CANADA POST POSTES CANADA

From anywhere... to anyone

Registered **Pension Plan** 2003 Annual Report

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We are pleased to present the ***Canada Post Registered Pension Plan 2003 Annual Report.***

This annual report represents the third 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

I am pleased to report on the strong financial performance of the Canada Post pension plan achieved during the past year. Our plan, now in its third year since Canada Post assumed management from the federal government, has established a solid foundation for the benefit of current and future retirees.

It is important to realize that Canada Post pension benefits are secure. As a "defined benefit" pension plan, our members enjoy guaranteed, inflation-protected benefits, regardless of any volatility in the performance of financial markets.

As part of its governance function, the Canada Post Corporation Board of Directors maintains a close watch over investment returns and contributions to ensure the Plan has adequate assets to cover its pension liabilities. The Board also ensures that members are able to participate, through membership on the Investment Committee and the Pension Advisory Council.

Consistent with the practices established at leading pension plans, the Canada Post pension plan established Proxy Voting Guidelines during 2003. These guidelines govern how we wish to vote on matters requiring shareholder approval.

I am confident that these and other initiatives will continue to ensure plan members receive the best possible service and performance, now and in the future.

Message from Anne Joynt

President and CEO

The successful launch of the Canada Post pension plan, which began in October 2000, is a source of great pride for all of our employees. And, it is reassuring to know that employee benefits are secure as they represent a key component of employees' total compensation package.

The solid financial performance of our pension plan in 2003 is gratifying and demonstrates our commitment to ensuring a viable and healthy plan for current and future retirees. To that end, the Corporation, as Plan Sponsor, contributed an additional $107 million to the Plan in 2003 to further strengthen its funded position.

We know that our employees value their pension plan and are taking advantage of the many opportunities available to them to ask questions about retirement planning. Our dedicated team of pension professionals will ensure that plan members are kept fully informed through the wide variety of communications vehicles now in place.

As we look ahead, there is good reason for optimism. The Corporation has achieved its ninth consecutive year of profitability and employee satisfaction is holding firm. The knowledge that our pension plan is being successfully managed and that member benefits are secure represents a tremendous opportunity to enhance employee satisfaction to our collective benefit.

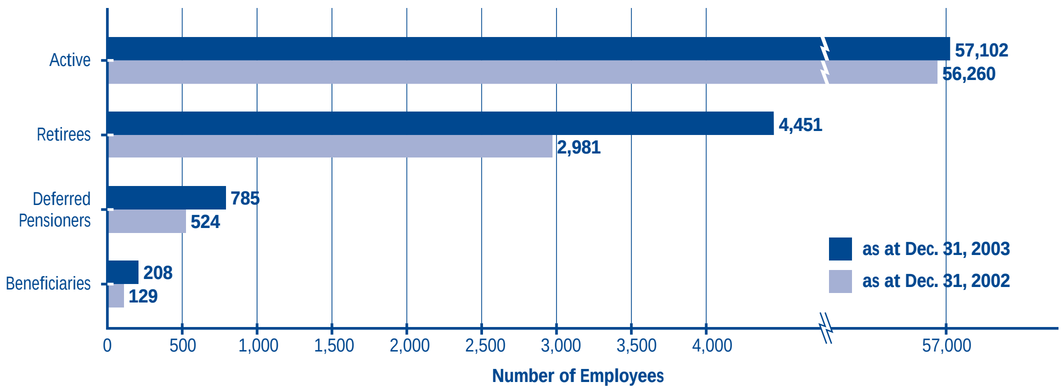
I look forward to our continuing success as we move forward together.

A look at Plan Membership

The Canada Post pension plan is one of Canada's largest pension plans, with a total of 62,546 active members, retired members, deferred pensioners, and beneficiaries.

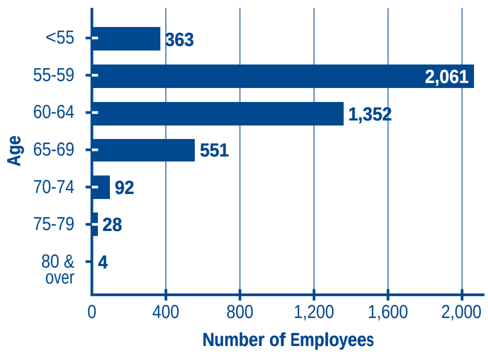
Total plan membership

Our Plan is in a unique situation of having a large 12:1 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.



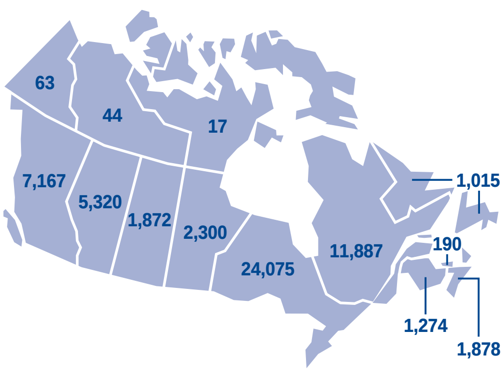
Retired members – age distribution

The largest group of retirees since the Plan began are between age 55 and 60, with a total average age of 59.9.



