

Financial Review

Despite posting a profit for the 15th straight year, our Canada Post segment faced major financial challenges in 2009 that will continue in 2010 and beyond.

Financial overview – Canada Post segment

Canada Post overcame severe financial challenges in 2009 by making tough, swift decisions in an extremely difficult operating environment. Each line of business experienced sharp volume decreases, and revenues fell sharply for the year—\$528 million below plan. By the end of 2009, Canada Post had lost the equivalent of almost five years of volume growth. Cash and equivalents declined by 28.9%, or \$162 million, from 2008.

In response, Canada Post cut \$540 million from planned costs. Cost-containment measures included: a reduction of management and other staff positions; cuts to discretionary spending such as information technology, travel and consulting; a productivity increase of 2.5% at mail-processing plants; and a reduction of more than 4.6 million paid hours in operations.

The segment's 2009 profit was largely due to a reduction in employee future benefit costs. The reduction was primarily non-cash and largely related to an increase in the discount rate used to value the future benefit obligation for accounting purposes. It is not a true reflection of our financial health.

We must manage the business guided by the assumption that our volumes in our higher-margin Transaction Mail line of business will continue to deteriorate, as has been the case at other Posts worldwide. However, the number of points of call continues to grow every year. Overall, this will lead to a deteriorating financial situation unless we make significant cost reductions.

In addition, recent global market turmoil has left us with an estimated \$2-billion solvency deficit in our Canada Post segment Registered Pension Plan. As a result, the Canada Post segment expects to make cash contributions of close to \$800 million to the Pension Plan in 2010, of which approximately \$450 million is a special payment to address the solvency shortfall.

Cost-containment measures will continue in 2010. In addition, we are modernizing our operations through our Postal Transformation program. Our plans evolved through 2009 and we now expect to invest \$2 billion in facilities, equipment and information technology, resulting in expected annualized savings of \$250 million.

Canada Post must invest to remain relevant and continue to provide the level of service that Canadians expect and deserve, and that we can afford.

Key figures at a glance for the Canada Post segment

Revenue

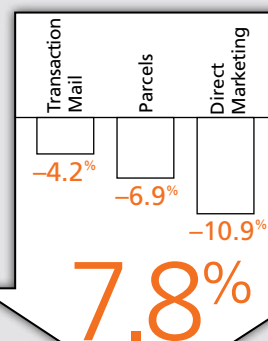
In 2009, the Canada Post segment earned \$528 million less revenue than planned, and \$268 million less than in 2008.



\$528M

Volume

Our volumes dropped sharply across all three lines of business in the Canada Post segment, due to the impact of the economic downturn. The recession hastened what has been a steady decline in our transaction mail business over several years. In total, we lost almost five years of volume growth in 2009.



Cost control

Due to broad-based cost-control efforts, we reduced planned costs in our Canada Post segment by \$540 million, offsetting our revenue shortfall.



\$540M

Pension

We expect to contribute close to \$800 million to the Canada Post segment Pension Plan in 2010, most of which is necessary to begin addressing the Pension Plan's estimated \$2-billion solvency deficit.



\$800M

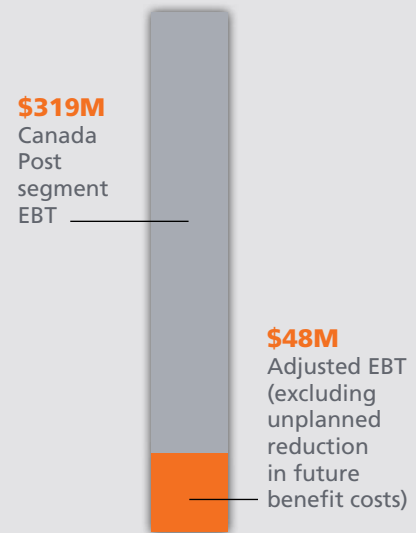
A note about our 2009 profit figure

The profit recorded by Canada Post in 2009 does not reflect the financial health of the company or our prospects.

