CANADA POST POSTES CANADA

From anywhere... to anyone

Registered Pension Plan
2001 Annual Report

www.cpcpension.com

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Welcome to the first annual report of the Canada Post Corporation Registered Pension Plan (the Plan), presenting the highlights of 2001, the first full year of operation.

With the Plan's inception, much has been accomplished, including implementation of an interactive pension administration system and an effective and well-managed pension fund investment structure. All of this work is designed to ensure that Plan members benefit from superior Plan operation.

This year's report is being distributed in print to all Plan members, as well as being posted on the Pension website.

Privacy of pension records

Canada Post supports the recently passed federal legislation on privacy of individual information. We are committed to ensuring that pension-related information is treated in a secure and confidential manner. In developing our new pension system and processes, we have put safeguards in place to protect your personal data.

For personal information…
Visit the Canada Post pension website at www.cpcpension.com, or call the Pension Administration Centre at their toll-free number 1 877 480-9220. You may also contact the Centre in writing at:

CANADA POST PENSION
ADMINISTRATION CENTRE
PO BOX 2073
MISSISSAUGA ON L5B 3C6

Message from **Vivian Albo**

Chairman of the Board

Over a year has passed since Canada Post took over the administration of its pension plan from the federal government and I am pleased that there are so many accomplishments to report.

The success of our Plan began with a smooth transition. Everyone involved was dedicated to ensuring that you would receive world-class service under the new plan. To that end, a number of self-help tools, such as a website, call centre, and newsletter, allow you to be fully aware of your benefits. The toll-free call centre, in particular, provides quick automated access to a variety of information, with pension benefits service representatives available to provide assistance, as required.

In addition to these accomplishments, the Plan's sound governance structure provides the Corporation and its employees the necessary controls and safeguards to prudently manage one of Canada's largest single-employer pension plans. The Board of Directors' governance function includes approving investment guidelines that direct how and when the Plan's funds are invested. Equally important, the Board ensures that employees have input, through representation on the Investment Committee and the Pension Advisory Council.

I trust you will find our Plan's first annual report informative.

Message from **Gilles Champagne**

Chairperson of the Pension Committee

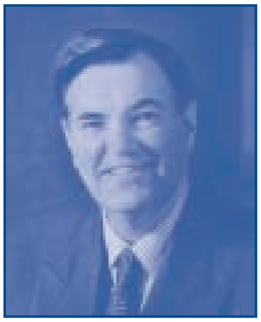
The responsibility of the Pension Committee is to assist the Board in making certain that the Plan operates in every way in the best interests of its members.

Like other federal pension plans, our Plan is regulated under the terms of the Pension Benefits Standards Act (PBSA), as well as the Income Tax Act. The PBSA clearly sets out rules for the prudent management of plan funds, rules that will safeguard the security of benefits under our pension plan for the benefit of current and future retirees. In addition, under common law, trustees are required to exercise care, diligence, and skill in overseeing the administration and investment of the pension fund. The Pension Committee's role is to help the Board properly fulfill these fiduciary obligations and responsibilities, which it does through the able auspices of the Pension Division.

My goal and that of the Pension Committee is to ensure that the Plan continues to be administered with the greatest degree of care for the good of all Plan members.

Message from The Honourable **André Ouellet**

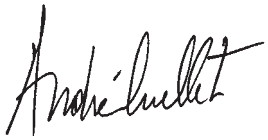
President and CEO



Canada Post has operated as a commercial Crown Corporation since 1981, and without taxpayer support since 1989, and our success has grown with seven consecutive years of profitability. It is, therefore, appropriate that we should also administer our own pension plan since it represents a significant portion of employees' total compensation. Having such control makes the Plan a vital human resource tool in attracting and retaining the talented and motivated workforce the Corporation needs to face the challenges ahead. I am fully confident in the future success of the Plan in helping us achieve our business objectives.

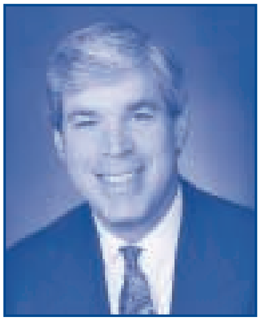
With the opening of the Pension Administration Centre's fully automated pension administration system, employees have enjoyed easy access to their pension information. The Centre processed some 200,000 pension estimates in the past year on our website alone, more estimates than had been requested under the federal government plan for the past several years.

I trust that this first annual report demonstrates our ability to manage our plan and our commitment to provide the best possible service to plan members.



Message from **Brian Steck**

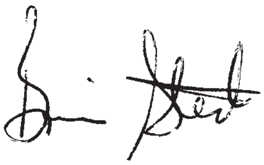
Chairperson of the Investment Committee



The Investment Committee, reporting to the Pension Committee of the Board of Directors, comprises internal and external investment experts with a wide range of economic, financial and investment knowledge and experience. It is responsible for overseeing the implementation of the Plan's Statement of Investment Policies and Procedures (SIP&P), which details how and when fund investments are made. The Committee reviews the SIP&P at least once a year to ensure that the underlying economic assumptions and Plan demographics still support it and to recommend changes, if required.

In addition, the Committee is responsible for selecting the professional fund managers who make specific investments based on their "investment mandates", for example, TSE 300 (now S&P/TSX Composite) or Canadian Bond mandates. These fund managers are chosen on the basis of their knowledge of and experience with the investment category for which they are responsible, as well as their historic performance. The Investment Committee also monitors ongoing performance to ensure that the managers remain within the SIP&P and continue to meet their performance objectives. As you will see in this report, the structures and policies in place have enabled the fund to achieve strong results during 2001.

I am committed, as are the other Investment Committee members, to keeping our Plan on a solid financial footing.

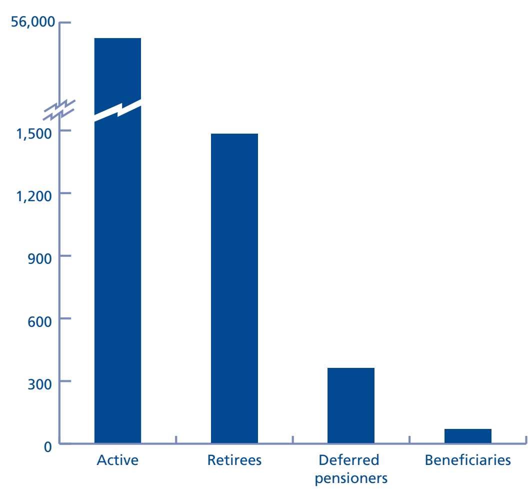


A look at
plan membership

The Canada Post pension plan is one of Canada's largest pension plans, with a total of 57,449 active members, retired members, deferred pensioners, and beneficiaries.