Total active members by province and territory

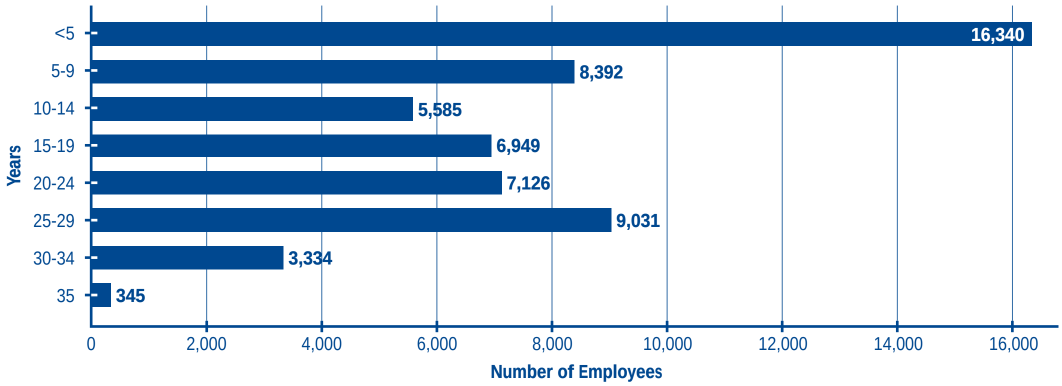
Our 57,102 active members are spread across Canada.



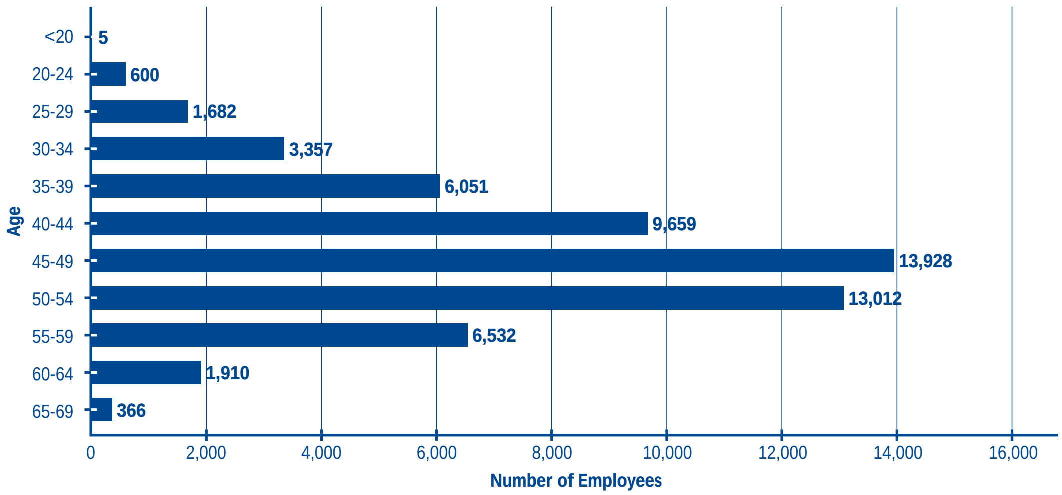
Active members—years of service and age distribution

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 46.7 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

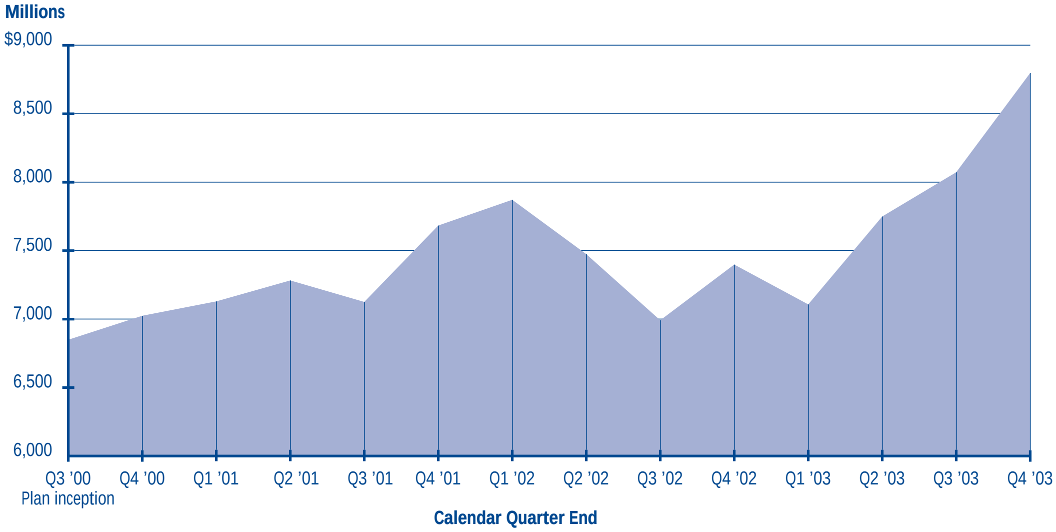


Fund Investments

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

Fund Assets

Fund assets increased by $1,399 million to $8,797 million during 2003. The pension plan earned a return of 13.9% over the year.



