Pension

Registered **Pension Plan**
2004 Annual Report

Table of Contents

We are pleased to present the ***Canada Post Registered Pension Plan 2004 Annual Report***.

Since the Plan's inception in October 2000, Canada Post has been committed to providing Plan members with quality and timely information about their pension plan. In support of that commitment in 2004, the Canada Post Pension web site **www.cpcpension.com** was enhanced to include more detailed information about the Plan and its benefits.

Comments or questions about this report should be directed to Pension Services at **pension.services@canadapost.ca**.

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 **www.cpcpension.com**

Call the Pension Centre at 1-877-480-9220 and use the Voice Response Unit (VRU) or speak with a Benefit Service Representative

Write to:
CANADA POST PENSION CENTRE
PO BOX 2073
MISSISSAUGA ON L5B 3C6

Message from Gordon Feeney

Chairman of the Board

I am pleased to report the Canada Post Pension Plan achieved a solid financial performance during the 2004 fiscal year. The results stemming from the fourth full year of the Plan's operation are consistent with long-term expectations allowing the plan to further recover some of the loss resulting from the stock market declines of 2001 and 2002.

The Canada Post Pension Plan is one of the largest in Canada, with more than 70,000 active members, retired members, deferred pensioners and beneficiaries. The provision of a "defined benefit" plan, which means guaranteed, inflation-adjusted benefits, regardless of any volatile swings in the performance of financial markets, represents a valuable benefit to our employees and a significant obligation for the Corporation.

The role of the Canada Post Corporation Board of Directors, as part of its governance function, is to ensure the Plan has adequate assets to cover its pension liabilities. In fulfilling these responsibilities, the Board is informed of all developments regarding investment returns and contributions.

The Board ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit Committee and Pension Committee. The Board has the final authority to appoint those responsible for the operation of the Plan, approve plan changes and ensure its sound administration.

On behalf of the Board of Directors, I have every confidence that plan members will continue to receive the best possible results now and in the future.

Message from Anne Joynt

President and CEO

The Canada Post Pension Plan reflects the success our company has achieved in recent years. Canada Post provides one of the best benefits retirement packages in Canada and to meet its obligations the Corporation must achieve strong returns on its invested assets. The 11% return obtained in 2004 is welcome and demonstrates that the investment strategies put in place are sound.

Our plan, which began in October, 2000, covers a wide range of members from newcomers to those with more than 35 years of service. Statistics show that more than 25,000 active members are over age 50. This situation will result in a significant increase in the pace of new retirements in the near future.

It is reassuring to know our employees have confidence that their benefits are secure within a "defined benefit" plan, which also guarantees inflation-protected benefits. As Plan sponsor, the Corporation is responsible to cover the costs of these benefits and as such contributed additional capital of $129 million to the pension plan in 2004, over and above the normal contribution of $281 million, to further strengthen its funded position. We expect that payments to the Pension plan in 2005 will exceed the amounts contributed in 2004.

Canada Post is dedicated to providing easily accessible and quality information to plan members about their benefits and utilizes state of the art communications tools to ensure these goals are met. To obtain pension benefits information, visit our web site at **www.cpcpension.com**. Through adherence to federal privacy information, we are able to ensure that personal pension information is treated in a secure and confidential manner.

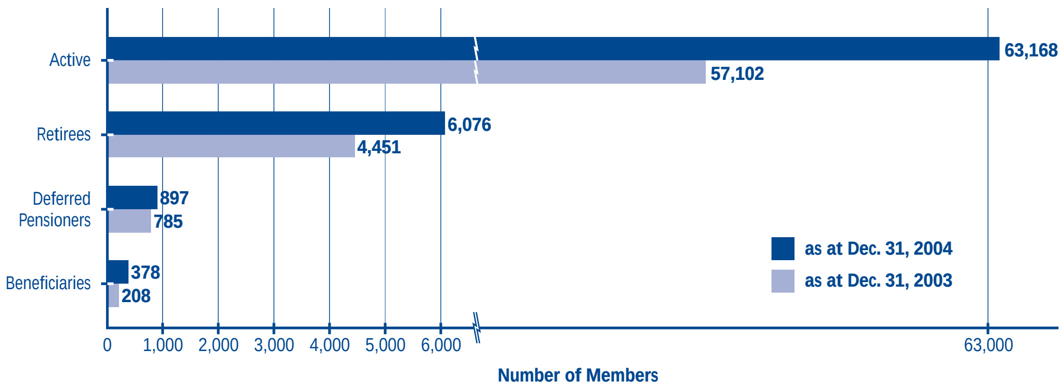
The knowledge that our pension plan is continuing to achieve successful results is a great source of pride that will serve to strengthen our collective future.

A look at Plan Membership

The Canada Post pension plan is one of Canada's largest pension plans, with a total of 70,519 active members, retired members, deferred pensioners, and beneficiaries.

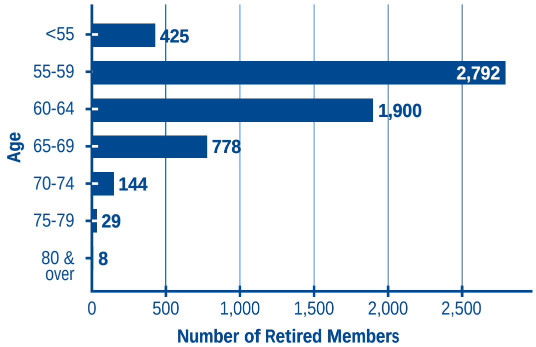
Total plan membership

Our Plan is in a unique situation of having a large 10:1 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.



