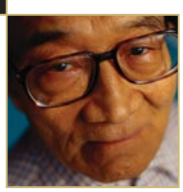
CANADA POST POSTES CANADA

*From anywhere... to anyone*



# Registered Pension Plan

## 2002 Annual Report

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We are pleased to present the ***Canada Post Registered Pension Plan 2002 Annual Report***.

This annual report represents the second full year of operations since the Plan's inception in October 2000.

Canada Post is committed to providing members with quality and timely information about their benefits and uses state of the art communication methods that are easy to use and accessible to all members.

**Privacy of pension records**

Canada Post adheres to federal legislation on the privacy of personal information and ensures that personal pension information is treated in a secure and confidential manner.

To obtain information on their pension benefits, members may:

Visit the Canada Post Pension Web site at www.cpcpension.com

Call a Benefit Service Representative at the Pension Administration Centre at 1-877-480-9220

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

# Message from Vivian Albo

*Chairman of the Board*

It has now been more than two years since Canada Post took over the management of its pension plan from the federal government and I am pleased to report on the solid success of this transition.

The Canada Post Pension Plan has a sound governance structure that ensures funds are administered and invested prudently. As a defined benefit plan, employees' pension benefits are secure. Pensions are determined by earnings and length of service rather than by investment returns.

The Board of Directors' governance function includes approving investment guidelines on investing the Plan's funds. The Board also ensures that employees have input, through representation on the Investment Committee and the Pension Advisory Council.

Like other federal pension plans, our Plan is regulated under the terms of the *Pension Benefits Standards Act* as well as the *Income Tax Act.* Legislation 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 well being of current and future retirees.

All of these measures are aimed at ensuring that plan members receive a high level of service, security and performance. I trust you will find our second annual report to be informative.

# Message from The Honourable André Ouellet

*President and CEO*

The success of Canada Post Corporation can be linked directly to the achievements of its employees. Following eight consecutive years of profitability, it is satisfying to realize that our collective success is reflected in the control we have established over the administration of our own pension plan as it represents an important part of employees' total compensation. Since the Plan was established in October, 2000, our dedicated pension team has demonstrated its commitment to operating an effective and well managed pension fund.

Through regular communication with plan members, it has also become clear that employees are taking advantage of the numerous opportunities provided to keep abreast of developments within the Plan.

As you may be aware, our pension plan, like many other similar plans, has felt the financial impact as world equity markets suffered one of their worst years in the past 70 years. The Corporation, as Plan sponsor, is responsible for funding any pension plan deficits. Canada Post will continue to monitor the Plan's financial position and will undertake to fund any deficiency in accordance with established pension legislation, designed to protect your pension benefits.

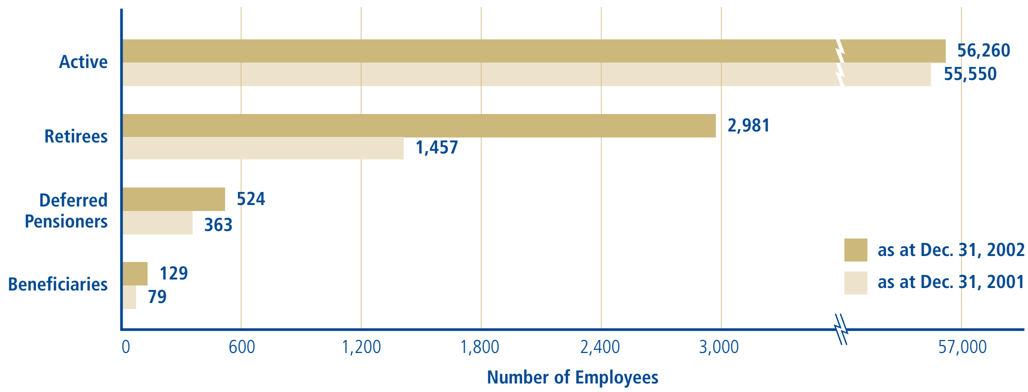
I am confident that the future successes of our pension plan will not only prove beneficial to the Corporation but will also serve as an important tool in supporting employee satisfaction to the benefit of us all.

# A Look at Plan Membership

**The Canada Post Pension Plan is one of Canada's largest pension plans, with a total of 59,894 active members, retired members, deferred pensioners, and beneficiaries.**

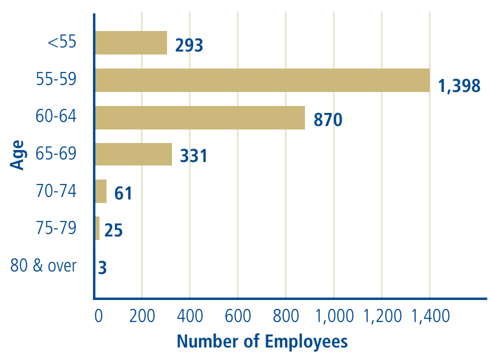
## Total plan membership

Our Plan is in a unique situation of having a large 19:1 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.



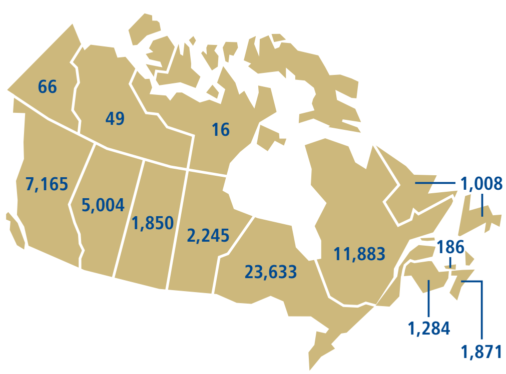

## Retired members – age distribution

The largest group of retirees since the Plan began are between age 55 and 60, with a total average age of 59.4.