Financial markets

2003 witnessed the end of a succession of annual declines in Equity markets. Returns were generally impressive, led by strength in the Pacific rim, emerging markets and resource dominated markets such as Australia and Canada. Gains in the U.S. and European markets were also substantial, although a stronger Canadian dollar mitigated the gains accruing to Canadian based investors.

Following a weak first quarter, markets began to rebound in April, when it became evident that war in Iraq would be of a short duration. A strengthening in consumer and business confidence led to an improvement in U.S. Gross Domestic Product, a trend that showed evidence of an acceleration towards the end of the year. Growth in reported corporate profits mirrored the improvement in business conditions and provided underlying support for equity markets in spite of additional adverse developments unfolding during 2003 such as the outbreak of BSE in Canada and SARS worldwide.

Canadian equity markets returned 26.7% during the year. Returns on International and U.S markets were 13.4% and 5.3% respectively when translated into Canadian dollars. Equity market strength was particularly evident in financial issues, the greatly maligned technology sector, and resource related issues such as gold, oil & gas, and base metals. Consumer products and utility sectors provided more modest returns.

Fixed income returns were also quite satisfying during the year. Inflation remained low and concerns about the sustainability of economic recovery in the face of continuing weakness in employment led to further reductions in administered interest rates in the U.S. This also occurred in Canada during the summer months as the Bank of Canada reversed an earlier decision to raise short-term interest rates. Bond market returns tended to approximate coupon rates for most maturities, resulting in an annual rate of return of 6.7% for the benchmark SC Bond Universe index. Real Return bonds once again provided stellar returns of 13.3% during 2003.

Weakness in the U.S. dollar was a continuing theme in 2003. Interest rate reductions and tax cuts enacted in the U.S. to support economic growth contributed to a widening of federal and current account deficits. Moreover, the maintenance of a short-term interest rate structure below the underlying rate of inflation and below what is available in other markets contributed to a significant weakening of the U.S. dollar to the extent of about 17% versus the Euro and about 18% versus the Canadian dollar during the year. Our currency also benefited from relatively high short-term interest rates relative to the U.S. and the maintenance of a budget surplus position on the part of the Federal Government.

Asset Mix Policy and Investment Structure

The Canada Post pension fund has a long-term asset mix target consisting of 62.5% Equities and 37.5% Fixed Income investments. Our strategy allows total equity investments to vary between 55% and 70%. Within the equity component, the target mix includes allocations to Real Estate in the amount of 2.5%, and U.S. and International equities to the extent of 20% and 10% respectively.

The asset mix target was reviewed and confirmed in 2003 with one variation relating to the issue of hedging foreign currency.

Adding return through anticipation of changes in currency valuation is historically difficult. However, during 2003 the Pension Committee of the Canada Post Board of Directors approved a recommendation from the Investment Committee to permit the hedging of up to 50% of the fund's U.S. dollar denominated investments into Canadian dollars. The pension plan will maintain its policy of not hedging foreign investments established in offshore markets.

Hedging of U.S dollar denominated investments may or may not occur in 2004. No hedging of this nature was outstanding as of December 31, 2003.

Investment Activities

With the exception of selected purchases of real return bonds, the Canada Post pension plan stayed on the sidelines during the first quarter of 2003. Beginning in the second quarter and continuing throughout the remainder of the year, the pension plan drew down a portion of its cash reserves and increased equity positions in Canadian and U.S. markets.

Canada Post Corporation, the Plan sponsor, contributed an additional amount of $106.6 million to the pension plan in December in order to strengthen its funded position. This amount was invested across all asset classes.

A review of our International equity investments led to the initiation of a number of changes to our investment structure. Contracts with existing managers were terminated and Canada Post moved to a structure of three, as opposed to two managers to further diversify investment styles. Following this review and the appointment of new managers, additional funds were committed to International equity markets during the latter months of 2003.