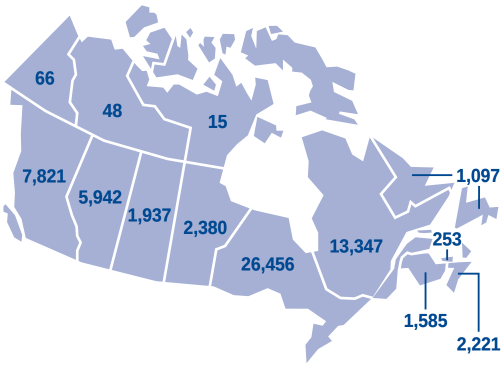
Retired members – age distribution

The largest group of retirees since the Plan began are between age 55 and 59, with a retiree average age of 60.2.



Total active members by province and territory

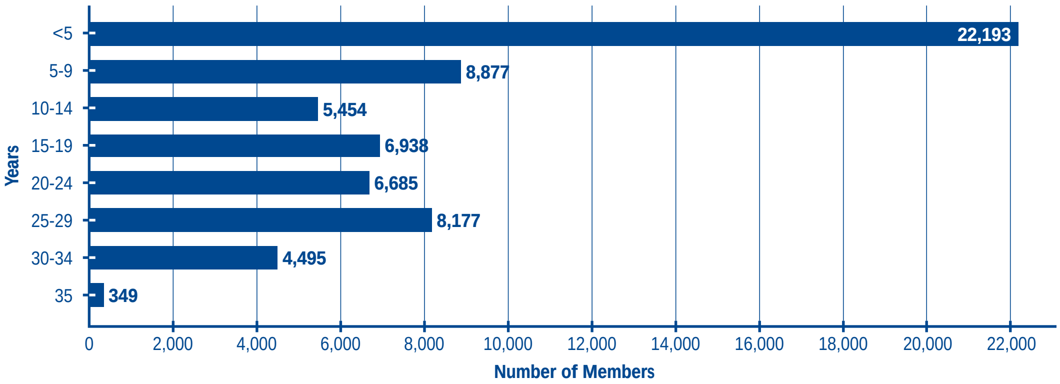
Our 63,168 active members are spread across Canada.



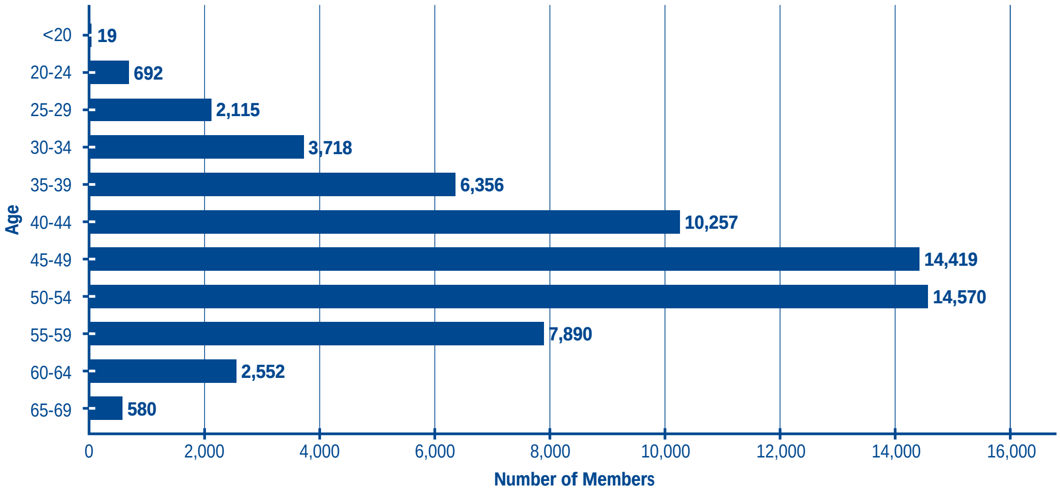
Active members—years of service and age distribution

Our Plan covers the whole range between newcomers and those with up to and including 35 years of service. Even though the average active member has service of 13 years and is 47 years of age, statistics show that more than 25,000 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

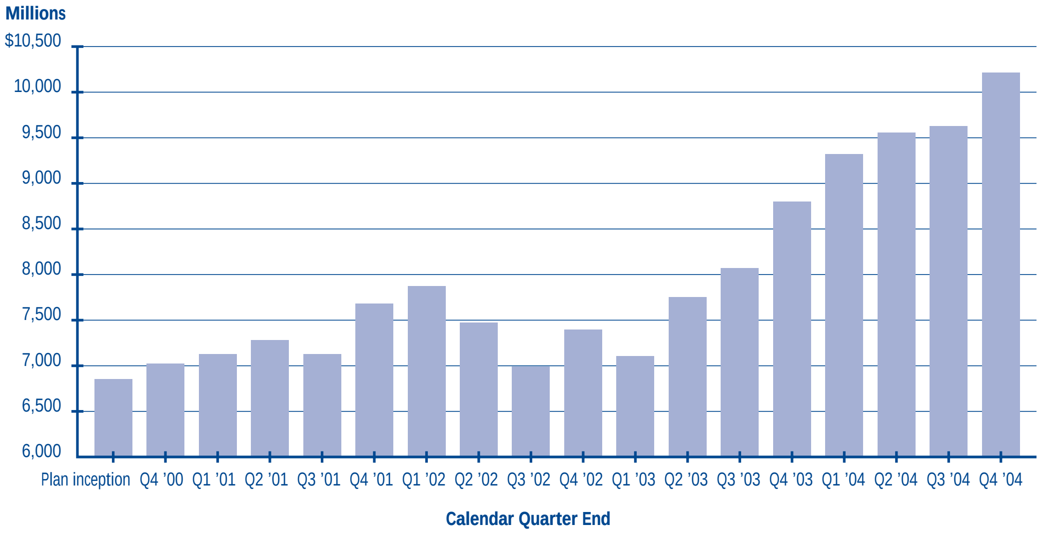


Fund Investments

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

Fund Assets

During 2004 fund assets increased by $1,417 million from $8,797 million to $10,214 million. The Canada Post Pension Plan, now one of the largest in the country, earned a solid return of 11.1% over the year.