## Total active members by province and territory

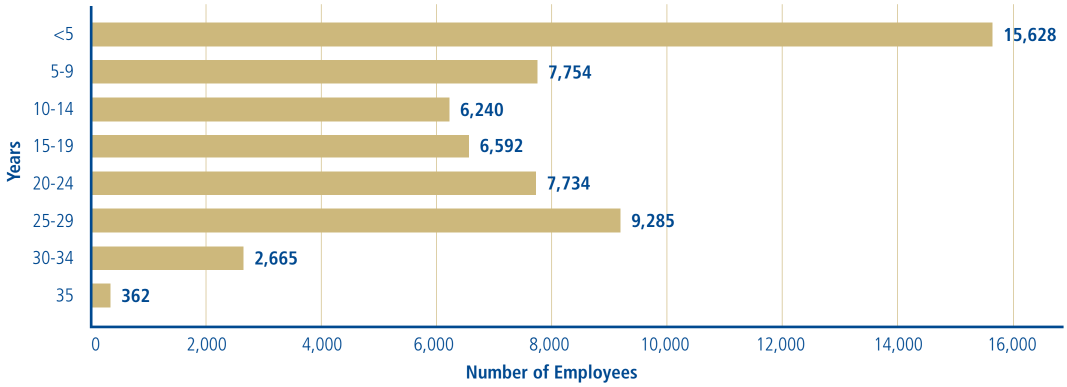
Our 56,260 active members are spread across Canada.



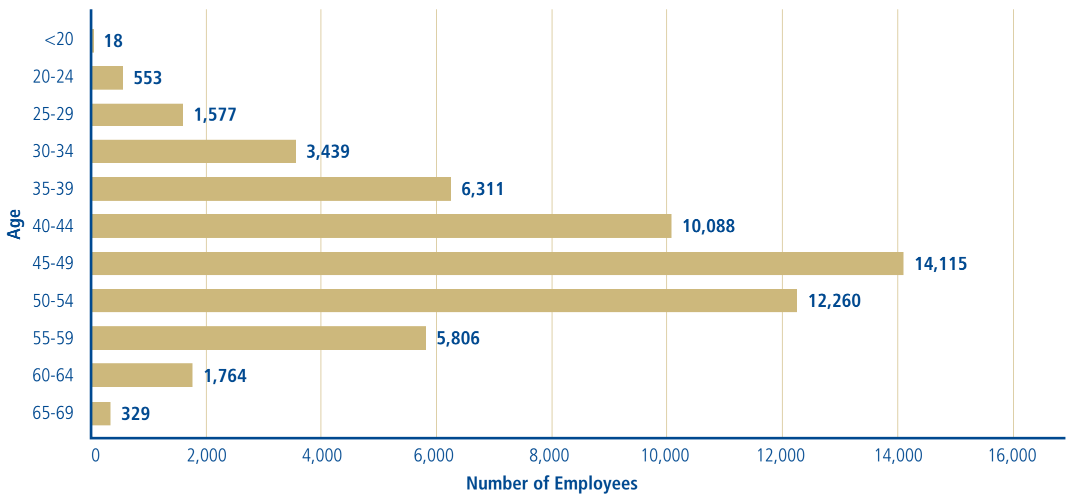
## Active members—years of service and age distribution

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 14.3 years and is 46.4 years of age, statistics show that more than 20,000 active members are over age 50. This situation means that the pace of new retirements will be significant in the near future.

### Years of pensionable service




### Age distribution



## Focus on Benefits

The Canada Post Pension Plan is designed to provide a regular pension to its members on retirement. Some members, however, may be entitled to other forms of benefits depending on their status when they leave Canada Post. The following is an overview of the benefits payable from the pension plan:

### Normal Retirement (Unreduced Pension Benefits)

Plan members are entitled to an unreduced monthly pension when normal retirement age is reached:

• age 60 with 2 years of eligibility service, or

• age 55 with 30 years of eligibility service

The pension benefit formula is based on a maximum of 35 years of pensionable service and the member's five-year highest average earnings (HAE). The unreduced pension formula is as follows:

**Lifetime pension (payable upon retirement):**

| | | | | |
|---|---|---|---|---|
| years of pensionable service | X | *average maximum pensionable earnings (AMPE) | X | 1.3% |

**PLUS**

| | | | | |
|---|---|---|---|---|
| years of pensionable service | X | highest average earnings above the *average maximum pensionable earnings (HAE - AMPE) | X | 2.0% |

**Bridge benefit (payable upon retirement to age 65):**

| | | | | |
|---|---|---|---|---|
| years of pensionable service | X | *average maximum pensionable earnings (AMPE) | X | 0.7% |

*Average maximum pensionable earnings (AMPE) as established by the Federal Government for Canada/Quebec Pension Plan purposes.

**Example:** The member has 35 years of pensionable service with a five-year highest average earnings (HAE) of $50,000. The average maximum pensionable earnings (AMPE) for 2002 is $37,860.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Lifetime Pension:** | 35 years | X | $37,860 | X | 1.3% | = $17,226.30 per year |
| | | | **PLUS** | | | |
| | 35 years | X | ($50,000 - $37,860) | X | 2.0% | = $ 8,498.00 per year |
| **Total Lifetime Pension:** | | | | | | $25,724.30 per year |
| **Bridge benefit:** (payable to age 65) | 35 years | X | $37,860 | X | 0.7% | = $9,275.70 per year |

### Early Retirement (Reduced Pension Benefits)

Members are entitled to a reduced pension 10 years before reaching normal retirement age: i.e., age 50 with two years of eligibility service, or 45 with 30 years of eligibility service. Pension benefits are reduced by 5% for each year of retirement before normal retirement age, to a maximum 50%. The Plan allows members to defer their pension to avoid or minimize the reduction.

### Disability pension

Plan members under age 60, with two or more years of eligibility service, who become disabled, can apply for Canada Post disability pension benefits. There is no minimum age. A disability pension is an unreduced pension based on pensionable service credits and highest average earnings. Health Canada officials approve applications for disability pension benefits.

The bridge benefit stops when a member begins receiving disability benefits under the Canada or Quebec Pension Plan.

### Return of contributions

Members with less than two years of eligibility service when they terminate receive a refund of their contributions plus interest.

### Commuted Value

Members who are under age 50 with two or more but less than 30 years of eligibility service, can request a locked-in lump sum payment of the estimated value of their future pension benefit, expressed in today's dollars.

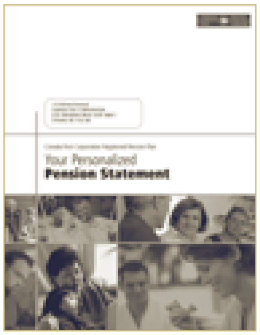
### Survivor Benefits

Eligible spouses and children are entitled to a survivor allowance which is a regular monthly pension based on the member's pensionable service and highest average earnings at the time of termination or death, whichever occurs first. When no eligible spouse or children exist, a minimum lump sum benefit is payable to the member's beneficiary, or estate if no beneficiary exists.

