAC with the Canadian Human Rights Commission in 1983, alleging discrimination by the Corporation concerning work of equal value.

On June 25, 2013, a memorandum of agreement was reached between PSAC and the Corporation regarding the implementation of the Tribunal's 2005 order, including the methodology to be used for the wage gap calculation, eligibility criteria and the payment process. Payments under this agreement commenced August 1, 2013, and on August 6, 2013, the Tribunal issued an order enforcing the agreement.

The provision included in salaries and benefits payable and related provisions reflects management's best estimate of the remaining liability to comply with the agreement. Detailed information is not provided as it could be prejudicial to the Corporation.

17. 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. These 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.

A five-year financial framework was approved by the Government of Canada in late 2009. The financial framework established financial performance targets and metrics for 2010 to 2014, reflecting the Group of Companies' projected financial position during a period of intensive investment in Postal Transformation. A revised, IFRS-based financial framework was approved in 2012 as part of the Corporation's 2012-2016 Corporate Plan.

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.

The total outstanding loans and borrowings were $1,134 million at December 31, 2014, compared to $1,131 million at December 31, 2013. The increase of $3 million in 2014 was due to a net increase in finance lease obligations. Non-current other liabilities increased $13 million in 2014, primarily due to an increase in long-term deferred revenue. The decrease in the equity of Canada was primarily attributable to the remeasurements of defined benefit plans, as these are recognized in other comprehensive income or loss and are included immediately in retained earnings or accumulated deficit. The equity of Canada was in a deficit position of $2,035 million at December 31, 2014, compared to a deficit position of $391 million at December 31, 2013.

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.

17. Capital Management (continued)

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 Governor-in-Council approval. The first year of the Corporation's 2015-2019 Corporate Plan was approved by the Governor in Council on December 11, 2014.

The declaration, amount and payment of a dividend to the Government of Canada are subject to the Acts. The dividend is reviewed annually as the Corporation is required to submit a dividend proposal each year as part of its Corporate Plan. The Corporation indicated in the 2014-2018 Corporate Plan its intention not to pay a dividend in 2014.

In total, $271 million in dividends were paid to the Government of Canada from 2004 to 2008. No dividend was paid to the shareholder from 2009 to 2014. The financial framework included a dividend payout target of 0% to 20% for 2010 and 2011, and 15% to 20% for 2012 through 2014.

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 24 (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 Governor in Council. 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, of $2.5 billion was authorized pursuant to *Appropriation Act No. 4, 2009-10*, which stipulates that the borrowings must be in accordance with the terms and conditions approved by the Minister of Finance. Included in the total authorized borrowing limit was a maximum of $100 million (2013 – $100 million) available for cash management purposes in the form of short-term borrowings.

The Corporation's ability to obtain additional capital is subject to market conditions and pursuant to the provisions of the Acts. The *Canada Post Corporation Act* provides 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; however, no such shares have been issued.

The Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, a subsidiary must satisfy certain restrictive covenants related to funded debt to income before interest, tax and amortization, and interest coverage ratios. The subsidiary is in compliance with all covenants (Note 15).

18. Contingent Liabilities

(a) A complaint was filed with the Canadian Human Rights Commission (Commission) alleging discrimination by the Corporation concerning work of equal value. The complaint was filed by the Canadian Postmasters and Assistants Association (CPAA) initially in December 1982. In March 2006, on the recommendation of a conciliator, the Commission declined the complaint on the basis that it could be dealt with more appropriately under the *Canada Labour Code*.

On October 10, 2012, the Corporation received notice from the Commission that the CPAA had requested the reactivation of its pay equity complaint. The Corporation filed a full legal brief December 10, 2012, in response to the Commission's request for submission. The report of the Commission's investigator was released December 8, 2014, finding that while the agreements between the parties resolved any pay equity issues for the period subsequent to 1997, the prior period (1991 to 1997) remains an issue and should be referred to the Canadian Human Rights Tribunal without further investigation. The Corporation made submissions to the Commission on January 30, 2015, in respect of the report.

The outcome of this complaint is currently not determinable, and as a result no provision has been recorded in the consolidated financial statements.

(b) The previous collective agreement between the Corporation and the Canadian Union of Postal Workers (CUPW) expired in January 2011. In response to rotating strikes across the country by CUPW and the lockout of employees by the Corporation, back-to-work legislation tabled by the Government of Canada received royal assent in June 2011. In October 2011 CUPW filed an application contesting the constitutionality of the legislation. Thereafter, new agreements were ratified and signed in December 2012.