Financial Markets

Investment returns in virtually all sectors of the financial markets tended to surprise on the upside during 2004. Equity markets began the year on a firm note, but weakened in the spring and summer months over concerns of slower growth in the U.S. However, markets strengthened again in the early fall when it became evident that what the Chairman of the U.S. Federal Reserve Board had referred to as a "soft spot" had given way to more sustained economic growth.

Canadian equities were clearly among the leaders as continuing strength in the energy, financial and telecommunication service sectors led our market to a very respectable gain of about 14.5%. Significant gains were derived from strength in listed companies producing key commodities such as nickel and steel as well as oil, which rose sharply during the year on growing demand from China, India and other emerging markets.

The price of oil reached a level of about U.S. $55 per barrel during October. This development, and a further strengthening of the Canadian dollar to a November high of over U.S $0.85 proved an irresistible combination for foreign investors who purchased record amounts of domestic equities and bonds during the year.

Returns for most International equity markets were also impressive, particularly in Hong Kong, Australia and some of the smaller European markets such as Austria, Sweden, Italy and Spain. The Morgan Stanley Europe, Australasia and Far East (EAFE) index returned

13% during the year although further strength in the Canadian dollar slightly offset part of this return resulting in a Canadian dollar gain of 12%.

The U.S. equity market tended to lag for most of 2004 in spite of strong growth in corporate profits. Investors were generally on the sidelines for most of the year as massive trade and budget deficits created an environment of uncertainty in foreign exchange markets that led to continuing weakness in the U.S. dollar. At the same time, sluggish growth in employment led to further declines in mid and long term interest rates, fuelling concerns over the willingness of foreign investors to continue to purchase U.S. dollar denominated debt.

However, the conclusion of the U.S. presidential campaign and evidence of a firming in business conditions led to a sharp rally late in the year which produced an overall annual gain of 11%, a return that would have been on the upper end of most investor forecasts for 2004. As referred to earlier, the Canadian dollar gain for this market was substantially more muted at 3.3%.

Fixed income markets also provided returns that surprised most investors. The U.S Federal Reserve Board initiated a "measured" program of gradually lifting short-term interest rates. This action commenced in June of 2004 within the context of a firming in business conditions, a sharp increase in the price of oil, an up tick in the underlying rate of inflation and a soft U.S. dollar. The Bank of Canada initially followed suit, but subsequently indicated that it would decline to follow at least in the shorter term on concerns over the strength of the Canadian dollar and its negative implications for exports to the U.S. and other countries.

In spite of a doubling of short-term interest rates, albeit from low levels, long and mid term interest rates declined during the year, producing an overall gain of 7.2% on the Canadian Scotia Capital Bond Universe index as investors around the world re-positioned their portfolios into this more stable, if lower yielding asset class. Strength in the bond markets was particularly evident in the "real return" sector, where concerns about future inflation caused investors to bid prices of such issues to levels that generated a very substantial gain of 17.5% for that sector during 2004.

Asset Mix Policy and Investment Structure

The Canada Post Pension Fund currently maintains a long-term asset mix target of 62.5% equities and 37.5% fixed income. Real estate investments, in which the Pension Plan became active in 2004, are included within the equity component and although such investments represent less than 1% of total assets, we decided to increase that target to 3.5% over the longer term.

Other revisions are possible in 2005. The Pension Plan was established October 1, 2000 and it is now time to conduct a more in-depth review of our investment structure relative to our pension liabilities. In addition to a review of prospective market returns, we will also review the nature of our current and projected workforce to confirm the prudent mix of investments needed to earn the returns required to discharge our obligations to plan members.

Investment Activities

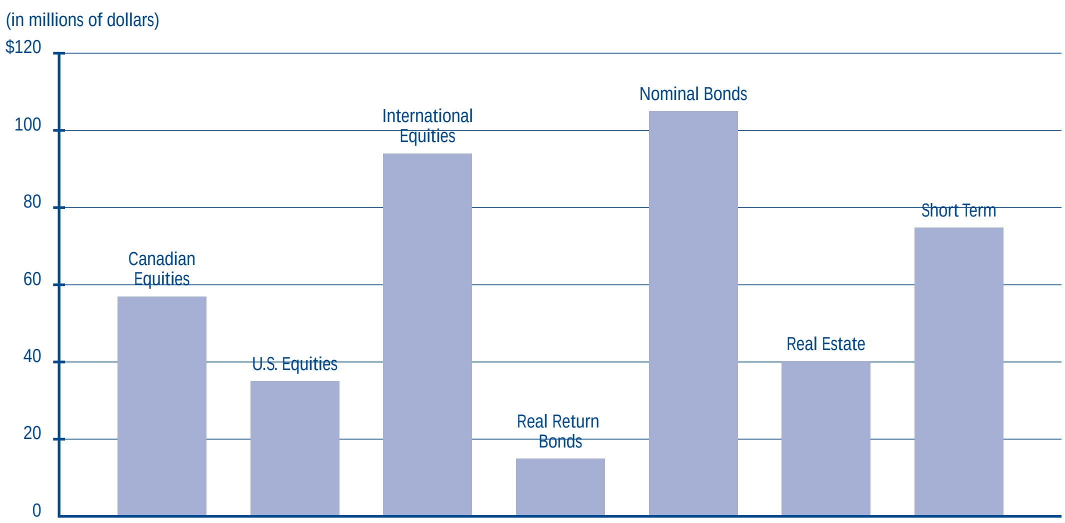
With the exception of additional funds allocated to nominal bonds and an initial investment in real estate, the Canada Post pension plan stayed on the sidelines during the first quarter of 2004. Beginning in the second quarter and continuing throughout the remainder of the year, the pension plan increased positions across all equity markets. The plan also increased positions in nominal bonds, real return bonds, and real estate.