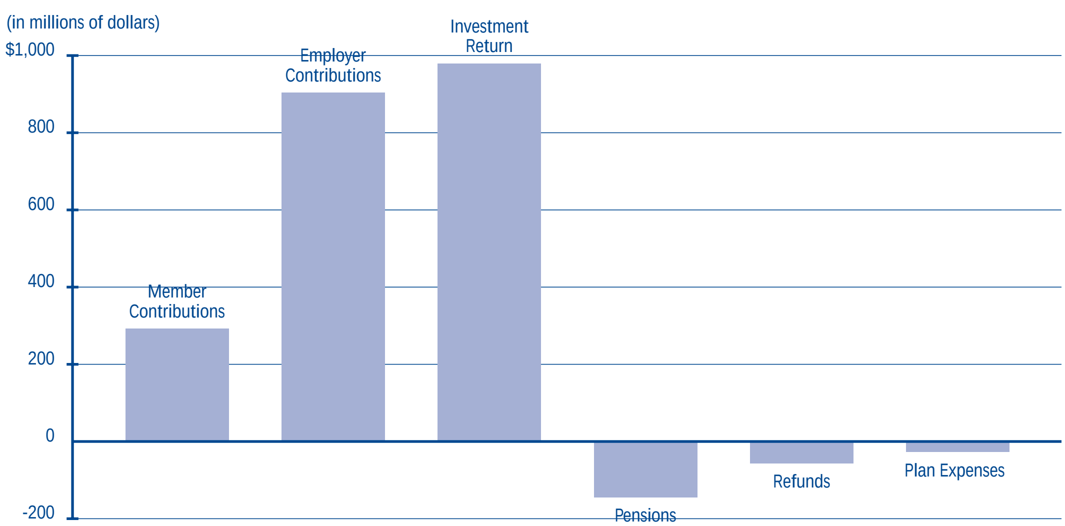
The Pension Committee of the Board of Directors approved the addition of Real Estate and Private Equity investments in 2002 in order to diversify pension plan assets and enhance returns. Accordingly, we hired an investment professional in 2003 to assume the position of General Manager, Real Estate and Private Equity Investments and developed a business plan for the establishment of our Real Estate investment program. The Pension and Investment Committees have approved this plan and investment is scheduled to commence in early 2004. A business plan for Private Equity investments will be tabled in the near future.

Corporate malfeasance at several major U.S., International and Canadian corporations has been in evidence recently. Consistent with the practices established at leading pension plans, the Canada Post pension plan established Proxy Voting Guidelines during 2003. These guidelines, governing how we wish to vote on matters requiring shareholder approval, were developed in consultation with our Investment Committee and Pension Advisory Council and approved by the Pension Committee of the Board of Directors. These guidelines will override the judgment of our external equity managers regarding those proxies issued by corporations in which we invest on a global basis.

Finally, the Pension Investment Division obtained approval for the internal management of short-term investments during 2003. This will generate cost savings and enhance the overall efficiency of the management of such assets.

Sources & Uses of Funds

Plan inception to December 31, 2003



Fund Performance

The Canada Post pension plan earned a return of 13.9% during 2003. This return exceeded our benchmark return of 13.5% represented by the blended return of our benchmark portfolio. This return compared to the median pension fund return of 15.1% provided by the RBC universe of large Canadian pension plans.

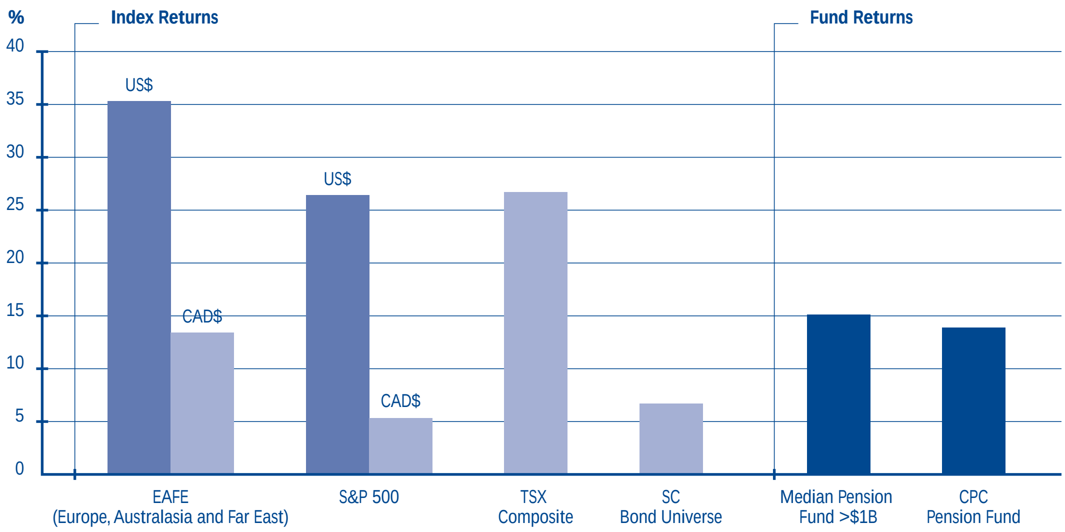
Reflecting the difficult conditions of 2001 and 2002, our pension fund earned a 3 year return of only 3.65% per annum, an amount which nevertheless exceeded the benchmark return of 0.77% and the median pension fund return of 2.83%.

Our 2003 returns exceeded benchmarks in U.S. equities and Canadian bonds. Canadian equity returns were generally in line; however, International equity returns were below benchmark. As indicated earlier, we have initiated changes in this asset class of our investment portfolio.