When the global financial crisis hit in 2008, long-term interest rates rose sharply, a reflection of the increased risk in global markets. This sudden rise profoundly affected the accounting of Canada Post's financial commitments to future pensioners.

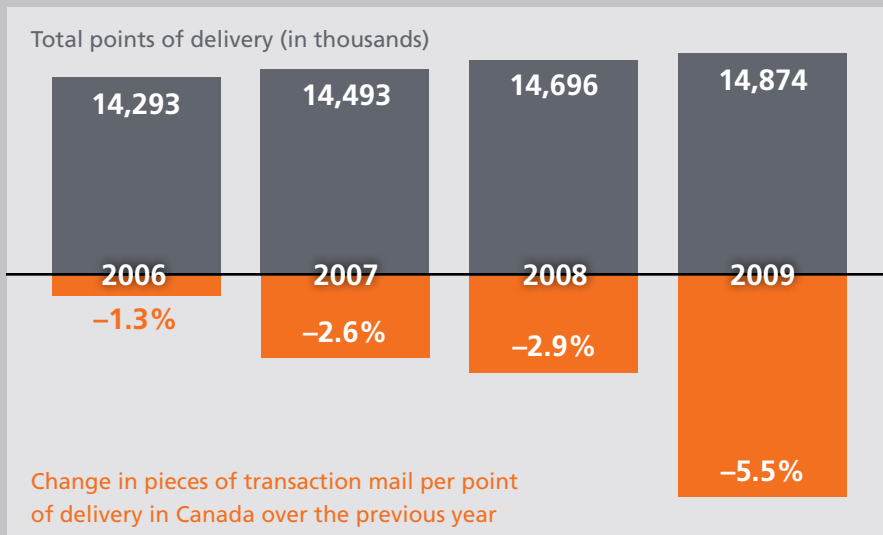
Like all pension sponsors in Canada, we use benchmark interest rates to determine the current value of our future pension and post-retirement health benefits obligation. The higher the interest rate, the lower the obligation (the reverse is also true). The Canada Post segment's future benefit expense was \$271 million lower in 2009 than planned, mainly due to the fact that interest rates were higher than planned.

Excluding this improvement in planned benefit expense, pre-tax profit from operations in our Canada Post segment would have been just \$48 million—a fraction of the \$319 million we reported.



2009 Canada Post segment EBT

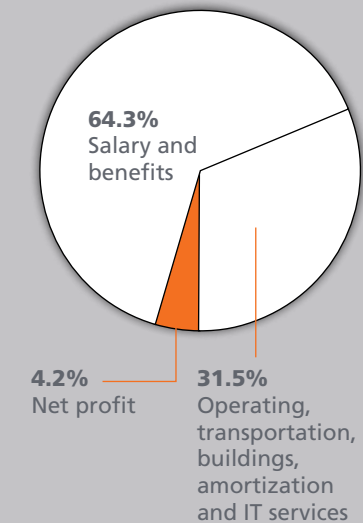
Managing declining volumes



The biggest challenge facing Canada Post is managing our declining mail volumes, particularly in our mature transaction mail business, which faces continued threat from the Internet and changing customer preferences. This business accounted for 54% of revenue in our Canada Post segment in 2009. Our challenge is compounded by the fact that we have served, on average, approximately 200,000 new points of delivery per year for the past several years.

Over the past four years, the number of pieces of transaction mail per point of delivery has declined at an increasingly rapid pace, falling to 334 pieces in 2009 from 377 in 2005. During that same period, the number of points of delivery we serve increased by approximately 800,000 at an added cost to the Corporation to serve them. It costs us more each year to deliver less transaction mail per point of call.

Canada Post segment revenue overwhelmed by costs



Wage and benefit costs amounted to close to two-thirds of the Canada Post segment's revenue in 2009. These labour costs are largely fixed and rising under collective agreements. Operating, transportation, building, amortization and other costs accounted for another 32 per cent—leaving a net profit of 4 per cent, unadjusted for the reduction in employee future benefit costs from 2008.