The above information is intended only to provide an overview of Plan benefits. The official plan text governs the actual benefits from the Plan and is the final authority in any case of dispute.

# Communication with Plan Members

Canada Post recognizes the importance of communication. To keep plan members fully informed of their Canada Post pension benefits, various communication materials are published.

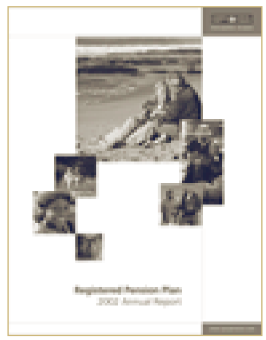



### Personalized Pension Statement

Each year, plan members receive a *Personalized Pension Statement* outlining their accrued pension as of December 31 of the previous year. This statement provides the member's retirement income projections at the member's earliest and normal retirement dates, and the annual and total contributions paid to date.

### Registered Pension Plan - Annual Report

Each year, plan members receive the *Registered Pension Plan - Annual Report* informing them of the pension plan's financial position at year-end. The report provides information on plan administration, membership and investments, as well as the audited financial statements. It includes a discussion on the governance structure, an actuary's opinion and an auditor's report.



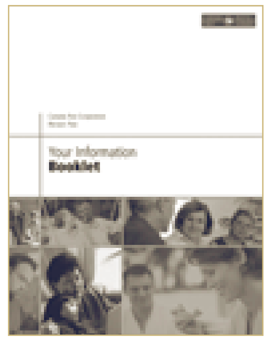

### Pension Plan News

All active plan members receive *Pension Plan News,* a periodic bulletin that provides updates on pension plan issues, new policies or administrative procedures, and responses to frequently asked questions. Three bulletins were issued in 2002.

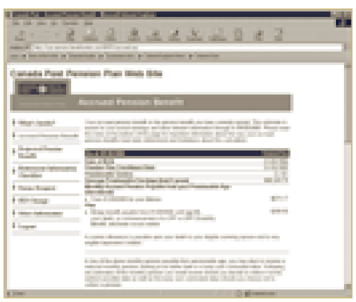

## In Touch

Retired and deferred plan members receive *In Touch*, a periodic bulletin that keeps them up to date on changes that are of interest or that may affect them (e.g. indexing increase), and provides answers to frequently asked questions. Two bulletins were issued in 2002.

## Your Information Booklet




All active members on October 1, 2000, and new plan members since this date, received *Your Information Booklet.* This booklet provides information on eligibility, contributions, types of pension benefits, and other personal circumstances that affect the payment of pension benefits.




## Canada Post Pension Web Site, Voice Response Unit and Toll-Free Call Centre

The Canada Post Pension Web site, Voice Response Unit (VRU), and toll-free Call Centre are other pension information sources available to plan members. All members can access the Canada Post Pension Plan Web site and VRU to obtain information on their accrued pension or an estimate of their future pension benefit. The toll-free Call Centre, which enables members to speak to a trained Benefit Service Representative, and VRU, are accessed through the same telephone number. As all personal pension data is confidential, access requires a personal identification number (PIN).

# Fund Investments

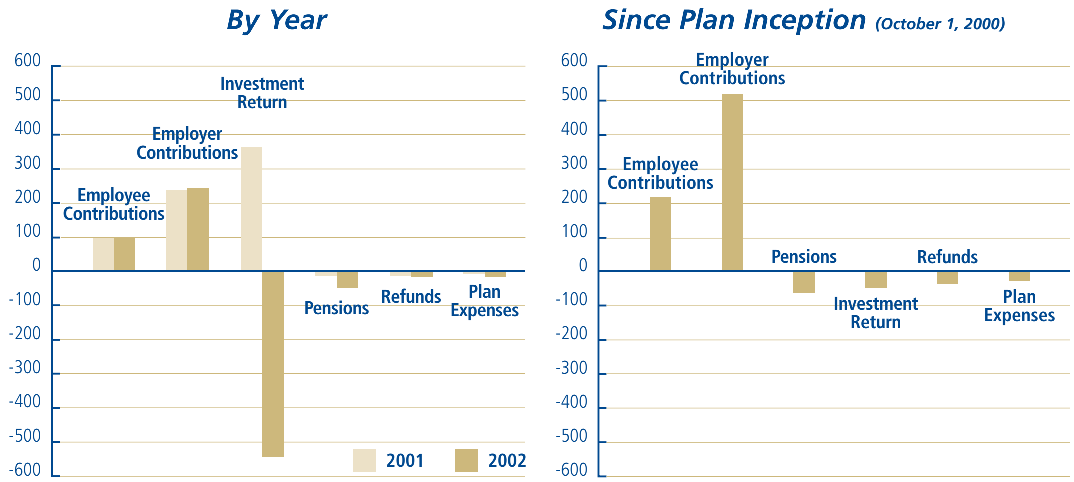
From the Office of Douglas D. Greaves, Vice President Pension Fund and Chief Investment Officer

## Size of the pension fund

At December 31, 2002, the fund held total investments of $7,398 million.

## Sources and Uses of Funds

**(in millions of dollars)**




## Financial Markets

Equity markets declined sharply during 2002, presenting pension fund investors with some of the most daunting and challenging conditions witnessed over the past 70 years. U.S. equity markets showed a loss of over 22%, the third consecutive year of decline. International markets also showed a significant drop of over 16%, led by European markets such as Germany and France. In Canada, the losses were less severe, but still exceeded 12% as strength in the gold and energy sectors of our market was offset by weakness in industrial product, consumer product, and communications issues.

Improving, but uneven economic growth raised concerns that the U.S. might be slipping back into recession. Corporate earnings fell short of expectations as a result of the difficult business environment and investor confidence was further damaged by revelations of financial scandal and misconduct at a number of leading U.S. corporations. Finally, the threat of terrorist attacks and war with Iraq weighed heavily on investor sentiment.

Canadian economic growth was stronger than what was witnessed south of the border, largely driven by automobile manufacturing and oil and gas production. Low interest rates provided significant impetus to the housing industry, prompting the Bank of Canada to increase administered interest rates modestly.