Canada Post Corporation, the Plan sponsor, contributed an additional $53.2 million (which includes $2.6 million in interest) to the pension plan in the first half of 2004 in order to strengthen its funded position. This amount was invested across all asset classes. In addition, funds not required for investment within the Canada Post Supplementary Retirement Arrangement of $78 million were transferred to the Registered Pension Plan and invested in June 2004, primarily in nominal bonds.

A review of our Canadian equity investments led to the initiation of a number of changes to our investment structure. Contracts with two existing Canadian equity managers were terminated and three new managers were appointed. A review of our U.S. equity investments also led to a change to our investment structure. Our contract with an existing U.S. equity manager was terminated and a new manager was appointed in its place. In 2004, the Pension Committee of the Board of Directors approved the proposal to use synthetic securities for the purpose of managing the fund's exposure to foreign investments and allocation is scheduled to commence in early 2005. As indicated earlier, the Pension Plan became active in real estate investments in 2004, with commitments to four real estate managers of $70 million and initial investments of approximately $40 million. In total, $420.9 million was invested by the fund during 2004 as depicted in the following diagram.

Fund Investments

January 1, 2004 to December 31, 2004



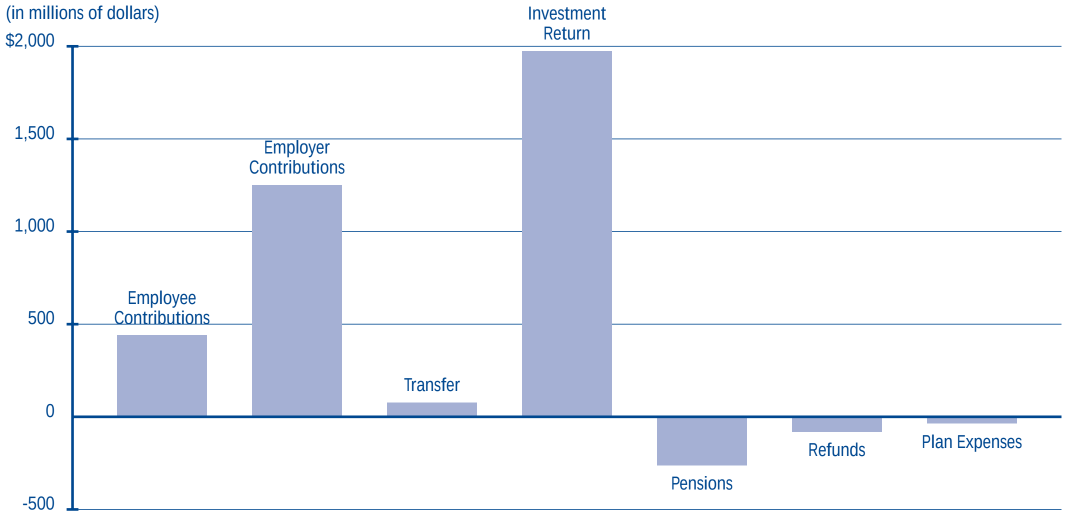
Consistent with the practices established at leading pension plans, the Canada Post Pension Plan established Proxy Voting Guidelines during 2003. The Board of Directors approved these guidelines. Such guidelines, governing how we wish to vote on matters requiring shareholder approval, replaced the judgment of our external equity managers regarding those proxies issued by corporations in which we invest. Institutional Shareholder Services (ISS), a leading provider of proxy voting and corporate governance services, was contracted in 2004 to perform proxy-voting services for the Canada Post Pension Plan and commenced operations in April 2004.

Sources and Uses of Funds

The chart below depicts the various sources and uses of funds since inception of the plan. Slightly more than half of the increase in assets since inception came from investment return, while just over a third is a result of employer contributions.

Cashflows

Plan inception to December 31, 2004



Fund Performance

The Canada Post pension plan earned a return of 11.1% during 2004. This return exceeded our benchmark return of 9.2% represented by the blended return of our benchmark portfolio. This return surpassed the median pension fund return of 10.6% provided by the RBC universe of large Canadian pension plans.

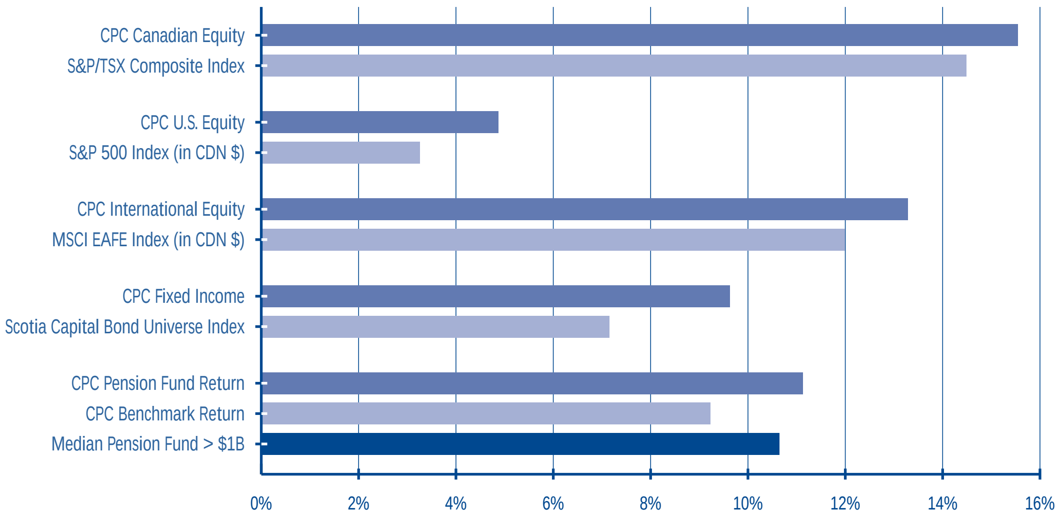
Reflecting the difficult conditions of 2001 and 2002, our pension fund earned a 4-year return of only 5.5% per annum, an amount that nevertheless exceeded the benchmark return of 2.8% and the median pension fund return of 4.8%. Our 2004 returns exceeded benchmarks in all asset classes.