Total plan membership

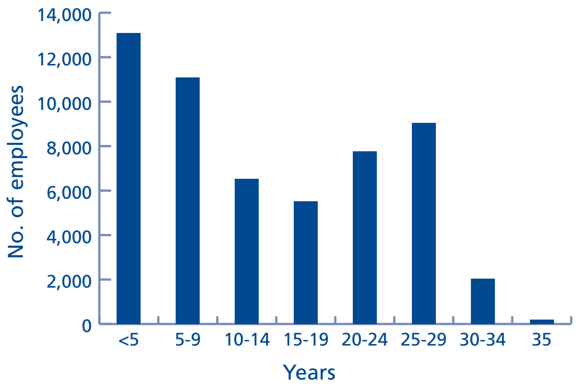
Our Plan is in a unique situation of having a large 38:1 active to pensioner ratio. Most plans of comparable size in Canada have been in existence much longer than our Plan, with an active to pensioner ratio of closer to 1:1.



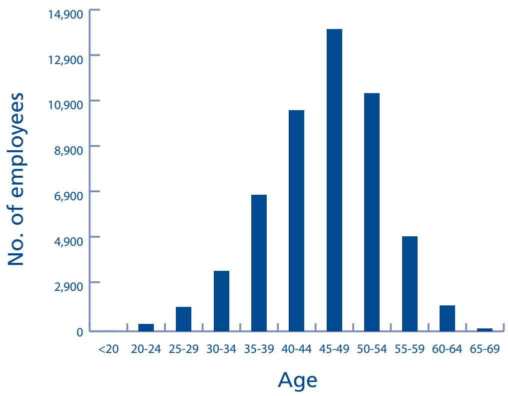
Active members—years of service and age distribution

Our plan covers the whole range between newcomers and those with more than 35 years of service. Even though the average active member has service of 13.9 years and is 46.1 years of age, statistics show that more than 11,000 active members are over age 50 and have more than 15 years of service. This situation means that the pace of new retirements will be significant in the near future.

Years of pensionable service



Age distribution



Gisèle Crête
Poularies, Quebec

"When planning for my retirement began, I soon came to realize that the Canada Post Pension Plan was supported by a great team of professionals."

Wallace Young
Port Coquitlam, British Columbia

"I appreciate the timeliness of the information and the updates from the Pension Administration Centre. Our new pension plan looks after the needs of retirees."

Miriam **A**llen
Gloucester, Ontario

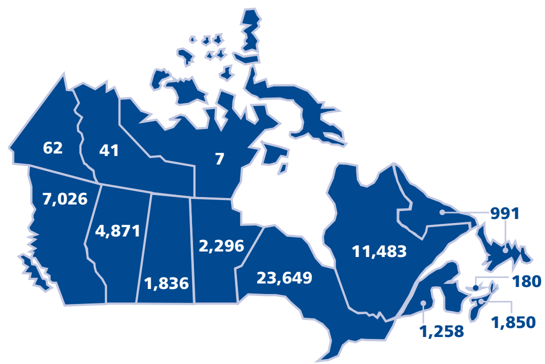
"I have been very impressed with the level of service provided by the Pension Division. It's reassuring to know I don't have to worry."

Donald **C**airns
Winnipeg, Manitoba

"My transition to retirement has gone smoothly, thanks to the efficiency of the Canada Post pension team. The details have all been looked after."

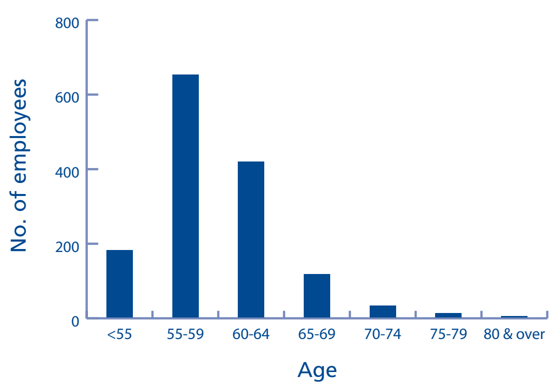
Total active members by province and territory

Our members are spread across Canada, north to south as well as east to west.



Retired members – age distribution

Most of those who have retired since the Plan began are between age 55 and 60, with an average age of 59.3.



Focus on service...

One major achievement has been the building of a full-service Pension Administration Centre that provides full service to members through:

- trained benefits service representatives providing assistance as needed,
- a toll-free automated call centre and voice response system, and
- a pension website providing members with quick and up-to-date pension estimates of their current accrued benefit, projections of their future benefit and all published information related to the plan.

In the spirit of continuous improvement, we have also completed the following initiatives:

- personalized detailed pension statements to each active member, to be issued annually,
- a new Pension Transfer Agreement with the federal government, which allows members who move from the federal public service to Canada Post, or vice versa, to transfer their pension benefits with them,
- a web tool that allows members to model how buying back elective service (previous service at Canada Post when they were not members) will affect their pension benefit, and
- automated deductions from pension payments for leave without pay deficiencies and elective service contributions (rather than the

Communication to members

Communicating with Plan members has also been a priority during 2001.

- The *Canada Post Corporation Registered Pension Plan: Your Information Booklet* was issued, along with *Your Pension Guide*, outlining sources of pension information and steps to follow when pension-related changes need to be made.
- A brochure introduced the Pension Administration Centre in January 2001, illustrating how to get personalized pension information using self-service tools.
- Six *Pension Plan News* bulletin issues covered topics such as elective service, bridge pensions, early retirement options, pension fund investments, and Plan governance.

Pension-related information can be viewed or downloaded from the Pension website, in addition to a Frequently Asked Questions document, a Retirement Information Checklist, the Pension Plan Annual Report, and Request forms.

One additional task during 2001 highlighted the importance of two-way communication. To ensure that members' information was up-to-date, we

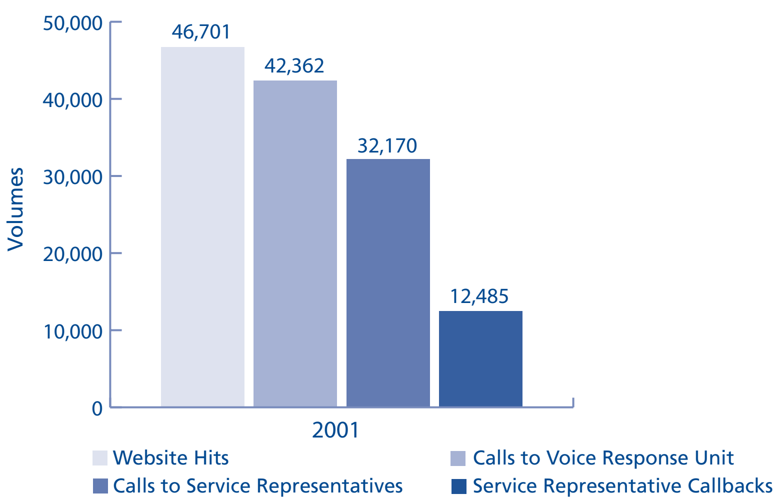
- audited the personal and pension-related data on file as at October 1, 2000, and
- issued data statements to every plan member.

Look at the results

Here is how the Pension Administration Centre performed during its first calendar year of operation.

1. Member query volumes

Many members have used the Pension Administration Centre services during the past year.