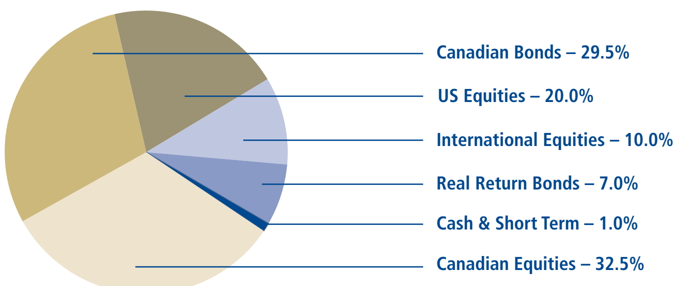
In overseas markets, slow economic growth in Continental Europe was the dominant theme. Economic growth continued to be problematic in Japan, Hong Kong and other Asian economies that rely heavily on exports to the U.S. On the other hand a number of emerging economies, including China and South Korea experienced moderate growth.

Within this environment fixed income markets provided good returns, as many investors were attracted to the relative safety of bond market investments. However, with interest rates at 40-year lows in many countries, including Canada, it is unlikely that such investments can continue to offer comparable returns.

## Asset Mix Policy and Investment Structure

The Canada Post Pension Plan covers only those current active and past Canada Post employees who retired after September 30, 2000. Today total membership consists of about 95% contributors and 5% retirees. Unlike most pension plans, contributions to our plan will exceed benefit payments for the next 15-20 years and we can therefore adopt a long-term investment strategy. Our intention is to have a higher proportion of equity investments than the average pension plan because equity investments provide the highest long-term rate of return, although returns can be more volatile in the short-term.

## Long-term Benchmark Asset Mix




As shown above, our Plan has therefore adopted a disciplined, long-term asset mix benchmark consisting of 62.5% equity and 37.5% fixed income investments. This would compare to about 60% equity and 40% fixed income investments for the average large Canadian pension plan. Our strategy allows total equity investments to vary within 55-70%, depending upon market conditions. Our asset mix benchmark is reviewed at least annually to ensure that it remains appropriate in light of the demographic mix of our membership and expectations for long-term rates of return in the capital markets.

Within the equity component of our fund, 20% is allocated to U.S. equities, 10% to International equities, and the remaining 32.5% is allocated to Canadian equities. Within the fixed income component, 29.5% is allocated to Canadian bond investments, 7% to Real Return Bonds and 1% to cash and short-term investments.

With the exception of the Real Return Bond portfolio, which is managed internally, external investment managers, carefully selected on the basis of their expertise and track record by our Investment Committee, manage all fund assets. We diversify the management of each asset class among a number of managers on the basis of investment style. This includes managers focused on disciplines of growth, value, and capitalization. We also allocate a portion of our Canadian and U.S. equity assets and Canadian bond assets to "passive" index strategies, which endeavor to duplicate a market index. Within the various asset classes, a total of 15 investment managers currently manage components of our pension fund.

### Responding to Changing Markets

All transfers from the Federal Government were completed by September 30, 2002, with minor valuation adjustments to be finalized. Where possible, transfers were completed late in each calendar quarter, in a manner consistent with our desire to maximize return and minimize risk within the very difficult market conditions that characterized 2002. While weak equity markets resulted in negative returns, they also allowed the fund to acquire investments at levels not seen since 1997.

Owing to concerns regarding prospective returns from equity markets, our Investment Committee reviewed the fund's benchmark asset mix and decided to recommend a reduction in the overall equity component to 62.5% from the original benchmark of 70%. This recommendation was approved by our Pension Committee and served to protect capital during 2002. Although equity returns over the next 5 years can be expected to exceed fixed income returns, the extent of this premium may not match what many investors received in the decade of the 1990's and the trend to higher volatility may continue.

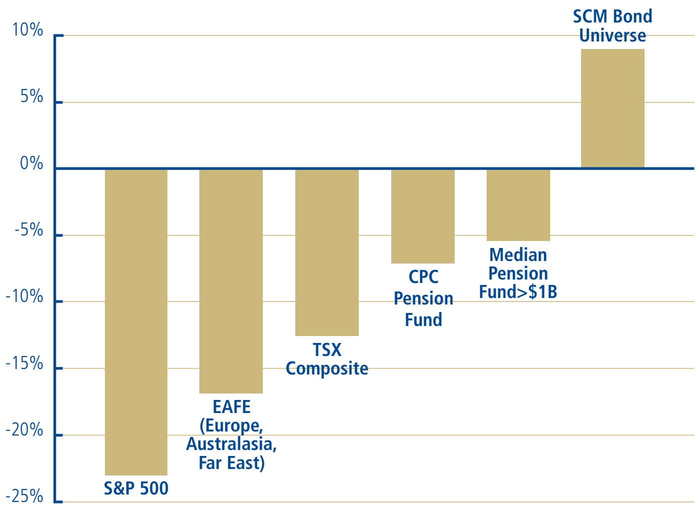
For these reasons we also reduced fund allocations to equity and fixed income indexed investment strategies in Canadian as well as U.S. markets. Although indexed strategies continue to play an important role within the investment fund, we believe that challenging markets will tend to favor more active strategies.

We also increased our allocation to Real Return Bonds, a strategy that had a beneficial impact on results since the return on these investments was the highest throughout all sectors of the capital markets in 2002.

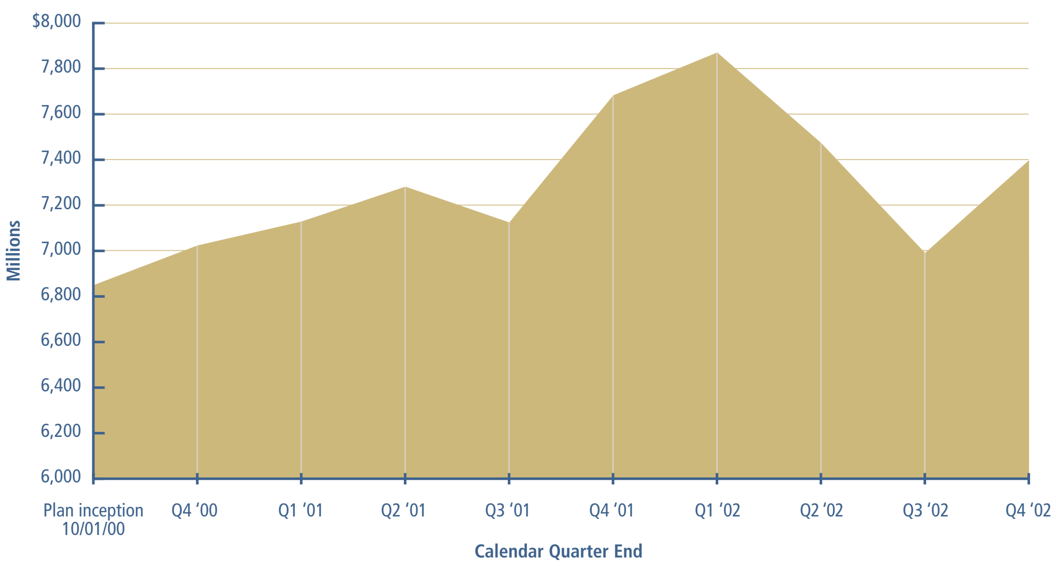
Finally, and with the objective of diversifying our equity exposure into other types of investments, we sought and obtained authority from our Board of Directors to allocate up to 5% of total fund assets to Private Equity and Real Estate. We believe that these investments will enhance future portfolio returns as well as contribute to lower volatility. It is expected that such investments will commence in 2003.