The outcome of CUPW's application contesting the constitutionality of the back-to-work legislation is currently not determinable and as a result no provision has been recorded in the consolidated financial statements.

18. Contingent Liabilities (continued)

(c) Through July 2014, the Corporation received notices from the Canadian International Trade Tribunal (CITT) that it accepted for inquiry a number of complaints, both public and confidential, by CGI Information Systems and Management Consultants Inc. (CGI). The complaints concerned the requests for proposals for data centre services and application development services conducted by Innovapost on behalf of the Group of Companies for the contracts awarded December 6, 2013, and February 18, 2014. CGI's public claims are that it was not provided with the documents and information it is entitled to receive pursuant to its debrief requests, that undisclosed criteria were used to evaluate CGI's bids, and that CGI's bids were improperly evaluated. After reviewing the filed responses and conducting oral hearings, the CITT made recommendations in respect of all public and confidential complaints made by CGI. Other than reimbursement by the Corporation to CGI of its complaint preparation costs, which were minimal, the CITT recommended that no other monetary relief be made to CGI by the Corporation.

In November 2014, the Corporation received notice that CGI is appealing the CITT's recommendations in the data centre services matter and is not appealing the CITT's recommendations in the application development services matter. The outcome of the appeal is currently not determinable, and as a result no provision has been recorded in the consolidated financial statements.

(d) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community-mailbox delivery was filed by CUPW and others in November 2014. The outcome of this challenge is currently not determinable, and as a result no provision has been recorded in the consolidated financial statements.

(e) In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies provides indemnification to 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 under these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(f) 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, when an outflow of resources is probable, and amounts can be reasonably estimated (see Note 16 for provisions).

(g) 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 obligation to remove and dispose of asbestos-containing materials.

The Corporation has recognized decommissioning liabilities associated with asbestos removal and other site restoration costs for properties that are planned to be disposed of by sale (these obligations are expected to be transferred to the prospective purchasers of the properties on the date of sale) or have planned renovations. These liabilities have been recorded in provisions (Note 16).

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. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

19. Commitments

(a) The Group of Companies is committed to the following future minimum lease payments under facilities, transportation equipment and other operating leases:

As at December 31	2014	2013
Not later than one year	$ 138	$ 152
Later than one year and not later than five years	394	355
Later than five years	431	427
Total	**$ 963**	$ 934

Included in the above table are lease payments to be made to related parties, in the normal course of business, in the amount of $84 million for premises used in postal operations and transportation services (2013 – $34 million).

The Group of Companies leases a number of properties, including industrial buildings, retail stores, offices and land, as well as operating equipment under operating leases. Leases generally run for a period of one to 20 years, with the average lease term being six years. Where renewal options exist, exercise is at the discretion of the Group of Companies. Some of the Corporation's property leases include the right of first refusal to purchase the building.

During the year ended December 31, 2014, $144 million was recognized as an expense in net profit (loss) in respect of operating leases (2013 – $151 million). This amount is net of lease revenues of $10 million (2013 – $10 million).

(b) The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $900 million that extend to 2022.

(c) 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.

20. Other Operating Costs

For the year ended December 31	2014	2013
Non-labour collection, processing and delivery	$ 1,338	$ 1,318
Property, facilities and maintenance	354	349
Selling, administrative and other	587	499
Other operating costs	**$ 2,279**	$ 2,166

21. Investing and Financing Income (Expense)

For the year ended December 31	2014	2013
Interest revenue	$ 14	$ 11
Gain on sale of capital assets and assets held for sale	9	168
Other income	–	3
Investment and other income	**$ 23**	$ 182
Interest expense	$ (49)	$ (41)
Other expense	(4)	(6)
Finance costs and other expense	**$ (53)**	$ (47)
Investing and financing income (expense), net	**$ (30)**	$ 135

22. Interests in Other Entities

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, 2014	December 31, 2013
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 %

23. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other governmental 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	2014	2013
Related party revenue	**$ 260**	$ 268
Compensation payments for programs		
Government mail and mailing of materials for the blind	**$ 22**	$ 22
Payments from related parties for premises leased from the Corporation	**$ 7**	$ 7
Related party expenditures	**$ 30**	$ 33

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 the blind sent free of postage (Note 5).