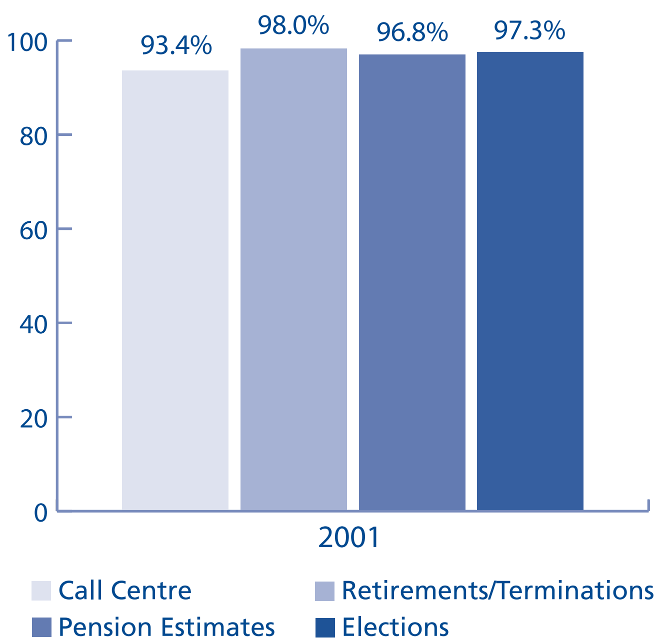
2. Response time for providing member services

The call centre's performance standard for answering calls is 30 seconds or less, at least 90% of the time. The centre surpassed this standard in all but one month of 2001. The average call to the centre lasted 4.68 minutes.

The standard for providing pension estimates is 3 days at least 90% of the time. For buy-back, retirement, termination, and death benefit calculations it is 10 days, at least 90% of the time. The centre met or surpassed this standard throughout 2001.

The centre is committed to improving service and is constantly striving to reach 100% in all standards.

On Time Response %



3. Member satisfaction survey

We selected plan members, at random, to answer five service-related questions about the centre. On average, the response was 4.7 out of 5.0 (very satisfied). The performance standard established for 2001 was 4.0 (satisfied).

Fund **investments**

From the Office of Douglas D. Greaves, Vice President Pension Fund and Chief Investment Officer

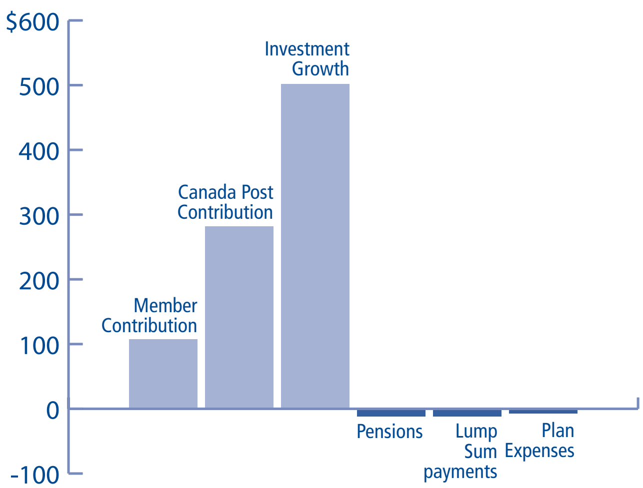
Size of the pension fund

At December 31, 2001, the fund held total investments of $7,683 million, ranking it among the top 15 pension funds in Canada by asset size. These assets consist of $4,981 million of marketable securities and $2,702 million due from the Government of Canada, which will be paid into the fund by September 30, 2002.

Sources & uses of funds

Total from Plan inception to December 31, 2001

(in millions of dollars)



Investment risk management

The most effective way to minimize investment risk is by having an appropriate governance structure. The Plan governance, explained fully on page 15, includes the Pension Investment Division overseeing day-to-day pension fund activity, including monitoring fund managers. The Pension Investment Division is accountable to the Investment Committee, which is in turn accountable to the Pension Committee of the Board of Directors. The Pension Advisory Council also reviews financial information on the fund.

Steps taken to reduce investment risk

These include:

a) using external pension industry experts to design the plan and to screen and recommend fund managers,

b) implementing a Statement of Investment Policies and Procedures, which establishes a disciplined investment framework,

Steps taken to reduce investment risk (cont'd)

c) diversifying investments over different asset classes, geographical areas and investment management styles,

d) using an external performance measurement service to ensure investment manager compliance and to provide fund manager performance benchmarking, and

e) phasing in of the initial funding transfer from the Government of Canada over two years.

We are also very aware of investment management costs and have put procedures in place to minimize these costs.

The Statement of Investment Policies and Procedures

The Statement of Investment Policies and Procedures (SIP&P) sets out the guidelines the Board of Directors has approved to direct the pension fund's investments, including:

a) investment objectives and assumptions,

b) asset mix policy,

c) permitted investments and constraints,

d) investment management structure, and

e) plan governance.

Fund performance

The fund has done well. In 2001 the fund earned a total return of 5.1 %, while the TSE 300 had a loss of 12.6% (TSE 300 Capped had a loss of 8.4%) and US and international markets were also broadly lower on the year. By comparison, during the same period, the RBC universe of large pension funds (with assets of over $1 billion) had a median return of -0.6%.

Good performance was achieved, in part, because of decisions made to allocate a relatively low portion of the fund in 2001 to international equities and to adopt the TSE 300 Capped Index as the Canadian equity benchmark. This latter decision acted to reduce the fund's overall position in Nortel Networks when that equity exceeded 10% of the overall equity market. Most importantly, a large proportion of the fund's initial capital was earning fixed income returns prior to the fourth quarter of 2001, avoiding much of the losses experienced by the equity markets. Members can track the fund value since our Plan began in the Total Fund Assets chart.

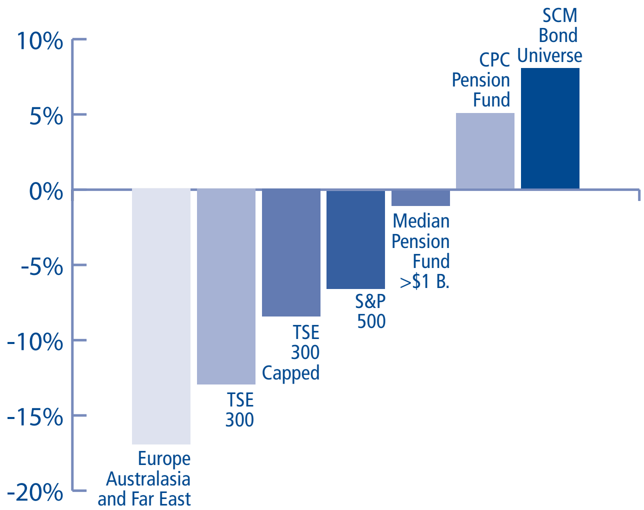
Management of investments

Twelve different external professional investment management firms (and one internal manager for Real Return Bonds) make individual investments within the terms of their specific investment mandates. These firms were chosen by the Investment Committee, based on their track records and demonstrated ability to manage pension plan assets. The Investment Committee reviews their performance quarterly against the SIP&P and other benchmarks.