Returns in 2003 and 2004 were gratifying. However, it should be noted that a return of 11.1%, as we experienced in 2004, is above what could be viewed as the historic norm and might well be difficult to repeat in 2005.

In keeping with many other pension plans in Canada and around the world, the decline in certain benchmark interest rates witnessed in 2004 will mean that although the Canada Post Pension Plan is well funded on a longer term "going concern" basis, current accounting rules indicate that the plan continues to be under-funded on a "wind-up" basis. A strategy to cure this under-funding will be implemented.

Index and Fund Returns

January 1, 2004 - December 31, 2004

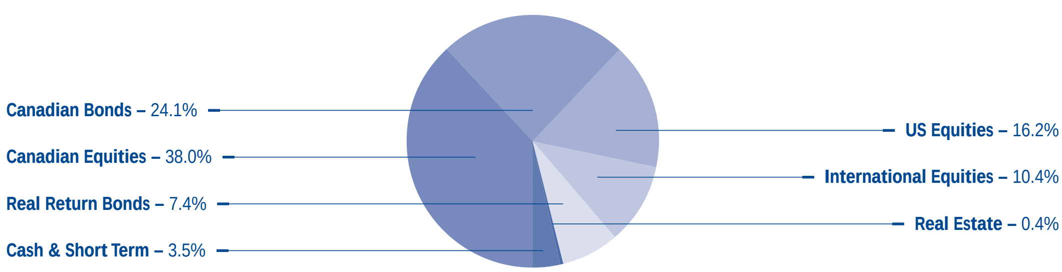


Asset Mix at December 31, 2004

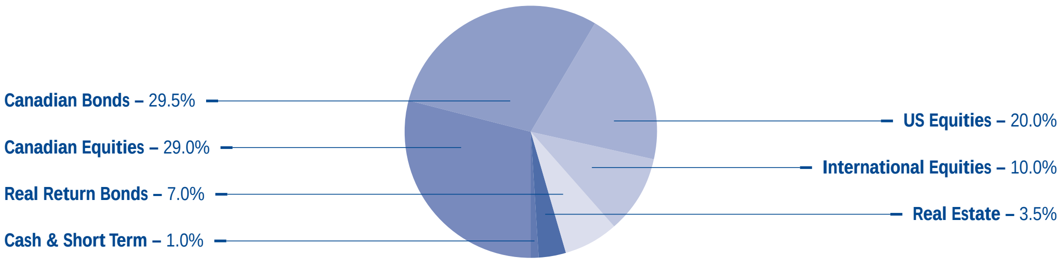
The asset mix of the Canada Post pension fund compared to our benchmark portfolio is depicted below. As indicated, total equity exposure of 65.0% of total assets exceeded the benchmark of 62.5% as a result of an over-weighted position in Canadian equity investments, roughly equal weighted position in International equities and an underweighted position in U.S. equities. Real estate investments commenced in 2004 and will be increased opportunistically over the next several years.

Our total fixed income position of 35.0% of total assets was less than the benchmark of 37.5%, derived from a marginally over-weighted position in real return bonds and an under-weighted position in nominal Canadian bonds.

Asset Mix – Actual



Asset Mix – Benchmark

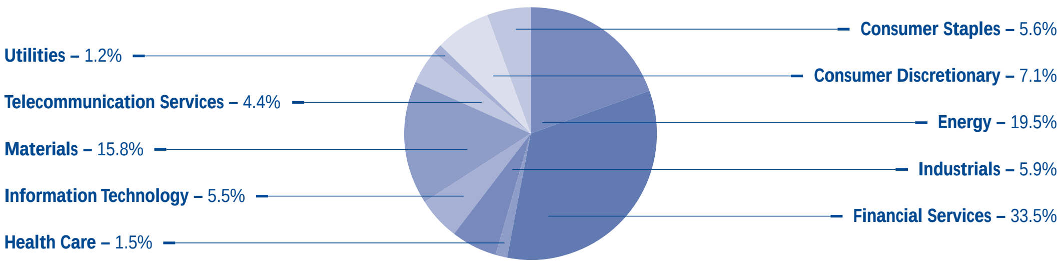


Equity Investment Holdings by Industry Sector

The following charts show the investment holdings of our Canadian, U.S. and International portfolios at the industry sector level.