The amounts due to and from related parties and included in the statement of financial position were as follows:

As at December 31	2014	2013
Due to/from related parties		
Included in trade and other receivables	**$ 25**	$ 20
Included in trade and other payables	**$ 7**	$ 16
Deferred revenue from related parties	**$ 3**	$ 3

Future payments from related parties for premises leased from the Corporation were as follows:

As at December 31	2014	2013
Not later than one year	$ 7	$ 7
Later than one year and not later than five years	23	24
Later than five years	–	6
Total	**$ 30**	$ 37

23. Related Party Transactions (continued)

(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 KMP was as follows:

For the year ended December 31	2014	2013
Short-term employee benefits	$ 9	$ 9
Post-employment benefits	1	2
Total compensation	**$ 10**	$ 11

The 2014 KMP Group of Companies' compensation relating to the Boards of Directors included in the table directly above was $0.3 million (2013 – $0.3 million).

There were no transactions with KMP other than compensation.

(c) Transactions with entities in which KMP of the Canada Post Group of Companies have 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 KMP of the Group of Companies. The affected KMP always recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2014 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 $112 million (2013 – $110 million). As at December 31, 2014, $6 million was due to the company from Purolator (2013 – $4 million) and was included in trade and other payables. 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 $10 million (2013 – $9 million). As at December 31, 2014, $11 million (2013 – $4 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).

24. Financial Instruments and Risk Management

Fair values of financial instruments

The following table provides the estimated fair values of financial instruments in accordance with the Group of Companies' accounting policies. Fair values are measured and disclosed based on a hierarchy described below that reflects the significance of inputs used in making these estimates.

As at December 31, 2014

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 457	$ 220	$ –	**$ 677**
Marketable securities	$ –	$ 689	$ –	**$ 689**
Segregated securities	$ –	$ 551	$ –	**$ 551**
Trade and other payables: risk management financial liabilities	$ –	$ 1	$ –	**$ 1**
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,367	$ –	**$ 1,367**

1. Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
2. 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.
3. Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

24. Financial Instruments and Risk Management (continued)

As at December 31, 2013

	Level 1[1]	Level 2[2]	Level 3[3]	Total
Measured at fair value				
Cash and cash equivalents	$ 324	$ 144	$ –	$ 468
Marketable securities	$ –	$ 570	$ –	$ 570
Segregated securities	$ –	$ 510	$ –	$ 510
Measured at amortized cost				
Loans and borrowings	$ –	$ 1,232	$ –	$ 1,232

1. Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
2. 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.
3. Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2014.

The fair values of 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.

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 and trades derivatives 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 and cash equivalents, marketable securities and segregated securities and are designated as fair value through profit or loss or available for sale. 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 portfolio was 12 years as at December 31, 2014 (2013 – 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 increase or decrease the value of the segregated securities and other comprehensive income or loss by $64 million at December 31, 2014 (2013 – $58 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$), euro (€), British pound (£) and yen (¥), whereas payment is usually denominated in US$.

24. Financial Instruments and Risk Management (continued)

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 four 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 notional amounts of forward contracts outstanding were as follows:

As at December 31, 2014

Currency	**Notional value**	**Canadian equivalent**	**Average contract rate**	**Maturity**	**Type**	**Fair value**
U.S. dollar	US$24	$ 27	$1.14/US$	January 15, 2015	Sell forward	$ (1)
Euro	€14	20	$1.41/€	January 16, 2015	Sell forward	–
British pound	£3	5	$1.78/£	January 16, 2015	Sell forward	–
Yen	¥300	3	$0.010/¥	January 16, 2015	Sell forward	–
Total		**$ 55**				**$ (1)**

As at December 31, 2013

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$35	$ 37	$1.07/US$	January 16, 2014	Sell forward	$ –
Euro	€17	25	$1.45/€	January 17, 2014	Sell forward	–
British pound	£3.5	6	$1.75/£	January 17, 2014	Sell forward	–
Yen	¥450	5	$0.010/¥	January 17, 2014	Sell forward	–
Total		$ 73				$ –

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

For the year ended December 31		**2014**			2013	
	Foreign exchange gains (losses)	**Derivative losses**	**Total**	Foreign exchange gains	Derivative losses	Total
Unrealized	$ (4)	$ (1)	$ (5)	$ 2	$ –	$ 2
Realized	5	–	5	5	(8)	(3)
Total	**$ 1**	**$ (1)**	**$ –**	$ 7	$ (8)	$ (1)

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2014, all other variables held constant, would have been an increase or decrease in net profit or loss for the year by $6 million (2013 – $4 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.