Fund custodian

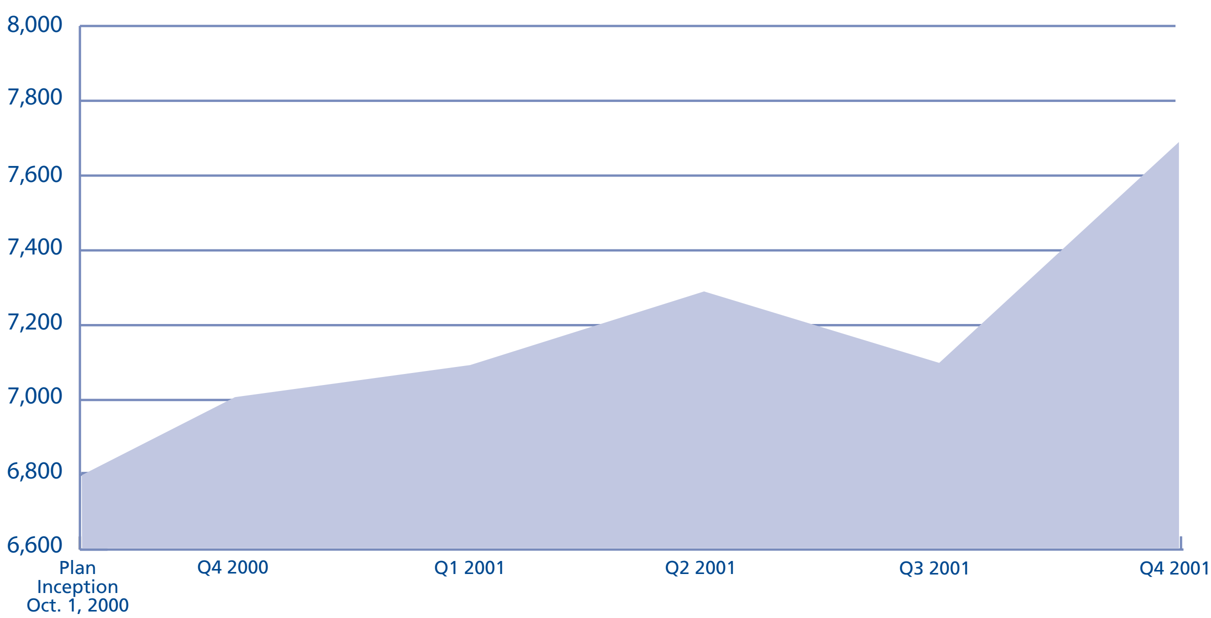
The Royal Trust Company holds the fund assets in trust.

Total return



Total fund assets

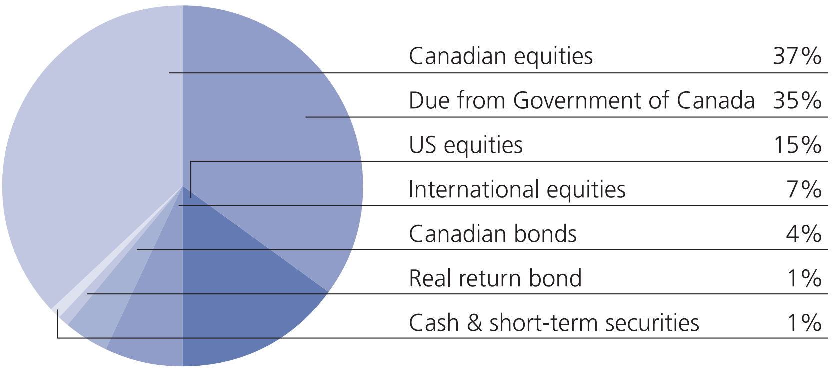
(in millions of dollars)



Investments held in the fund

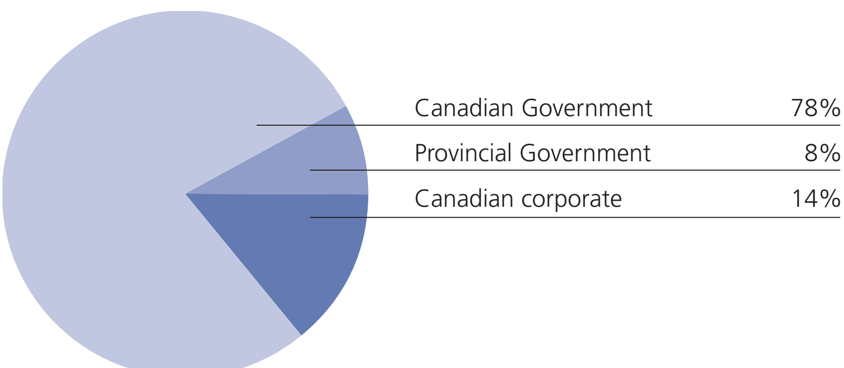
The fund's investments are well diversified, which reduces risk. Taking into account the 35% of the total due from the Government of Canada, the mix of investments is consistent now to what it will be when these funds are received.

Asset mix as at December 31



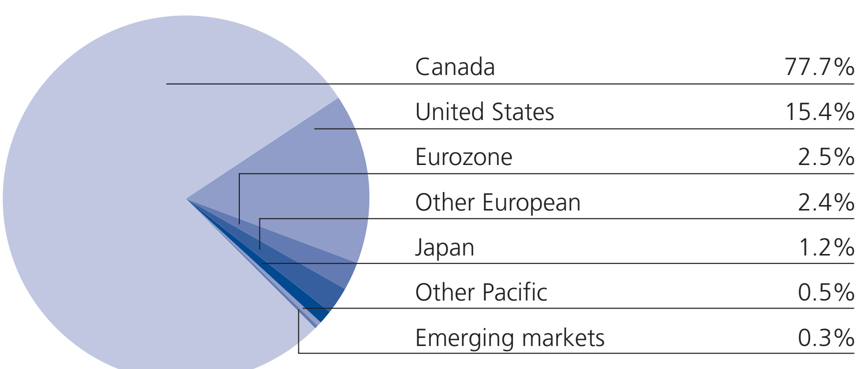
Bonds held in the fund

The fund holds a mixture of government and corporate bonds, the majority being government bonds.



Geographical distribution of investments

A total of 22.3% of the fund is invested in US and international securities.



Largest investment holdings

The table below lists the largest holdings in dollar value and percentage of the total fund.

Investments with a market value greater than $40 million
December 31, 2001
(in millions of dollars)

Due from Government of Canada	$ 2,702	35.2%
Royal Bank of Canada	146	1.9
Nortel Networks	124	1.6
Bank of Nova Scotia	113	1.5
Toronto Dominion Bank	110	1.4
BCE Inc	109	1.4
Government of Canada real return bond	98	1.3
Manulife Financial	91	1.2
Alcan	64	0.8
CIBC	63	0.8
Bank of Montreal	62	0.8
Bombardier	56	0.7
Biovail	55	0.7
Celestica	51	0.7
Canadian National Railway	50	0.7
Pan Canadian Energy	48	0.6
Sun Life Financial	47	0.6
Talisman Energy	45	0.6
Suncor Energy	42	0.5
Thomson Corporation	42	0.5
Alberta Energy	41	0.5
	$ 4,159	**54.0%**

Outlook for 2002

The phased transfer of funds from the Government of Canada will be completed by September 30, 2002, and these funds will be invested according to the long-term asset mix policy. While we aim to outperform industry benchmarks, we expect our fund to provide returns more closely in line with our policy benchmarks.