## Fund Performance

The fund experienced a loss of 6.99% as a result of the severe weakness in equity markets during 2002. Owing to our higher exposure to these types of investments than the average pension plan, this loss was marginally greater than the median loss of 5.3% experienced by the RBC universe of large Canadian pension plans. However, our overall return was better than the –7.4% represented by the blended return of our benchmark portfolio.




## Fund Assets



Reviewing the performance of each asset class within our fund, Canadian and U.S. equity investments declined less than their benchmarks. Our Canadian fixed income returns were higher than their benchmark, led by exceptionally strong returns from our Real Return Bond portfolio. On the other hand, our International equity investments declined more than their benchmark.

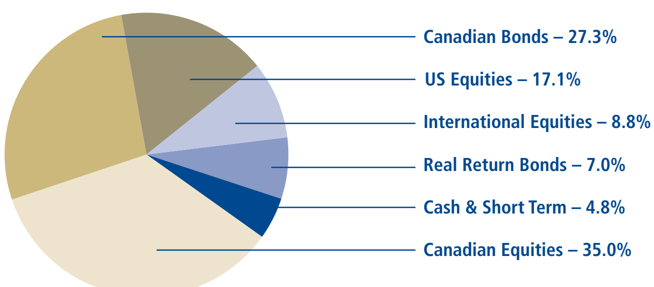
Returns were weakest during the second and third quarters of 2002. Higher equity markets late in the year resulted in some improvement in overall return, but 2002 will no doubt be remembered as one of the most difficult years experienced in the pension investment industry in recent decades. However, from the point of view of the Canada Post Pension Plan, the weak equity markets of the past 3 years have allowed us to build our investment portfolios at favorable valuations not seen since 1997.

## Asset Mix as at December 31, 2002

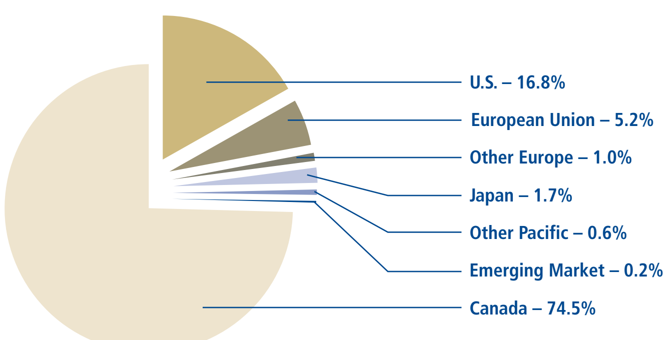
The asset mix of the Canada Post Pension Plan by asset class and geographic distribution is depicted below. As indicated, total equity exposure of 60.9% was less than our benchmark of 62.5%, derived from an under-weighted exposure to U.S and International equities.

Our total fixed income exposure of 39.1% was above our 37.5% benchmark, derived from an over-weighted cash position of 4.8%, a full weighting of 7.0% in Real Return Bonds and an under-weighted position in nominal Canadian bonds.

### Asset Class




### Geographic Distribution



## Largest equity investment holdings

The table below lists the largest equity holdings in dollar value and percentage of the overall fund

**Equity investments with a market value greater than $25 million**
December 31, 2002
(In millions of dollars)

| | | |
|---|---|---|
| Royal Bank | $177 | 2.4% |
| Encana | 122 | 1.7% |
| Bank of Nova Scotia | 116 | 1.6% |
| TD Bank | 99 | 1.3% |
| BCE | 96 | 1.3% |
| Bank of Montreal | 83 | 1.1% |
| Manulife Financial | 73 | 1.0% |
| Sun Life Financial | 61 | 0.8% |
| Alcan | 60 | 0.8% |
| CIBC | 52 | 0.7% |
| TransCanada PipeLines | 50 | 0.7% |
| Petro-Canada | 47 | 0.6% |
| Talisman Energy | 45 | 0.6% |
| Thomson Corp | 44 | 0.6% |
| Barrick Gold | 44 | 0.6% |
| Suncor Energy | 42 | 0.6% |
| Canadian National Railway | 42 | 0.6% |
| Inco | 37 | 0.5% |
| Enbridge | 36 | 0.5% |
| Microsoft | 35 | 0.5% |
| Nexen | 34 | 0.5% |
| Loblaw | 33 | 0.4% |
| Exxon Mobil | 31 | 0.4% |
| Nortel | 30 | 0.4% |
| General Electric | 27 | 0.4% |
| Citigroup | 27 | 0.4% |
| Vodafone | 27 | 0.3% |
| Biovail | 27 | 0.3% |
| Imperial Oil | 25 | 0.3% |
| | **$1,622** | **21.9%** |

## Outlook for 2003

Although fiscal and monetary policy around the world is clearly expansionary and market valuations are today more reasonable than has been the case for several years, equity markets began 2003 on a weaker note. This was largely because of geopolitical uncertainty and ongoing concerns about global economic growth. Although we anticipate this environment to characterize much of 2003, we expect year-over-year returns to improve.

# Financial Position of the Plan

### Net Assets Available for Benefits

At December 31, 2002, the Canada Post Corporation Registered Pension Plan held total assets of $7,500 million, a decrease of $256 million compared to the previous year. During the year, the final valuation for the asset transfer between the Government of Canada and the Plan was completed and a nominal amount of $5 million remains to be transferred from the Government of Canada.