24. Financial Instruments and Risk Management (continued)

(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 to be presented net of impairment 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.

Credit risk arising from investments 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 have minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service 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. There was no impairment loss on investments recognized during the year (2013 – nil).

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 that reflects the estimated realizable value of trade receivables. A general provision is estimated based on prior experience with, and the past-due status of, doubtful debtors, and large accounts are assessed individually based on factors that include the ability to pay and payment history. Despite continued weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with prior years. Weekly monitoring of aged receivables and the day's sales outstanding 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 the two countries. Final settlement with each foreign postal administration can be billed a year or more after the service is performed. The Corporation's provision for uncollectible receivables from specific foreign postal administrations is based on the past-due period after billing of the final settlement.

The following table sets out details of the age of receivables and the allowance for doubtful accounts:

Trade and other receivables

As at December 31	**2014**	2013
Trade receivables:		
Current	$ 437	$ 426
1-15 days past due	63	57
16-30 days past due	14	19
Over 30 days past due	29	26
Allowance for doubtful accounts	(7)	(8)
Trade receivables – net	536	520
Trade receivables from foreign postal administrations	204	214
Other receivables	55	45
Trade and other receivables	**$ 795**	$ 779

Impairment losses on trade and other receivables recognized during the year were $4 million (2013 – $3 million).

(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 forecast 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.

24. Financial Instruments and Risk Management (continued)

In February 2014, the Corporation received relief from making special contributions into its registered pension plan from 2014 to 2017 (Note 10 [i]). In addition, the Corporation commenced implementation of the initiatives included in the Five-point Action Plan to address operational sustainability and help ensure future profitability. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months having obtained relief and with the implementation of the Five-point Action Plan.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted for approval to the Governor in Council on the recommendation of the Minister responsible for Canada Post and the Minister of Finance, as part of its Corporate Plan approval process (Note 17). The detailed terms and conditions for each borrowing must also be approved by the Minister of Finance. 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 (2013 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2014. The Corporation's loans and borrowings amounted to $1,055 million (2013 – $1,057 million), and letters of credit of $12 million (2013 – $13 million) were issued at December 31, 2014. No amounts were drawn on the short-term borrowing facilities as of December 31, 2014. In order to access further funds from its borrowing capacity, the Corporation must indicate its intention to borrow money in its annual Corporate Plan, or amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Governor in Council. The first year of the Corporation's 2015-2019 Corporate Plan was approved by the Governor in Council on December 11, 2014. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

As at December 31, 2014, the Corporation's subsidiaries had access to financing facilities totalling $205 million (2013 – $205 million), of which $79 million (2013 – $74 million) was drawn at year-end. The subsidiaries also had letters of credit issued in the amount of $7 million (2013 – $7 million). Additional information is disclosed in Note 15.

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, 2014

	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	$ 713	$ 1	$ –	$ 714
Risk management liabilities	N/A	1	–	–	1
Bonds, Series 1	4.39 %	22	87	958	1,067
Bonds, Series 2	4.12 %	20	82	622	724
Non-redeemable bonds	10.6 %	6	58	–	64
Finance lease obligations	3.3% – 7.5%	25	59	6	90
		$ 787	**$ 287**	**$ 1,586**	**$ 2,660**

As at December 31, 2013

	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	$ 727	$ 1	$ –	$ 728
Bonds, Series 1	4.39 %	22	87	980	1,089
Bonds, Series 2	4.12 %	20	82	643	745
Non-redeemable bonds	10.6 %	6	63	–	69
Finance lease obligations	3.3% – 7.5%	25	57	4	86
		$ 800	$ 290	$ 1,627	$ 2,717

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 17.

25. Segmented Information

(a) Operating segments • As a result of the execution of a shared services agreement (SSA) on June 27, 2014, between Canada Post, Purolator and Innovapost, the information technology (IT) business unit under the SSA, management reassessed the Corporation's operating segments. The change in the Corporation's governance structure triggered a change in its operating segments, resulting in three reportable segments as described in the Corporation's significant accounting policies (Note 2 [m]). The change in presentation was applied retrospectively to all periods presented.