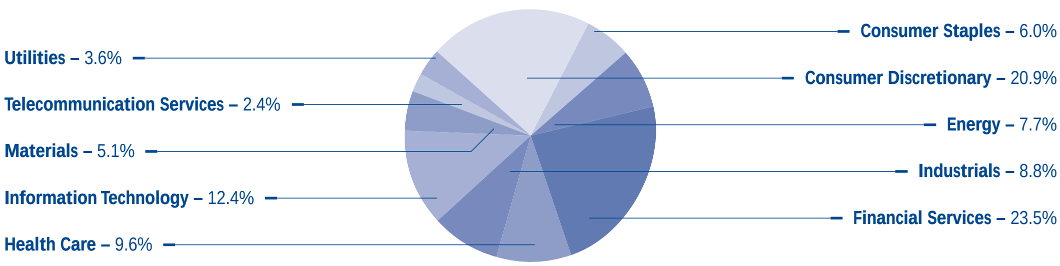
Canadian Equity portfolio

as at December 31, 2004



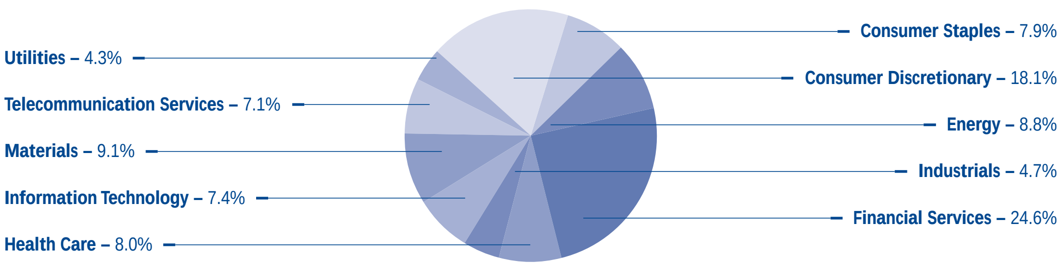
U.S. Equity portfolio

as at December 31, 2004



International Equity portfolio

as at December 31, 2004



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 $30 million

December 31, 2004
(In millions of dollars)

Manulife Financial	$ 192	1.9%
Bank of Nova Scotia	186	1.8%
Royal Bank	182	1.8%
Toronto Dominion Bank	155	1.5%
EnCana	133	1.3%
Bank of Montreal	104	1.0%
BCE	96	0.9%
Sun Life Financial	96	0.9%
CIBC	85	0.8%
Alcan	85	0.8%
Canadian National Railway	82	0.8%
Talisman Energy	73	0.7%
Suncor Energy	68	0.7%
TransCanada	65	0.6%
Petro Canada	64	0.6%
Research in Motion	62	0.6%
Barrick Gold	59	0.6%
Nortel Networks	57	0.6%
Potash Corporation	51	0.5%
Enbridge	51	0.5%
Thomson Corporation	50	0.5%
Canadian Natural Resources	48	0.5%
Telus	47	0.5%
Loblaw	43	0.4%
Imperial Oil	42	0.4%
Nexen	42	0.4%
Power Corporation	38	0.4%
Great West Life	38	0.4%
Canadian Tire	37	0.4%
Brascan Corporation	37	0.4%
Citigroup	36	0.4%
Inco	36	0.3%
Exxon Mobil	35	0.3%
Power Financial	34	0.3%
Placer Dome	34	0.3%
Shell Canada	34	0.3%
Cameco	33	0.3%
Microsoft	33	0.3%
SNC Lavalin	32	0.3%
Shoppers Drug Mart	32	0.3%
National Bank of Canada	30	0.3%
	$ 2,737	**26.6%**

Outlook for 2005

We believe that overall economic conditions are conducive to further gains in equity markets in 2005. However, the potential negative impact of rising short-term interest rates, U.S. budget and trade deficits, relatively high levels of consumer indebtedness and more modest growth in corporate profits may place constraints on the extent of such returns during the year.

Financial Position of the Plan

Net Assets Available for Benefits

At December 31, 2004, the Canada Post Corporation Registered Pension Plan held total assets of $10,307 million, an increase of $1,389 million compared to the previous year.

Changes in Net Assets Available for Benefits

Net increases in assets of $1,389 million during the year resulted from investment income ($1,007 million) and contributions ($549 million), including solvency payments of $129 million, offset by benefits payments ($143 million) and administration expenses ($24 million).

Obligations for Pension Benefits

The actuarial present value of accrued pension benefits as at December 31, 2004 was $10,126 million, an increase of $803 million since December 31, 2003.

On an actuarial basis, the actuarial present value of net assets available for benefits is more than the actuarial value of accrued pension benefits, resulting in a funding excess of $77 million compared to a deficiency of $80 million at December 31, 2003.

The actuarial value of net assets available for benefits of $10,203 million is $104 million less than the market value of net assets of $10,307 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 (the 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 judgments. 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, 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 Audit plans audits and reviews of pension activities on a cyclical basis, unless otherwise warranted through annual risk assessments. The work planned for and conducted in 2004 will be reported in 2005, as per the approved Internal Audit schedule. No issues have to date been reported from their fieldwork conducted in 2004. Final reports will be presented 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 fulfils 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 of Canada Post Corporation and two 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 LLP, 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 4, 2005

Vice-President, Finance
and Comptroller
March 4, 2005

Actuaries' Opinion

Ottawa, March 4, 2005

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, 2004, 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, 2004, 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, 2004 of the results of our December 31, 2003 actuarial valuation of the Plan's going concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2004,
- 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.

Jacques Demers
Fellow of the Canadian Institute of Actuaries
Fellow of the Society of Actuaries

Cory Skinner
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, 2004 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, 2004 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 S.E.N.C.R.L.