### Changes in Net Assets Available for Benefits

Net decreases in assets of $256 million during the year were as a result of investment losses ($542 million), benefits payments ($69 million) and administration expenses ($18 million), partially offset by employer and employee contributions ($368 million) and an additional amount due from the Government of Canada related to the asset transfer valuation ($5 million).

### Obligations for Pension Benefits

The actuarial present value of accrued pension benefits as at December 31, 2002 was $8,610 million, an increase of $848 million since December 31, 2001.

On an actuarial basis, the actuarial present value of accrued pension benefits increased over the actuarial value of net assets available for benefits resulting in a deficiency of $136 million (compared to a $107 million excess at December 31, 2001).

The actuarial value of net assets available for benefits of $8,474 million is $974 million more than the market value of net assets ($7,500 million) as actual investment returns were less than expected investment returns assumed in the actuarial valuation. Differences between actual and expected returns are recognized over a five year period in accordance with generally accepted actuarial principles. The amount of these differences, to be recognized in future years, increased by $861 million, from $113 million in 2001 to $974 million in 2002.

# 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
March 6, 2003

Jacques Côté

Senior Vice-President
and Chief Financial Officer
March 6, 2003

# Actuaries' Opinion

Ottawa, March 6, 2003

Mercer Human Resource Consulting was retained by Canada Post Corporation to perform an actuarial assessment of the assets and going-concern liabilities of the Registered Pension Plan as of December 31, 2002, 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, 2002, 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. For purposes of asset valuation, we have continued to use an asset smoothing methodology similar to that used by a majority of large pension funds. This method amortizes investment gains or losses in respect of a target rate of return of 7% per annum. We believe this target rate to be appropriate for the long term but in light of the recent volatility in investment markets the actuarial value of assets may continue to diverge from the market value of assets. We will monitor this situation closely.

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 our assessment, 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.

Our assessment of the Plan's actuarial assets and liabilities was based on:

- An extrapolation to December 31, 2002 of the results of our December 31, 2001 actuarial valuation of the Plan's going concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2002,
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements, and
- assumptions about future events that have been developed by management and Mercer Human Resource Consulting 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 assumptions and methods employed in the valuation and extrapolation are, on the whole, appropriate. Our opinions have been given and our valuation performed in accordance with accepted actuarial practice.

| | |
|---|---|
| Jean-Paul Raymond | Hubert Lemire |
| Fellow of the Canadian Institute of Actuaries | Fellow of the Canadian Institute of Actuaries |
| Fellow of the Society of Actuaries | Fellow of the Society of Actuaries |

Mercer Human Resource Consulting

## Auditors' Report

To the Board of Directors of 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, 2002 and the statements of changes in net assets available for benefits and 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 whether 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 the Plan's management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2002 and the changes in net assets available for benefits and obligations for pension benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton

Chartered Accountants
Ottawa, Canada
March 6, 2003

# Financial Statements

## STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

| As at December 31 | **2002** | 2001 |
|---|---|---|
| **ASSETS** | | |
| Investments (note 2) | **$ 7,403** | $ 4,995 |
| Receivable from the Government of Canada (note 3) | **5** | 2,702 |
| Receivables (note 4) | **102** | 77 |
| | **7,510** | 7,774 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities (note 5 ) | **10** | 18 |
| **Net assets available for benefits** | **$ 7,500** | $ 7,756 |

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

**Approved on behalf of the Board**

Vivian Albo
Chairman of the Board of Directors

Gérald Préfontaine
Chairperson of the Audit Committee

## STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

| For the year ended December 31 | **2002** | 2001 |
|---|---|---|
| **INCREASES IN ASSETS** | | |
| Funding - Government of Canada (note 3) | **$ 5** | $ – |
| - Member past service | **–** | 10 |
| Investment income (note 7) | **–** | 371 |
| Contributions (note 8) | **368** | 340 |
| | **373** | 721 |
| **DECREASES IN ASSETS** | | |
| Funding - Government of Canada (note 3) | **–** | 178 |
| Investment loss (note 7) | **542** | – |
| Benefits paid (note 9) | **69** | 35 |
| Administration expenses (note 10) | **18** | 13 |
| | **629** | 226 |
| **(Decrease)/increase in net assets available for benefits** | **(256)** | 495 |
| **Balance, beginning of the year** | **7,756** | 7,261 |
| **Balance, end of the year** | **$ 7,500** | $ 7,756 |

See description of the Plan and accompanying notes to the financial statements.

## STATEMENT OF OBLIGATIONS FOR PENSION BENEFITS

(in millions of dollars)

| For the year ended December 31 | 2002 | 2001 |
|---|---|---|
| **ACTUARIAL PRESENT VALUE OF ACCRUED PENSION BENEFITS (note 6)** | | |
| Increase during the year due to: | | |
| Interest on accrued pension benefits | **$ 476** | $ 434 |
| Benefits accrued | **423** | 396 |
| Experience losses | **18** | – |
| | **917** | 830 |
| Decrease during the year due to: | | |
| Benefits paid (note 9) | **69** | 35 |
| Experience gains and final valuation | **–** | 92 |
| | **69** | 127 |
| Net increase in actuarial present value of accrued pension benefits | **848** | 703 |
| Actuarial present value of accrued pension benefits | | |
| Beginning of the year | **7,762** | 7,059 |
| End of the year | **8,610** | 7,762 |
| **ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS** | | |
| Net assets available for benefits | **7,500** | 7,756 |
| Actuarial asset value adjustment (note 6.d) | **974** | 113 |
| Actuarial value of net assets available for benefits | **8,474** | 7,869 |
| **(Deficiency)/excess of actuarial value of net assets available for benefits over actuarial present value of accrued pension benefits (note 6.e)** | **$ (136)** | $ 107 |

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

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 in pay 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 who are members of the Plan are required to contribute a percentage of their pensionable salary to the Plan fund, that is, 4% of their earnings up to the Year's Maximum Pensionable Earnings $39,100 ($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. The Board of Directors of the Corporation determines the employee contribution rates, as provided for in accordance with 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 Canada Income Tax Act (ITA) and the regulations thereunder. 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, both as amended from time to time, to maintain such registrations. Contributions to the Plan fund are made in accordance with the Plan, the ITA and the PBSA and are deductible by 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 value is based on public market prices or quotations from investment dealers.

• *Valuation of investments*

Fair value of investments is 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.