A sound **governance** structure

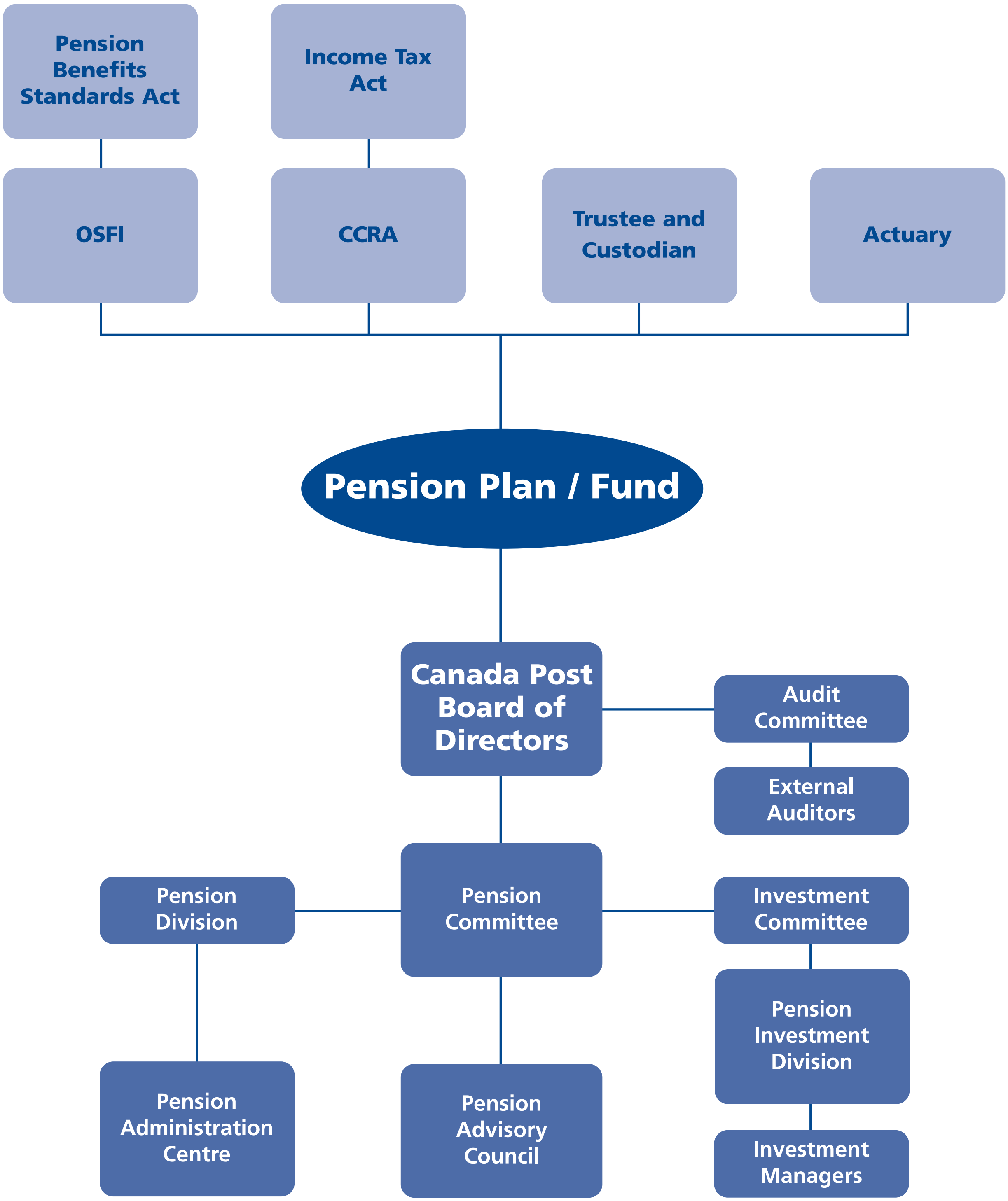
Pension plan governance is the term used to describe the various roles, responsibilities, and accountabilities involved in carrying out the complex actions required in managing a pension plan. Everyone needs to clearly understand the division of duties between those who perform the activities on a day-to-day basis and those responsible for seeing that those activities are carried out.

The Plan's governance structure was designed by Canada Post management in discussion with external industry experts as well as the unions/associations, then approved by the Board of Directors.

Administration	**Roles and responsibilities**
Canada Post Corporation Board of Directors	• Responsible for sound administration of the Plan • Approves Plan changes • Appoints those responsible for operation of the Plan
Audit Committee	• Oversees the internal audit activities of the Plan • Reviews the annual financial statements and the external auditors' report, and recommends them to the Board of Directors for approval
Pension Committee	• Oversees strategic direction of the Plan • Advises the Board on policy related to administration • Oversees administration and investment of the fund
Investment Committee	• Oversees the investment policy of the fund
Pension Division	• Oversees day-to-day operation of the pension plan • Responsible for member communication • Provides financial statements to Pension Committee • Oversees Pension Administration Centre
Pension Investment Division	• Oversees day-to-day operation of pension fund investments
Agents	
Pension Administration Centre	• Handles day-to-day pension administration • Provides Plan-related web and voice-mail services to members
Investment Managers	• Invest fund assets
Raymond Chabot Grant Thornton, Auditors	• Audit financial statements of the Plan
Mercer Human Resource Consulting Limited, Actuary	• Performs actuarial valuations of the Plan
Trustee and Custodian	
The Royal Trust Company	• Holds fund assets
Regulatory bodies	
Office of the Superintendent of Financial Institutions (OSFI)	• Responsible for administering the *Pension Benefits Standards Act, 1985* • Regulates and supervises private pension plans in federally regulated industries
Canada Customs and Revenue Agency (CCRA)	• Ensures that the Plan meets the provisions of the *Income Tax Act*
Members	
Pension Advisory Council	• Reviews financial, actuarial and administrative aspects of the Plan • Recommends steps to promote awareness and understanding of the Plan to members

Refer to page 34 for the list of names of Board and Committee members

Canada Post Corporation Registered Pension Plan
Governance Structure



Management's responsibility for financial reporting

The financial statements of the Canada Post Corporation Registered Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented therein. The accounting policies followed in the preparation of these financial statements conform to Canadian generally accepted accounting principles. Where appropriate, the financial statements include amounts based on management's best estimates and judgements. Financial information presented elsewhere in this annual report is consistent with the financial statements.

In support of its responsibilities, management maintains systems of internal control and supporting procedures to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines. Internal audits are conducted to assess management systems and practices, and reports are issued to the Management Executive Committee and the Audit Committee of the Board.

Ultimate responsibility for the financial statements rests with the Canada Post Corporation Board of Directors. The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee and the Pension Committee. The Audit Committee oversees the internal audit activities of the Plan, reviews the annual financial statements and the external auditors' report, and recommends them to the Board of Directors for approval. The Pension Committee, which is composed of the Chairman of the Board of Directors, the President and CEO of Canada Post Corporation and four directors who are not employees of the Corporation, meets regularly with management to satisfy itself that the responsibilities delegated are properly discharged.