Chartered Accountants
Ottawa, Canada
March 4, 2005

Financial Statements

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

As at December 31	**2004**	2003
ASSETS		
Investments (note 2)	**$ 10,219**	$ 8,858
Receivables (note 3)	**100**	126
	10,319	8,984
LIABILITIES		
Accounts payable and accrued liabilities (note 4)	**12**	66
Net assets available for benefits	**$ 10,307**	$ 8,918

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

Approved on behalf of the Board

Gordon Feeney
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	**2004**	2003
INCREASES IN ASSETS		
Investment income (note 5)	**$ 1,007**	$ 1,050
Contributions (note 6)	**549**	487
	1,556	1,537
DECREASES IN ASSETS		
Benefits paid (note 7)	**143**	101
Administration expenses (note 8)	**24**	18
	167	119
Increase in net assets available for benefits	**1,389**	1,418
Balance, beginning of the year	**8,918**	7,500
Balance, end of the year	**$ 10,307**	$ 8,918

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	**2004**	2003
ACTUARIAL PRESENT VALUE OF ACCRUED PENSION BENEFITS (NOTE 9)		
Beginning of the year, as previously reported	**$ 9,323**	$ 8,610
Adjustments resulting from the December 31 actuarial valuation (note 9.c)		
Changes in actuarial assumptions	**–**	(104)
Experience losses (gains)	**35**	(60)
Beginning of the year, as adjusted	**9,358**	8,446
Increase during the year due to:		
Interest on accrued pension benefits	**562**	517
Benefits accrued	**478**	451
Experience losses	**17**	10
	1,057	978
Decrease during the year due to:		
Changes in actuarial assumptions (note 9.d)	**146**	–
Benefits paid (note 7)	**143**	101
	289	101
Net increase in actuarial present value of accrued pension benefits	**768**	877
End of the year	**10,126**	9,323
ACTUARIAL VALUE OF NET ASSETS AVAILABLE FOR BENEFITS		
Net assets available for benefits	**10,307**	8,918
Actuarial asset value adjustment (note 9.e)	**(104)**	325
Actuarial value of net assets available for benefits	**10,203**	9,243
Excess/(deficiency) of actuarial value of net assets available for benefits over actuarial present value of accrued pension benefits (note 9.f)	**$ 77**	$ (80)

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. Under the terms of a new collective agreement between the Corporation and the Canadian Union of Postal Workers (CUPW), which came into effect on January 1, 2004, Rural and Suburban Mail Carriers (RSMCs) became employees of the Corporation. Effective January 1, 2004, eligible RSMCs were allowed to participate in the Plan and accrue pensionable service. As RSMCs were not employees of the Corporation prior to January 1, 2004, they did not accrue any past pensionable service.

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, 4.4% of their earnings up to the Year's Maximum Pensionable Earnings of $40,500 ($39,900 in 2003) as defined in the Canada Pension Plan and Quebec Pension Plan and 7.9% of earnings in excess of that maximum. An annual increase to employee contributions of 0.4% came into effect on January 1, 2004. This increase is in compliance with the Public Sector Pension Investment Board Act which authorizes yearly capped increases to contribution rates until the employee share of contributions to the Plan reaches 40% of the annual current service cost. The actual employee share of contributions in 2004 was 30%.

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.

• 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.

4 Foreign exchange forward contracts are valued using year-end 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 9.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. Foreign exchange forward contracts 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)	2004		2003	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 450	$ 449	$ 372	$ 372
Fixed income				
Canadian	2,424	2,331	2,150	2,089
Real return bonds	737	607	620	530
	3,161	2,938	2,770	2,619
Equities				
Canadian	3,892	3,230	3,265	2,958
U.S.	1,598	1,736	1,516	1,663
International	1,073	974	862	822
	6,563	5,940	5,643	5,443
Investments before receivables	10,174	9,327	8,785	8,434
Investment related receivables				
Accrued investment income	32	32	29	29
Pending trades receivable	11	11	43	42
Withholding taxes receivable	2	2	1	1
	45	45	73	72
Investments	**10,219**	**9,372**	8,858	8,506
Investment related liabilities				
Investment trades to settle (note 4)	(4)	(4)	(61)	(61)
Foreign exchange forward contracts (note 4)	(1)	–	–	–
	(5)	(4)	(61)	(61)
Net investments	**$ 10,214**	**$ 9,368**	$ 8,797	$ 8,445

a) 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:

	2004 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**	2003
Bonds							
Government of Canada	$ 120	$ 479	$ 155	$ 293	$ 1,047	3.0%	$ 957
Provincial and municipal	–	108	132	282	522	4.4%	493
Canadian corporate	32	344	207	272	855	4.6%	700
Real return – Canada	–	–	–	625	625	2.0%	534
Real return – Provincial	–	–	–	112	112	2.3%	86
	$ 152	**$ 931**	**$ 494**	**$1,584**	**$3,161**	**3.6%**	$2,770

In 2003, the total bond portfolio, if held to maturity, would have yielded 4.1%.

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 exchange 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)	**2004**	2003	**2004**	2003
Canadian dollar	$ 7,521	$ 6,402	$ 7,622	$ 6,395
United States dollar	1,614	1,535	1,688	1,572
Euro	585	490	354	294
Other European	61	59	242	251
Japanese yen	291	212	225	212
Other Pacific	86	74	75	73
Emerging markets	56	25	8	–
	$ 10,214	$ 8,797	**$ 10,214**	$ 8,797

2004 Foreign exchange forward contracts – notional amount				
(in millions of dollars)	**Receivable**	**Payable**	**Net**	2003
Foreign exchange forward contracts	**$ 120**	**$ (121)**	**$ (1)**	$ –

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.

b) Securities lending

To enhance investment returns, the Plan entered into a securities lending agreement with its custodian, RBC Global Services. The securities lending program is operated by loaning the Plan's available securities to approved borrowers. Credit risk associated with this program is mitigated by requiring the borrower to provide daily collateral with market values exceeding the market value of loaned securities. Securities lending generated income of $2 million in 2004 ($1 million in 2003).