Returns in 2003 were gratifying. However, it should be noted that a return of 13.9% is well above what could be viewed as the historic norm and might well be difficult to repeat in 2004.

Index and Fund Returns

January 1 to December 31, 2003

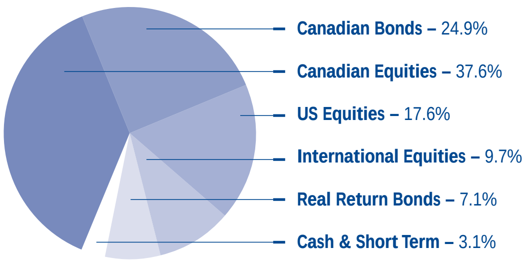


Asset Mix at December 31, 2003

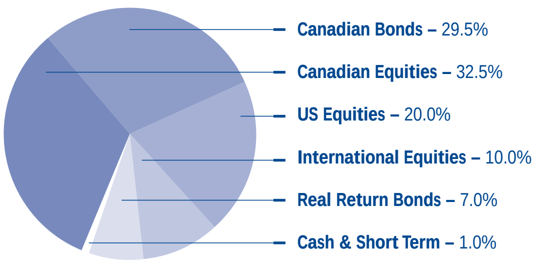
The asset mix of the Canada Post pension plan compared to our benchmark portfolio is depicted below. As indicated, total equity exposure of 64.9% of total assets exceeded our benchmark of 62.5% as a result of our over-weighted position in Canadian equity investments, roughly equal weighted position in International equities and an underweighted position in U.S. equities.

Our total fixed income position of 35.1% of total assets was less than the benchmark of 37.5%, derived from a full weighting in real return bonds and an underweighted position in nominal Canadian bonds.

Asset Mix



Benchmark Asset Mix



Largest equity investment holdings

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

Equity investments with a market value greater than $20 million

December 31, 2003
(In millions of dollars)

Royal Bank	$172	2.0%
TD Bank	138	1.6%
Encana	102	1.2%
Manulife Financial	89	1.0%
Nortel	86	1.0%
CIBC	81	0.9%
Petro Canada	62	0.7%
TransCanada	56	0.6%
Inco	51	0.6%
Thomson	45	0.5%
Citigroup	38	0.4%
Placer Dome	35	0.4%
Great West Life	34	0.4%
Bombardier	32	0.4%
SNC Lavalin	31	0.4%
General Electric	30	0.3%
Pfizer	29	0.3%
Potash	26	0.3%
Cameco	25	0.3%
Shoppers Drug Mart	25	0.3%
Shell Canada	23	0.3%
Canadian Tire	23	0.2%
Power Financial	23	0.2%
Intel	21	0.2%
	$1,277	**14.5%**

Outlook for 2004

Recent strength in equity markets and evidence of improving economic conditions has given rise to a sense of euphoria in financial markets. We believe that improving business conditions are conducive to further gains in equity markets, however, stretched valuations deriving from the 2003 advances and historically low interest rates may place restraints on returns in the more immediate term.

Financial Position of the Plan

Net Assets Available for Benefits

At December 31, 2003, the Canada Post Corporation Registered Pension Plan held total assets of $8,918 million, an increase of $1,418 million compared to the previous year.

Changes in Net Assets Available for Benefits

Net increases in assets of $1,418 million during the year resulted from investment income ($1,050 million) and contributions ($487 million), including solvency payments of $107 million, offset by benefits payments ($101 million) and administration expenses ($18 million).

Obligations for Pension Benefits

The actuarial present value of accrued pension benefits as at December 31, 2003 was $9,323 million, an increase of $713 million since December 31, 2002.

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 $80 million compared to a deficiency of $136 million at December 31, 2002.

The actuarial value of net assets available for benefits of $9,243 million is $325 million more than the market value of net assets of $8,918 million. Differences between actual and expected returns are recognized over a five-year period in accordance with generally accepted actuarial principles.

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 three 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.

President
and Chief Executive Officer
March 8, 2004

Senior Vice-President
and Chief Financial Officer
March 8, 2004

Actuaries' Opinion

Ottawa, March 8, 2004

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, 2003, 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, 2003, 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 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, 2003 of the results of our December 31, 2002 actuarial valuation of the Plan's going concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2003,
- 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
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Jacques Demers
Fellow of the Canadian Institute 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, 2003 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, 2003 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 8, 2004

Financial Statements

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

As at December 31	**2003**	2002
ASSETS		
Investments (note 2)	**$ 8,858**	$ 7,403
Receivable from the Government of Canada (note 3)	**-**	5
Receivables (note 4)	**126**	102
	8,984	7,510
LIABILITIES		
Accounts payable and accrued liabilities (note 5)	**66**	10
Net assets available for benefits	**$ 8,918**	$ 7,500