The Plan's external auditors, Raymond Chabot Grant Thornton, conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and performed such tests and other procedures, as they considered necessary to express an opinion. The external auditors have access to the Audit and Pension Committees to discuss their audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

André Ouellet

President and Chief Executive Officer
May 23, 2002

Jacques Côté

Senior Vice-President and Chief Financial Officer
May 23, 2002

Actuary's opinion

Ottawa

May 23, 2002

Mercer Human Resource Consulting Limited was retained by Canada Post Corporation to perform an actuarial valuation of the assets and going-concern liabilities of the Registered Pension Plan as of December 31, 2001, for inclusion in the Plan's financial statements.

The objective of the financial statements is to fairly present the financial position of the Plan as of December 31, 2001, as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan at that time, as well as the contributions required to fund it. As part of the valuation, we examined the Plan's recent experience relative to the economic and non-economic assumptions and presented our findings to management. In addition, we provided management with statistical, survey and other information used to develop its long-term assumptions.

The valuation of the Plan's actuarial assets and liabilities was based on:

- membership and pension fund data provided by Canada Post and the Plan's third party administrator as of December 31, 2001,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) that have been developed by management and Mercer Human Resource Consulting Limited and are considered management's best estimate of these events.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, on the whole, appropriate for the purposes of the valuation. Our opinions have been given and our valuation performed in accordance with accepted actuarial practice.

Jean-Paul Raymond
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

Hubert Lemire
Fellow of the Society of Actuaries
Fellow of the Canadian Institute of Actuaries

Mercer Human Resource Consulting Limited

Auditors' report

To the Board of Directors, Canada Post Corporation

We have audited the statement of net assets available for benefits of the Canada Post Corporation Registered Pension Plan as at December 31, 2001, the statement of changes in net assets available for benefits and the statement of obligations for pension benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2001 and the changes in net assets available for benefits, and the obligations for pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton

Raymond Chabot Grant Thornton
Chartered Accountants
Ottawa, Canada
May 23, 2002

Financial statements

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

As at December 31	2001	2000 (3 months)
ASSETS		
Investments (note 2)	**$ 4,981**	$ 554
Receivable from the Government of Canada (note 3)	**2,702**	6,648
Receivables (note 4)	**77**	60
	7,760	7,262
LIABILITIES		
Accounts payable and accrued liabilities	**4**	1
	4	1
Net assets available for benefits	**$ 7,756**	$ 7,261

See description of the plan and accompanying notes to the financial statements

Approved on behalf of the Board

Chairman of the Board of Directors

Chairperson of the Audit Committee

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

For the period ended December 31	2001	2000 (3 months)
INCREASES IN ASSETS		
Funding - Government of Canada (note 3)	**$ –**	$ 7,025
- Member past service (note 4)	**10**	32
Investment income (note 6)	**371**	122
Contributions (note 7)	**340**	84
	721	7,263
DECREASES IN ASSETS		
Funding - Government of Canada (note 3)	**178**	–
Benefits paid (note 8)	**35**	1
Administration expenses (note 9)	**13**	1
	226	2
Increase in net assets available for benefits	**495**	7,261
Balance as at the beginning of the period	**7,261**	–
Balance as at the end of the period	**$ 7,756**	$ 7,261

See description of the plan and accompanying notes to the financial statements

STATEMENT OF OBLIGATIONS FOR PENSION BENEFITS

(in millions of dollars)

For the period ended December 31	**2001**	2000 (3 months)
ACTUARIAL PRESENT VALUE OF ACCRUED PENSION BENEFITS (note 5)		
Increase during the period due to:		
Interest on accrued pension benefits	**$ 434**	$ 101
Benefits accrued	**396**	103
	830	204
Decrease during the period due to:		
Benefits paid (note 8)	**35**	1
Experience gains and final valuation (note 5.d)	**92**	–
	127	1
Net increase in actuarial present value of accrued pension benefits	**703**	203
Actuarial present value of accrued pension benefits		
Beginning of the period	**7,059**	6,856
End of the period	**7,762**	7,059
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS		
Net assets available for benefits	**7,756**	7,261
Actuarial asset value adjustment (note 5.e)	**113**	–
Actuarial value of net assets available for benefits	**7,869**	7,261
Excess of actuarial value of net assets over actuarial present value of accrued pension benefits (note 5.f)	**$ 107**	$ 202

See description of the plan and accompanying notes to the financial statements

Notes to the Financial statements

Plan description

The following description of the Canada Post Corporation Registered Pension Plan (the Plan) is a summary only. An exact and complete description of the Plan provisions can be found in the official Plan document. If there is any conflict between this summary and the official Plan document, the official Plan document will govern.

General

The Plan was adopted by Canada Post Corporation (the Corporation) effective October 1, 2000. The Plan is a defined benefit pension plan and automatically covers all employees of the Corporation who were employed as of September 30, 2000 and who were contributors under the Public Service Superannuation Act (PSSA) on that date and all new employees of the Corporation hired after September 30, 2000 who meet the eligibility requirements of the Plan. Benefits accrued by employees who were contributors under the PSSA, along with an appropriate amount of assets, are in the process of being transferred to the fund of the Plan in accordance with the terms of the Public Sector Pension Investment Board Act.

Benefits

A full-time or part-time member will contribute to the Plan and receive benefits based on age, years of pensionable service, and the average of the best five consecutive years of pensionable salary. Pensions are fully indexed annually and provide survivor benefits to the eligible spouse and children on the death of the member.

Funding

Contributions and investment earnings fund Plan benefits. The Plan's funding policy aims to achieve long-term stability in contribution rates for both the Corporation and members. Actuarial funding valuations are conducted to determine pension liabilities and the funded position of the Plan. Employees are required to contribute a percentage of their pensionable salary to the Plan, that is, 4% of their earnings up to the Year's Maximum Pensionable Earnings ($38,300 in 2001) as defined in the Canada Pension Plan and Quebec Pension Plan and 7.5% of earnings in excess of that maximum. These percentages are fixed until December 31, 2003. After that date, the Board of Directors of the Corporation will determine the employee contribution rate, as prescribed in the Public Sector Pension Investment Board Act.

Income tax and regulatory status

The Plan is registered with Canada Customs and Revenue Agency (CCRA) under registration number 1063874, and is subject to the requirements of the Income Tax Act (Canada) and the regulations thereunder (ITA). The Plan is also registered with the Office of the Superintendent of Financial Institutions Canada (OSFI) under registration number 57136, and is subject to the Pension Benefits Standards Act, 1985 and the regulations thereunder (PBSA).

The Plan will continue to be subject to the requirements of the ITA and the PBSA as amended from time to time, to maintain such registrations. Contributions to the fund are made in accordance with the ITA and are deductible to the contributors and investment income is not taxable within the fund.

1. Summary of significant **accounting policies**

a) Presentation

These financial statements present the financial position and results of operations of the Plan in accordance with Canadian generally accepted accounting principles.

b) Investments

Investments are stated at fair value. Fair value is the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values are based on public market prices or quotations from investment dealers.

- Valuation of investments

  Fair values of investments are determined as follows:

  1. Short-term securities are valued at cost or amortized cost that, together with accrued interest or discount earned, approximate fair value.