For the year ended December 31, 2014, the IT business unit earned intersegment revenue of $245 million (December 31, 2013 – $249 million), incurred cost of operations of $245 million (December 31, 2013 – $249 million), and earned net profit of nil (December 31, 2013 – nil). Total assets and liabilities at December 31, 2014, were $113 million and $66 million, respectively (December 31, 2013 – $121 million and $70 million, respectively).

The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 2). Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities. With the exception of the 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 revenues.

For the year ended and as at December 31, 2014

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,183	$ 1,604	$ 195	$ –	$ 7,982
Intersegment revenue	31	83	28	(142)	–
Revenue from operations	$ 6,214	$ 1,687	$ 223	$ (142)	$ 7,982
Labour and employee benefits	$ 4,139	$ 746	$ 99	$ 92	$ 5,076
Other operating costs	1,601	807	103	(232)	2,279
Depreciation and amortization	270	54	7	(3)	328
Cost of operations	$ 6,010	$ 1,607	$ 209	$ (143)	$ 7,683
Profit from operations	$ 204	$ 80	$ 14	$ 1	$ 299
Investment and other income	$ 40	$ (3)	$ –	$ (14)	$ 23
Finance costs and other expense	(50)	(3)	–	–	(53)
Profit (loss) before tax	$ 194	$ 74	$ 14	$ (13)	$ 269
Tax expense (income)	46	21	4	–	71
Net profit (loss)	$ 148	$ 53	$ 10	$ (13)	$ 198
Total assets	$ 6,983	$ 835	$ 110	$ (344)	$ 7,584
Acquisition of capital assets	$ 234	$ 51	$ 9	$ (1)	$ 293
Total liabilities	$ 9,200	$ 382	$ 66	$ (53)	$ 9,595

25. Segmented Information (continued)

For the year ended and as at December 31, 2013

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 5,859	$ 1,538	$ 166	$ –	$ 7,563
Intersegment revenue	24	85	13	(122)	–
Revenue from operations	$ 5,883	$ 1,623	$ 179	$ (122)	$ 7,563
Labour and employee benefits	$ 4,385	$ 728	$ 75	$ 87	$ 5,275
Other operating costs	1,509	775	89	(207)	2,166
Depreciation and amortization	258	55	5	(3)	315
Cost of operations	$ 6,152	$ 1,558	$ 169	$ (123)	$ 7,756
Profit (loss) from operations	$ (269)	$ 65	$ 10	$ 1	$ (193)
Investment and other income	$ 187	$ 4	$ 2	$ (11)	$ 182
Finance costs and other expense	(43)	(3)	–	(1)	(47)
Profit (loss) before tax	$ (125)	$ 66	$ 12	$ (11)	$ (58)
Tax expense (income)	(50)	18	3	–	(29)
Net profit (loss)	$ (75)	$ 48	$ 9	$ (11)	$ (29)
Total assets	$ 6,121	$ 774	$ 91	$ (319)	$ 6,667
Acquisition of capital assets	$ 339	$ 30	$ 7	$ (3)	$ 373
Total liabilities	$ 6,719	$ 295	$ 48	$ (30)	$ 7,032

(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	**2014**	2013
Canada	$ 7,419	$ 7,074
United States	430	383
Rest of the world	133	106
Total revenue	**$ 7,982**	$ 7,563

25. Segmented Information (continued)

(c) Products and services revenue information

Revenue reported for the Canada Post segment's 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 either Transaction Mail or Parcels.

As at December 31, 2014

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed on sale			
Transaction Mail	$ 1,999	$ (3)	$ 1,996
Parcels	3,427	(138)	3,289
Direct Marketing	1,205	–	1,205
Other	521	(246)	275
	$ 7,152	**$ (387)**	**$ 6,765**
Unattributed revenue			
Stamp postage	$ 536	$ –	$ 536
Meter postage	681	–	681
	$ 1,217	**$ –**	**$ 1,217**
Total	**$ 8,369**	**$ (387)**	**$ 7,982**

As at December 31, 2013

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed on sale			
Transaction Mail	$ 1,810	$ (3)	$ 1,807
Parcels	3,200	(117)	3,083
Direct Marketing	1,241	–	1,241
Other	505	(251)	254
	$ 6,756	$ (371)	$ 6,385
Unattributed revenue			
Stamp postage	$ 516	$ –	$ 516
Meter postage	662	–	662
	$ 1,178	$ –	$ 1,178
Total	$ 7,934	$ (371)	$ 7,563

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