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	**2003**	2002
INCREASES IN ASSETS		
Funding - Government of Canada (note 3)	**$ -**	$ 5
Investment income (note 7)	**1,050**	-
Contributions (note 8)	**487**	368
	1,537	373
DECREASES IN ASSETS		
Investment loss (note 7)	**-**	542
Benefits paid (note 9)	**101**	69
Administration expenses (note 10)	**18**	18
	119	629
Increase/(decrease) in net assets available for benefits	**1,418**	(256)
Balance, beginning of the year	**7,500**	7,756
Balance, end of the year	**$ 8,918**	$ 7,500

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	**2003**	2002
ACTUARIAL PRESENT VALUE OF ACCRUED PENSION BENEFITS (NOTE 6)		
Beginning of the year, as previously reported	**$ 8,610**	$ 7,762
Adjustments resulting from the December 31, 2002 actuarial valuation (note 6.c)		
Changes in actuarial assumptions	**(104)**	-
Experience gains	**(60)**	-
Beginning of the year, as adjusted	**8,446**	7,762
Increase during the year due to:		
Interest on accrued pension benefits	**517**	476
Benefits accrued	**451**	423
Experience losses	**10**	18
	978	917
Decrease during the year due to:		
Benefits paid (note 9)	**101**	69
	101	69
Net increase in actuarial present value of accrued pension benefits	**877**	848
End of the year	**9,323**	8,610
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS		
Net assets available for benefits	**8,918**	7,500
Actuarial asset value adjustment (note 6.e)	**325**	974
Actuarial value of net assets available for benefits	**9,243**	8,474
(Deficiency) of actuarial value of net assets available for benefits over actuarial present value of accrued pension benefits (note 6.f)	**$ (80)**	$ (136)

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 $39,900 ($39,100 in 2002) as defined in the Canada Pension Plan and Quebec Pension Plan and 7.5% of earnings in excess of that maximum. These percentages were fixed until December 31, 2003. Beginning January 1, 2004, employee contributions were increased, on an annual basis, by 0.4%. This increase is in compliance with the Public Sector Pension Investment Board Act which authorizes yearly contribution increases until the employee share of contributions reaches 40% of the annual current service cost. The actual employee share of contributions in 2003 was 27%.

Income tax and regulatory status

The Plan is registered with Canada Revenue Agency (CRA) 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 and pooled funds 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) Non-investment assets and liabilities

The fair value of non-investment assets and liabilities approximates book amount due to their short-term nature.

d) 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 (note 6.d).

e) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Elective service contributions are recorded in the year in which the member commits to buy back elective service. Contributions for approved leave of absence without pay are recorded in the year in which the leave without pay occurred. Contributions for solvency shortfalls are recorded in the year recommended by the Plan's actuary in the actuarial valuation.

f) 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.

g) Actuarial asset value adjustment

The actuarial value of net assets available for benefits is 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.

h) 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)	2003		2002	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 372	$ 372	$ 441	$ 439
Fixed income				
Canadian	2,150	2,089	1,949	1,923
Real return bonds	620	530	539	475
	2,770	2,619	2,488	2,398
Pooled funds - Canadian	29	27	23	26
Equities				
Canadian	3,236	2,931	2,550	2,845
U.S.	1,516	1,663	1,226	1,471
International	862	822	640	748
	5,614	5,416	4,416	5,064
Investments before receivables	8,785	8,434	7,368	7,927
Investment related receivables				
Accrued investment income	29	29	29	28
Pending trades receivable	43	42	5	5
Withholding taxes receivable	1	1	1	1
	73	72	35	34
Investments	**8,858**	**8,506**	7,403	7,961
Investment related liabilities				
Investment trades to settle (note 5)	(61)	(61)	(5)	(5)
Net investments	**$ 8,797**	**$ 8,445**	$ 7,398	$ 7,956

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:

	2003 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**	**Yield to Maturity**	2002
Bonds							
Government of Canada	$ 40	$ 494	$ 192	$ 231	$ 957	4.1%	$ 948
Provincial and municipal	–	135	156	202	493	4.9%	422
Canadian corporate	4	233	186	277	700	5.0%	579
Real return – Canada	–	–	–	534	534	2.8%	469
Real return – Provincial	–	–	–	86	86	3.0%	70
	$ 44	**$ 862**	**$ 534**	**$ 1,330**	**$ 2,770**	**4.1%**	$ 2,488

In 2002, the total bond portfolio, if held to maturity, would have yielded 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)	**2003**	2002	**2003**	2002
Canadian dollar	$ 6,402	$ 5,514	$ 6,395	$ 5,503
United States dollar	1,535	1,241	1,572	1,303
Euro	490	384	294	184
Other European	59	69	251	254
Japanese yen	212	127	212	127
Other Pacific	74	45	73	27
Emerging markets	25	18	–	–
	$8,797	$ 7,398	**$8,797**	$ 7,398

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 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. Data corrections identified in the final audit resulted in an additional transfer of $5 million to the Plan during the year.