  2. Bonds are valued on the basis of market quotes using the average of the bid and ask prices. Where quoted year-end prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, and financial analysis, as appropriate.

  3. Equities are valued at year-end quoted market prices.

b) Investments (cont'd)

• Investment transactions and income

Investment transactions are recognized on a trade-date basis. Investment income, including interest income, is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Realized gains and losses on the sale of investments include gains and losses on disposition. Unrealized gains and losses on investments represent the change in the difference between the cost-based values and the fair values of investments at the beginning and end of each year.

c) Actuarial present value of accrued pension benefits

The actuarial present value of accrued pension benefits is based on an actuarial valuation prepared by a firm of independent actuaries using assumptions and methods identical to those used to set the funding objective for the Plan (see note 5.c).

d) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are paid. Contributions for past service are recorded as a reduction to the receivable.

e) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transaction. Forward currency agreements are reported at fair value at the reporting date. The realized and unrealized gains and losses arising from these translations are included in investment income.

f) Actuarial asset value adjustment

The actuarial value of net assets available for benefits as at the reporting dates has been determined using a formula that smoothes out the effects of the volatility in market values over a five-year period. It recognizes excess gains and losses occurring in a particular year evenly over the current and the following four years. Excess gains and losses are determined by reference to a target rate of return. The actuarial asset value adjustment reflects the portion of such excess gains or losses not yet recognized for purposes of determining the net assets available for benefits.

1. Summary of significant **accounting policies** (cont'd)

g) Measurement uncertainty

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities as at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

2. **Investments**

Summary of investments

(in millions of dollars)	2001		2000 (3 months)	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 87	$ 87	$ 59	$ 59
	87	87	59	59
Fixed income				
Due from Government of Canada	2,702	2,702	6,648	6,648
Canadian bonds	327	326	–	–
Real return bond	98	98	–	–
	3,127	3,126	6,648	6,648
Equities				
Canadian	2,760	2,779	495	497
U.S.	1,177	1,157	–	–
International	532	519	–	–
	4,469	4,455	495	497
	$ 7,683	**$ 7,668**	$ 7,202	$ 7,204

Risk management

The Plan's Statement of Investment Policies and Procedures (SIP&P) prescribes a long-term debt-equity asset mix policy, requires portfolio investment diversification, sets guidelines on investment categories, and limits exposure to individual investments and major asset classes.

2. **Investments** (cont'd)

The Plan's investment portfolio is subject to price and credit risks that could adversely affect its cash flows, financial position, and income. Price risk is the risk of loss that results from changes in interest rate risk, currency risk, and market risk. Credit risk is the risk of loss should the counter-party to a transaction default or otherwise fail to perform under the terms of the contract. Credit risk is mitigated by establishing limits on exposure to individual counter-parties and by adhering to the investment criteria set out in the Plan's SIP&P.

i. Interest rate risk

Interest rate risk is the risk that the market value of the Plan's investments will fluctuate due to changes in market interest rates. It arises from the potential variation in the timing and amount of cash flow related to the Plan's assets and liabilities.

The value of the Plan's investments is affected by short-term changes in nominal interest rates and equity markets, while pension liabilities are influenced by expectations of long-term inflation and salary escalation, as well as long-term rates of return on investments.

To properly manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for the fixed income portfolio are set and monitored.

The terms to contractual maturity of interest-bearing investments, as at December 31, are as follows:

	2001 Terms to maturity					
Interest-bearing investments (in millions of dollars)	Within 1 Year	1 to 5 Years	>5 to 10 Years	Over 10 Years	**Total**	2000
Cash and short-term securities	$ 87	$ –	$ –	$ –	$ 87	$ 59
Bonds						
- Government of Canada	–	102	76	52	230	–
- Provincial and municipal	–	5	8	22	35	–
- Canadian corporate	–	32	20	7	59	–
- Real return	–	–	–	98	98	–
Accrued interest	3	–	–	–	3	–
	$ 90	**$ 139**	**$ 104**	**$ 179**	**$ 512**	$ 59

2. **Investments** (cont'd)

ii. Currency risk

Currency risk is the risk that the value of the Plan's investments will fluctuate due to changes in foreign exchange rates. The Plan does not speculate in currencies, but to mitigate its overall currency exposure, the Plan can enter into foreign currency forward contracts for the purchase or sale of foreign currency, to adjust the exposure to a particular foreign currency. The Plan's holdings by geographical location of the issuer and investments by currency risk, as at December 31, are as follows:

	Geographical Location		**Currency**	
Currency – Canadian $ equivalent (in millions of dollars)	**2001**	2000	**2001**	2000
Canadian dollar	$ 5,967	$ 7,202	$ 5,956	$ 7,202
United States dollar	1,184	–	1,261	–
Euro	194	–	179	–
Other European	186	–	178	–
Japanese yen	92	–	92	–
Other Pacific	35	–	17	–
Emerging market	25	–	–	–
	$ 7,683	$ 7,202	**$ 7,683**	$ 7,202

iii. Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Plan's policy is to invest in a diversified portfolio of investments, based on criteria established in the SIP&P.

3. **Receivable** from the **Government of Canada**

The Government of Canada has committed to transfer to the fund of the Plan an amount at least equivalent to the actuarial present value of the accrued pension benefits earned by participating active employees of the Corporation as at September 30, 2000. Interest income is recognized annually and added to the receivable, which is drawn down as payments are made to the fund of the Plan.

Using preliminary data the value of the receivable was established at $7,025 million, based on an actuarial valuation prepared by OSFI. This valuation was revised to $6,850 million based on final data. An adjustment of $175 million was made against the receivable. This final value is still subject to final audit by Public Works and Government Services Canada. Any further adjustment to the asset transfer value will be made against the receivable from the Government of Canada and investment income. The full asset transfer must be completed by September 30, 2002.

(in millions of dollars)	**2001**	2000 (3 months)
Balance due as at January 1	$ 6,648	$ –
Initial asset transfer	–	7,025
Adjustment to - initial asset transfer	(175)	–
- interest	(3)	–
Accrued interest earned	343	123
Asset transfers received	(4,111)	(500)
Balance due as at December 31	**$ 2,702**	$ 6,648

4. **Receivables**

Contributions (in millions of dollars)	**2001**	2000 (3 months)
Sponsor	$ 25	$ 20
Members - Current service	10	9
- Past service*	42	31
	$ 77	$ 60

*Members who have signed contracts to buy back past service will be making contributions in future periods. The value of the accrued but unpaid for pension service, as at December 31, 2001 has been calculated actuarially. The asset transfer from the Government of Canada excludes the value of such future payments.