• *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 value and the fair value 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 6.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 long-term rate of return assumption. 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.

**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. Management monitors estimates and assumptions used in the preparation of the financial statements, as actual results may differ from these estimates.

## 2. Investments

Summary of investments

| (in millions of dollars) | 2002 | | 2001 | |
|---|---|---|---|---|
| | **Fair Value** | **Cost** | Fair Value | Cost |
| Cash and short-term securities | $ 441 | $ 439 | $ 91 | $ 91 |
| Fixed income | | | | |
| Canadian bonds | 1,949 | 1,923 | 324 | 324 |
| Real return bonds | 539 | 475 | 98 | 98 |
| | 2,488 | 2,398 | 422 | 422 |
| Equities | | | | |
| Canadian | 2,573 | 2,871 | 2,755 | 2,774 |
| U.S. | 1,226 | 1,471 | 1,177 | 1,156 |
| International | 640 | 748 | 532 | 519 |
| | 4,439 | 5,090 | 4,464 | 4,449 |
| Investments before receivables | 7,368 | 7,927 | 4,977 | 4,962 |
| Investment related receivables | | | | |
| Accrued investment income | 29 | 28 | 9 | 9 |
| Pending trades receivable | 5 | 5 | 9 | 9 |
| Withholding taxes receivable | 1 | 1 | – | – |
| | 35 | 34 | 18 | 18 |
| **Investments** | **7,403** | **7,961** | 4,995 | 4,980 |
| Investment related liabilities | | | | |
| Pending trades payable (note 5) | (5) | (5) | (14) | (14) |
| **Net investments** | **$ 7,398** | **$ 7,956** | $ 4,981 | $ 4,966 |

### 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.

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:

| | **2002** | | | | | |
|---|---|---|---|---|---|---|
| | **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** | 2001 |
| Cash and short-term securities | $ 441 | $ – | $ – | $ – | $ 441 | $ 91 |
| Bonds | | | | | | |
| - Government of Canada | – | 476 | 259 | 213 | 948 | 230 |
| - Provincial and municipal | – | 77 | 178 | 167 | 422 | 35 |
| - Canadian corporate | 17 | 231 | 145 | 186 | 579 | 59 |
| - Real return – Canada | – | – | – | 469 | 469 | 98 |
| - Real return – Provincial | – | – | – | 70 | 70 | – |
| Accrued interest | 21 | – | – | – | 21 | 3 |
| | **$ 479** | **$ 784** | **$ 582** | **$ 1,105** | **$ 2,950** | $ 516 |

The total bond portfolio, if held to maturity, will yield 4.6%.

### *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 net investments by geographical location of the issuer and by currency, as at December 31, are as follows:

| | **Geographical Location** | | **Currency** | |
|---|---|---|---|---|
| Currency – Canadian $ equivalent (in millions of dollars) | **2002** | 2001 | **2002** | 2001 |
| Canadian dollar | $5,514 | $3,265 | $5,503 | $3,254 |
| United States dollar | 1,241 | 1,184 | 1,303 | 1,261 |
| Euro | 384 | 194 | 184 | 179 |
| Other European | 69 | 186 | 254 | 178 |
| Japanese yen | 127 | 92 | 127 | 92 |
| Other Pacific | 45 | 35 | 27 | 17 |
| Emerging market | 18 | 25 | – | – |
| | **$** | **7,398** | $ | 4,981 |

### *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 committed to transfer to the Plan fund of 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 of 7.25% was recognized annually and added to the receivable, which was drawn down as payments were made to the Plan fund.

Using final audited data the value of the receivable was established at $6,850 million, based on an actuarial valuation prepared by OSFI. The full asset transfer was completed on September 30, 2002. This final value was subject to final audit in 2002 by Public Works and Government Services Canada. Data corrections identified in the final audit will result in an additional transfer of $5 million to the Plan.

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Balance, beginning of the year | $ 2,702 | $ 6,648 |
| Adjustment to initial asset transfer | 5 | (178) |
| Accrued interest earned | 78 | 343 |
| Asset transfers received | (2,780) | (4,111) |
| Balance, end of the year | **$ 5** | $ 2,702 |

## 4. Receivables

Contributions

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Sponsor - Current service | $ 36 | $ 25 |
| Members - Current service | 15 | 10 |
| - Past service* | 51 | 42 |
| | **$ 102** | $ 77 |

*Members buying back past service or eligible leave without pay pensionable service will be making contributions in future periods. The value of the accrued but unpaid for pension service, as at December 31, 2002 has been calculated actuarially.

## 5. Accounts payable and accrued liabilities

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Accounts payable and accrued liabilities | $ 5 | $ 4 |
| Pending trades payable (note 2) | 5 | 14 |
| | **$ 10** | $ 18 |

## 6. 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 6.c.

### b) Actuarial methodology

The actuarial valuation completed by Mercer Human Resource Consulting as at December 31, 2001 was extrapolated to determine the accrued pension benefit as at December 31, 2002. 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 2002, 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, 2002, the following long-term economic assumptions were selected:

| | **2002** | 2001 |
|---|---|---|
| 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 and turnover.

### d) Actuarial asset value adjustment

| (in millions of dollars) | **2002** | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|
| | Unamortized losses | to be recognized in | | | |
| | **$ 974** | $ 251 | $ 251 | $ 247 | $ 225 |

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

### e) (Deficiency)/excess of actuarial value of net assets available for benefits 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.

## 7. 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, 2002, are as follows:

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Interest income | | |
| Cash and short-term securities | $ 7 | $ 6 |
| Bonds - Canadian | 62 | 2 |
| - Real return | 13 | – |
| Government of Canada (note 3) | 78 | 343 |
| | 160 | 351 |
| Dividend income | | |
| Canadian equities | 47 | 31 |
| United States equities | 12 | 10 |
| International equities | 26 | 1 |
| | 85 | 42 |
| Securities lending income | 1 | – |
| Realized net (losses) gains on disposal | | |
| Canadian fixed income | 11 | – |
| Canadian equities | (112) | (14) |
| United States equities | (58) | (22) |
| International equities | (56) | (2) |
| | (215) | (38) |
| Net realized investment income | 31 | 355 |
| Net change in unrealized (losses) gains on investments | (573) | 16 |
| | **$ (542)** | $ 371 |

## 8. Contributions

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Sponsor – Current service | $ 254 | $ 239 |
| Members – Current service | 97 | 91 |
| – Past service | 17 | 10 |
| | **$ 368** | $ 340 |

## 9. Benefits paid

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Retirement pensions | $ 48 | $ 18 |
| Commuted value transfers and death benefits | 18 | 14 |
| Refunds | 3 | 3 |
| | **$ 69** | $ 35 |

## 10. Administration expenses

| (in millions of dollars) | **2002** | 2001 |
|---|---|---|
| Plan administration | $ 8 | $ 8 |
| External investment management fees | 8 | 3 |
| Professional fees | 1 | 1 |
| Custodial fees | 1 | 1 |
| | **$ 18** | $ 13 |

### 11. 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 applicable 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.