(in millions of dollars)	**2003**	2002
Balance, beginning of the year	$ 5	$ 2,702
Adjustment to initial asset transfer	–	5
Accrued interest earned	–	78
Asset transfers received	(5)	(2,780)
Balance, end of the year	**$ –**	$ 5

4. Receivables

Contributions

(in millions of dollars)		**2003**	2002
Sponsor	– Current service	$ 50	$ 36
	– Solvency	2	–
Members	– Current service	19	15
	– Past service*	55	51
		$ 126	$ 102

*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, 2003 has been calculated actuarially.

5. Accounts payable and accrued liabilities

(in millions of dollars)	**2003**	2002
Accounts payable and accrued liabilities	$ 5	$ 5
Investment trades to settle (note 2)	61	5
	$ 66	$ 10

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.d.

b) Actuarial methodology

The actuarial valuation completed by Mercer Human Resource Consulting as at December 31, 2002 was extrapolated to determine the accrued pension benefit as at December 31, 2003. 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) December 31, 2002 actuarial valuation results

The actuarial present value of accrued pension benefits as at December 31, 2002 was adjusted by $164 million to reflect the results of the December 31, 2002 actuarial valuation prepared by Mercer Human Resource Consulting. Changes in assumed increases in pensionable earnings and in the maximum pension permitted under the Income Tax Act resulted in a decrease in the actuarial present value of accrued pension benefits of $104 million. The actuarial present value of accrued pension benefits decreased by a further $60 million due to experience gains. Experience gains relating to economic assumptions ($37 million), demographic assumptions ($17 million), and finalization of data ($21 million) were offset by elective service and leave without pay buyback losses ($11 million) and other miscellaneous experience losses ($4 million).

d) 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 2003, 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, the following long-term economic assumptions were selected:

	2003	2002
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.

e) Actuarial asset value adjustment

	Unamortized losses	To be recognized in			
(in millions of dollars)	**2003**	2004	2005	2006	2007
	$ 325	$ 152	$ 147	$ 125	$ (99)

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

f) (Deficiency) 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 are as follows:

(in millions of dollars)	**2003**	2002
Interest income		
Cash and short-term securities	$ 13	$ 7
Bonds – Canadian	113	62
– Real return	20	13
Government of Canada (note 3)	–	78
	146	160
Dividend income		
Canadian equities	53	47
United States equities	21	26
International equities	14	12
	88	85
Securities lending income	1	1
Realized net (losses) gains on disposal**		
Canadian fixed income	22	11
Canadian equities	4	(112)
United States equities	(16)	(58)
International equities	(105)	(56)
	(95)	(215)
Net realized investment income	140	31
Net change in unrealized gains (losses) on investments**	910	(573)
	$1,050	$ (542)

**Realized net (losses) gains on disposal include capital losses of $53 million (capital losses of $224 million in 2002) and currency losses of $42 million (currency gains of $9 million in 2002). Net change in unrealized gains (losses) on investments includes capital gains of $1,218 million (capital losses of $647 million in 2002) and currency losses of $308 million (currency gains of $74 million in 2002).

8. Contributions

(in millions of dollars)		2003	2002
Sponsor	– Current service	$ 266	$ 254
	– Solvency payments	109	–
Members	– Current service	102	97
	– Past service	10	17
		$ 487	$ 368

The value of the Plan's assets and liabilities on a solvency basis are determined as though the Plan were wound up and settled on the valuation date. As at December 31, 2002, the Plan's ratio of solvency assets to solvency liabilities was 94%. As required under the Pension Benefits Standards Act, 1985, to ensure the full payment of benefits, the Corporation is required to eliminate a solvency shortfall over a five year period. The Corporation made solvency payments of $107 million to the Plan fund in 2003 and an additional $2 million payment, associated with interest on the solvency payments will be remitted to the Plan fund in 2004. Monthly solvency payments of $9 million will be remitted to the Plan fund in 2004.

9. Benefits paid

(in millions of dollars)	2003	2002
Retirement pensions	$ 81	$ 48
Commuted value transfers and death benefits	18	18
Refunds	2	3
	$ 101	$ 69

10. Administration expenses

(in millions of dollars)	2003	2002
Plan administration	$ 8	$ 8
External investment management fees	8	8
Professional fees	1	1
Custodial fees	1	1
	$ 18	$ 18

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 CRA 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, 2002, and a copy of this valuation was filed with OSFI and CRA.

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

Transactions with the Corporation were concluded in the normal course of activities and measured at the exchange amount. Included in administration expenses is $2.6 million ($2.5 million in 2002) for administration services provided by the Corporation to the Plan. Included in accounts payables and accrued liabilities is $0.6 million ($0.3 million in 2002) due to the Corporation for administration services provided to the Plan.