5. Actuarial present value of **accrued pension benefits**

a) Actuarial present value of accrued pension benefits

The actuarial present value of accrued pension benefits is based on management's best estimate assumptions as described in note 5.c).

b) Actuarial methodology

An actuarial valuation was completed by Mercer Human Resource Consulting Limited as at December 31, 2001. The valuation used the projected accrued benefit method with respect to benefits, and assumes that the Plan will continue on a going-concern basis.

c) Actuarial assumptions

The actuarial assumptions management has adopted for the determination of the actuarial present value of accrued pension benefits are those recommended by the Plan's actuary for purposes of regulatory funding valuation of the Plan. During 2001, a review of these assumptions was conducted to ensure their adequacy and appropriateness. For the actuarial present value of accrued pension benefits determined as at December 31, 2001, the following long term economic assumptions were selected:

	2001	2000
Discount rate net of expenses	**6.0%**	6.0%
General salary escalation rate	**CPI + 1.0%**	CPI + 1.0%
Consumer price index (CPI)	**2.5%**	2.5%

In addition to the above, various assumptions were made such as salary promotional scale, mortality, retirement, turnover, etc.

d) Experience gains and final valuation

Included in the decrease of $92 million in the accrued pension benefits is a reduction of $49 million due to finalization of data and valuation methodology, and $43 million of experience gains.

5. Actuarial present value of **accrued pension benefits** (cont'd)

e) Actuarial asset value adjustment

(in millions of dollars)	2001	2002	2003	2004	2005
	Unamortized (gains)/losses	to be recognized in			
	$ 113	$ 29	$ 29	$ 29	$ 26

The market value of assets is actuarially adjusted to smooth out gains and losses through the amortization of past gains and losses over a five year period (see note 1.f).

f) Excess of actuarial value of net assets over actuarial present value of accrued pension benefits

This value represents the difference between the actuarial value of net assets and the actuarial present value of accrued pension benefits. The nature of this value is subject to the delivery of performance against management's best estimates of long-term economic and demographic trends. This value could be impacted by the finalization of the Public Works and Government Services Canada data audit process, to be completed by September 30, 2002. The values could be lower or higher than the current estimate and the difference could be material.

6. **Investment income**

Investment income by primary financial instrument type, prior to allocating the realized and unrealized gains and losses for the year ended December 31, 2001, are as follows:

(in millions of dollars)	**2001**	2000 (3 months)
Interest income		
Cash and short-term securities	$ 6	$ 1
Bonds - Canadian	2	–
- Real return	–	–
Government of Canada (note 3)	343	122
	351	123
Dividend income		
Canadian equities	31	1
United States equities	10	–
International equities	1	–
	42	1
Realized net gains (losses) on disposal		
Canadian equities	(14)	–
United States equities	(22)	–
International equities	(2)	–
	(38)	–
Net realized investment income	355	124
Net change in unrealized gains/(losses) on investments	16	(2)
	$ 371	$ 122

7. **Contributions**

(in millions of dollars)	**2001**	2000 (3 months)
Sponsor	$ 239	$ 61
Members	101	23
	$ 340	$ 84

8. **Benefits paid**

(in millions of dollars)	2001	2000 (3 months)
Retirement pensions	$ 18	$ 1
Commuted value transfers and death benefits	14	–
Refunds	3	–
	$ 35	$ 1

9. **Administration expenses**

(in millions of dollars)	2001	2000 (3 months)
Plan administration	$ 8	$ 1
External investment management fees	3	–
Professional fees	1	–
Custodial fees	1	–
	$ 13	$ 1

10. The Canada Post Corporation **Supplementary Retirement Arrangement (SRA)**

The SRA provides the Plan members and their survivors with benefits that are in accordance with the Public Sector Pension Investment Board Act but because of limitations imposed by the ITA, cannot be provided under a registered pension plan. The SRA, together with the Plan, provides overall pension benefits to eligible members.

The SRA is registered with CCRA as a Retirement Compensation Arrangement under registration number RC4102229 and is administered in accordance with the requirements of the ITA. Because the assets of the SRA are held in a separate fund, the net assets available for benefits and the actuarial present value of accrued benefits of the SRA are not included in these financial statements.

10. The Canada Post Corporation **Supplementary Retirement Arrangement (SRA)** (cont'd)

The SRA is fully funded from employer and employee contributions, and investment earnings on the assets of the SRA. Employer contributions to the SRA are based on an actuarial funding valuation. The actuarial assumptions used in determining the actuarial value of net assets and the actuarial present value of accrued benefits are consistent with the assumptions used in the Plan, except that the assumed discount rate has been adjusted to reflect the impact of the 50% refundable tax payable under the ITA. Contributions to the SRA and investment income earned by the SRA assets are subject to a 50% tax that is refundable as disbursements are made from the SRA fund.

11. Funding **policy**

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed at least every three years to estimate the Plan's actuarial difference of assets to liabilities in the Plan, and to determine the Plan's funding requirements. The actuarial valuation for regulatory funding purposes was prepared by the Plan's actuary, Mercer Human Resource Consulting Limited, as at December 31, 2001.

The funding valuation methodology and assumptions used to determine the Plan's actuarial pension liabilities and contribution requirements are consistent with those used to produce the results shown in the Statement of obligations for pension benefits, with the exception that the discount rate utilized to establish the contribution requirements has been set at 7% per annum.

12. **Related party transactions**

The Corporation provides certain administrative services on behalf of the Plan. These services, amounting to $2.3 million ($0.4 million in 2000), are reimbursed to the Corporation by the Plan. Included in Accounts payables and accrued liabilities is $0.7 million ($0.4 million in 2000) due to the Corporation for administrative services provided to the Plan.

Directory of **Board and Committee members**

The following outlines the committees involved in governance of the Plan, along with the names of the Board and Committee members:

	Board of Directors	Audit Committee	Pension Committee	Investment Committee	Pension Advisory Council
Vivian G. Albo, BA, BComm (Hons)	Chairman	•	•		
The Hon. André Ouellet, PC, QC	•		•		
Gilles Champagne, LL L	•	•	Chairperson	•	
Mickey L. Akavak	•				
Terri M. Lemke, PFP	•		•		
Michel Lemoine, Eng., LL L	•				
Gérald Préfontaine, FCA	•	Chairperson			
Cedric E. Ritchie, OC	•	•			
Anne Smith, FCSI	•	•	•		
Brian J. Steck, MBA, CFA, FCSI	•		•	Chairperson	
Pierre Brunet, OC, FCA				•	
Jacques Côté, BComm, MBA				•	
Douglas D. Greaves, BA (Hons), CFA				•	•
Hugh Mackenzie, MA				•	
Kenneth W. McArthur, BComm,CA				•	
Jim Meekison, MBA				•	
Patrick Tardif (Canada Post)					Chairperson
John Barrowclough (APOC)					•
Daryl Bean (PSAC/UPCE)					•
Jeff Bennie (CUPW)					•
Michel Bissonnette (Canada Post)					•
Dale Clark (CUPW)					•
George Kuehnbaum (CUPW)					•
Cindy McCallum (CUPW)					•
Doug Meacham (Canada Post)					•
Dereck Millar (elected by active members not represented by a bargaining agent)					•
Mike Moeller (UPCE/APOC/CPAA Rep)					•
William Price (elected by all active members of the Plan)					•
Barbara Stanyar (Canada Post)					•
Claire Wierzbicki (CPAA)					•
Retiree representative (vacant)					•

APOC — Association of Postal Officials of Canada
CPAA — Canadian Postmasters and Assistants Association
CUPW — Canadian Union of Postal Workers
PSAC — Public Service Alliance of Canada
UPCE — Union of Postal Communications Employees