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.

### 12. Funding valuation

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, as at December 31, 2001, and a copy of this valuation was filed with OSFI and CCRA.

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.

### 13. Related party transactions

Included in administration expenses is $2.5 million ($2.3 million in 2001) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $0.3 million ($0.7 million in 2001) due to the Corporation for administration services provided to the Plan.

### 14. Federal budget tabled February 18, 2003

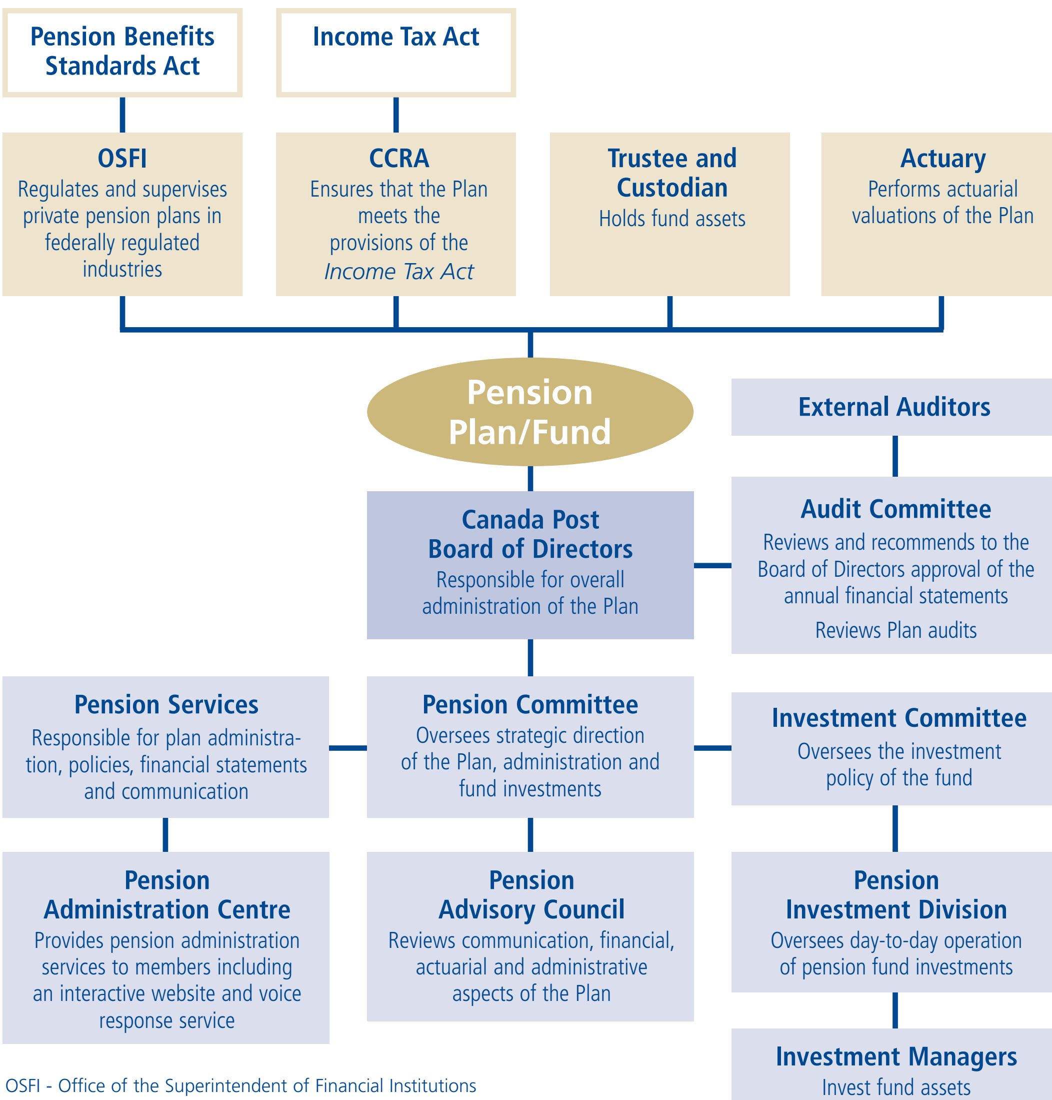
The 2003 Federal budget, tabled on February 18, 2003, proposes changes to the benefit limits under a registered pension plan. The financial statements do not reflect the impact of these proposed changes. As a result of these proposals, the actuarial present value of accrued pension benefits as at December 31, 2002, is estimated to increase by $26 million, from $8,610 million to $8,636 million.

# 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.

### Canada Post Pension Plan Governance Structure




OSFI - Office of the Superintendent of Financial Institutions
CCRA - Canada Customs and Revenue Agency

# 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 | |
| Paul A. Comeau MBA,CA | • | | | | |
| 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 | | | | • | |
| Doug Meacham (Canada Post) | | | | | Chairperson |
| John Barrowclough (APOC) | | | | | • |
| Daryl Bean (PSAC/UPCE) | | | | | • |
| Jeff Bennie (CUPW) | | | | | • |
| Michael DePalo (Canada Post) | | | | | • |
| Ronald Goodwin (Elected retiree representative) | | | | | • |
| George Kuehnbaum (CUPW) | | | | | • |
| Donald Lafleur (CUPW) | | | | | • |
| Cindy McCallum (CUPW) | | | | | • |
| Dereck Millar (Canada Post) | | | | | • |
| Mike Moeller (UPCE/APOC/CPAA Rep) | | | | | • |
| William Price (elected by all active members of the Plan) | | | | | • |
| Barbara Stanyar (Canada Post) | | | | | • |
| Claire Wierzbicki (CPAA) | | | | | • |
| Vacant (elected by active members not represented by a bargaining agent) | | | | | • |

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