14. Canadian Union of Postal Workers (CUPW) collective agreement

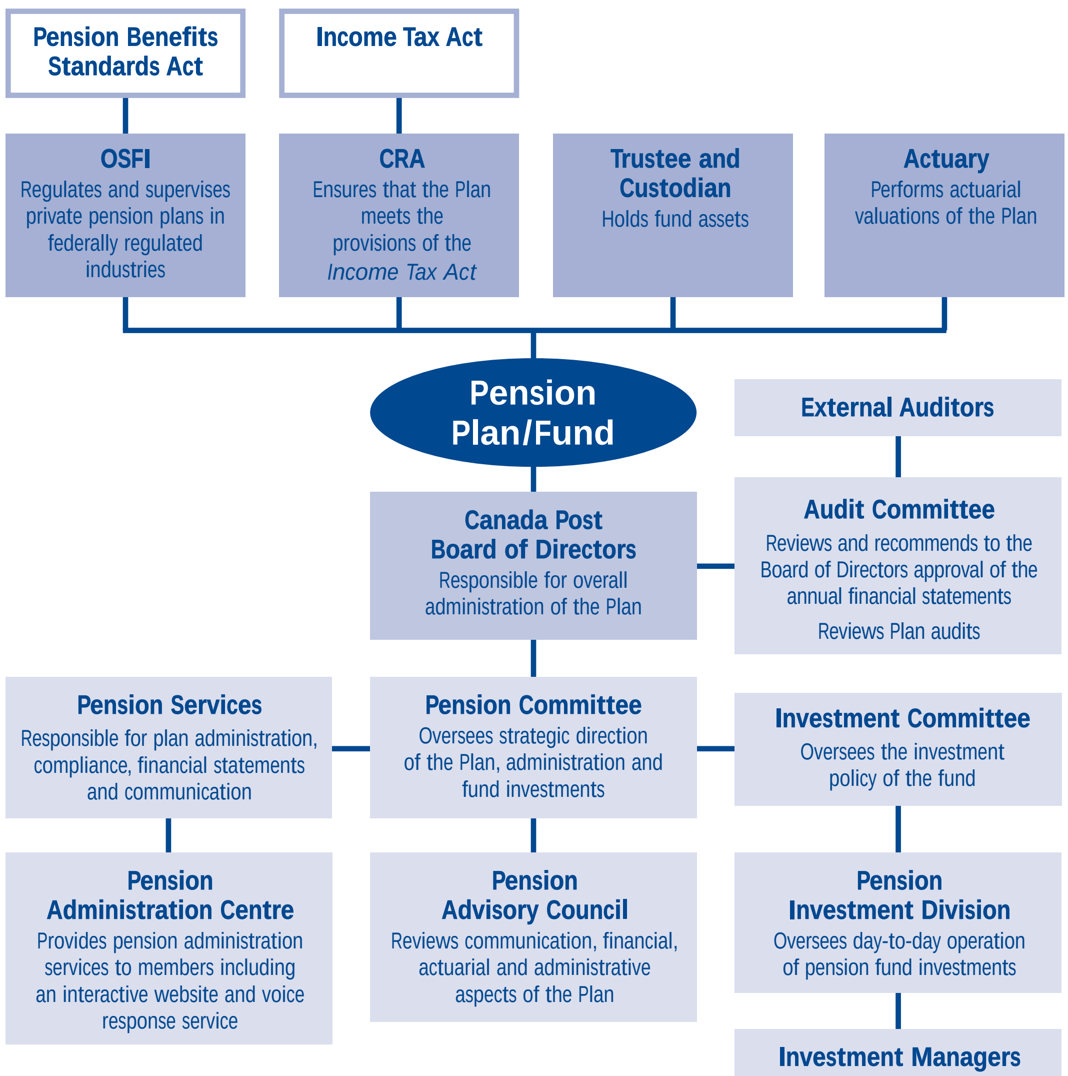
A new collective agreement between the Corporation and CUPW will result in approximately 6,000 Rural and Suburban Mail Carriers (RSMCs) becoming employees of the Corporation. Effective January 1, 2004, eligible RSMCs will be allowed to participate in the Plan and accrue pensionable service.

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
CRA - Canada Revenue Agency

Directory of Board and Committee Members

The following outlines the committees involved in governance of the Plan as at December 31, 2003, 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	•	
Paul Cantor, BA, LL B, FICB	•				
Terri M. Lemke, PFP	•		•	•	
Michel Lemoine, Eng., LL L	•	•			
Gérald Préfontaine, FCA	•	Chairperson			
Cedric E. Ritchie, OC	•	•			
Anne Smith, FCSI	•		•		
Louis P. Salley, BA, LLB	•				
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				•	
Bernard Bonin DSc Econ				•	
Doug Meacham (Canada Post)					Chairperson
John Barrowclough (APOC)					•
Daryl Bean (PSAC/UPCE)					•
Rick Irving (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)					•
Micki McCune (elected by all active members of the Plan)					•
Barbara Stanyar (Canada Post)					•
Claire Wierzbicki (CPAA)					•
Robin Ghosh (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