3. Receivables

Contributions

(in millions of dollars)		**2004**	2003
Sponsor	– Current service	$ 35	$ 50
	– Solvency	–	2
Members	– Current service	11	19
	– Past service*	54	55
		$ 100	$ 126

*Members buying back past service or eligible leave without pay pensionable service make contributions in future periods.

4. Accounts payable and accrued liabilities

(in millions of dollars)	**2004**	2003
Accounts payable and accrued liabilities	$ 7	$ 5
Investment trades to settle	4	61
Foreign exchange forward contracts	1	–
	$ 12	$ 66

5. Investment income

Investment income by primary financial instrument type for the year ended December 31, is as follows:

(in millions of dollars)	**2004**	2003
Interest income		
Cash and short-term securities	$ 9	$ 13
Bonds – Canadian	122	113
– Real return	21	20
	152	146
Dividend income		
Canadian equities	65	53
United States equities	30	21
International equities	24	14
	119	88
Securities lending income (note 2.b)	2	1
Realized capital gains (losses) on disposal		
Canadian fixed income	64	23
Canadian equities	103	6
United States equities	86	29
International equities	31	(111)
	284	(53)
Realized currency (losses) gains on disposal		
Canadian equities	–	(1)
United States equities	(53)	(46)
International equities	9	5
	(44)	(42)
Net realized investment income	513	140
Unrealized net capital gains	577	1,218
Unrealized net currency losses	(83)	(308)
Net change in unrealized gains on investments	494	910
	$1,007	$ 1,050

6. Contributions

(in millions of dollars)	**2004**	2003
Sponsor – Current service	$ 281	$ 266
– Solvency payments		
Regular	51	109
Transfer from SRA	78	–
Members – Current service	122	102
– Past service	17	10
	$ 549	$ 487

As required in the December 31, 2003 actuarial valuation, the Corporation made solvency deficit payments of $51 million to the Plan fund in 2004. The Corporation also transferred $78 million of excess assets, as determined by the actuary for the Canada Post Corporation Supplementary Retirement Arrangement (SRA), from the SRA to the Plan fund in 2004 (note 10).

7. Benefits paid

(in millions of dollars)	**2004**	2003
Retirement pensions	$ 118	$ 81
Commuted value transfers, death benefits and refunds	25	20
	$ 143	$ 101

8. Administration expenses

(in millions of dollars)	**2004**	2003
Plan administration	$ 10	$ 8
External investment management fees	12	8
Professional fees	1	1
Custodial fees	1	1
	$ 24	$ 18

9. 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 9.d.

b) Actuarial methodology

The actuarial valuation completed by Mercer Human Resource Consulting as at December 31, 2003 was extrapolated to determine the accrued pension benefit as at December 31, 2004. 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, 2003 actuarial valuation results

The actuarial present value of accrued pension benefits as at December 31, 2003 was adjusted by $35 million to reflect the results of the December 31, 2003 actuarial valuation prepared by Mercer Human Resource Consulting. This increase was due to experience losses relating to economic assumptions ($54 million), finalization of data ($1 million), and elective service and leave without pay buy back losses ($4 million), offset by experience gains due to demographic assumptions ($23 million), and other miscellaneous experience gains ($1 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 the regulatory funding valuation of the Plan. During 2004, 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:

	2004	2003
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 are made such as salary promotional scale, mortality, retirement and turnover. In 2004, Mercer Human Resources Consulting completed a demographic and compensation experience study covering the period from October 1, 2000 to December 31, 2003. Adoption of the recommendations in this study resulted in a $146 million reduction to the actuarial present value of accrued pension benefits.

e) Actuarial asset value adjustment

The market value of assets is actuarially adjusted to smooth out gains and losses through amortization over a five-year period (note 1.g). The composition of the actuarial asset value adjustment, as at December 31, is summarized below:

(in millions of dollars)	Actuarial asset value adjustment	Unamortized (losses) gains to be recognized in 2004	2005	2006	2007	2008
2004	**$ (104)**		$ 78	$ 56	$ (169)	$ (69)
2003	$ 325	$ 152	$ 147	$ 125	$ (99)	

f) Excess/(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.

10. The 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.

In 2004, the Board of Directors of the Corporation approved an amendment to the SRA document allowing the Corporation to withdraw all or any part of excess assets to be used by the Corporation to meet its funding obligation under the Plan. In conjunction with this amendment, the Board of Directors approved a transfer of $78 million from the SRA to the Plan. This amount represented the excess of the actuarial value of net assets available for benefits over the actuarial present value of accrued pension benefits as reported in the December 31, 2003 financial statements of the SRA. In 2004, the Corporation remitted $78 million to the Plan fund to meet its funding obligation.

11. Solvency 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. However, annual actuarial valuations are required to be filed when the Plan's solvency ratio is less than 100%. 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.

The latest actuarial valuation for regulatory funding purposes was prepared as at December 31, 2003, by the Plan's actuary, Mercer Human Resource Consulting, and a copy of this valuation was filed with OSFI and CRA. As at December 31, 2003, the Plan's ratio of solvency assets to solvency liabilities was 98%. Under the PBSA, the Corporation is required to eliminate a solvency shortfall over a five-year period. As required in the current actuarial valuation, monthly solvency payments of $4 million will be remitted to the Plan fund in 2005 until the December 31, 2004 valuation is finalized and the new solvency shortfall payments are determined. The latest solvency shortfall forecast as at December 31, 2004, as determined by the Plan actuary, is estimated at $1,274 million. Based on this latest solvency shortfall forecast, yearly solvency shortfall contributions of $309 million will be required in 2005, 2006 and 2007 and $258 million in 2008 and 2009.

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

12. Related party transactions

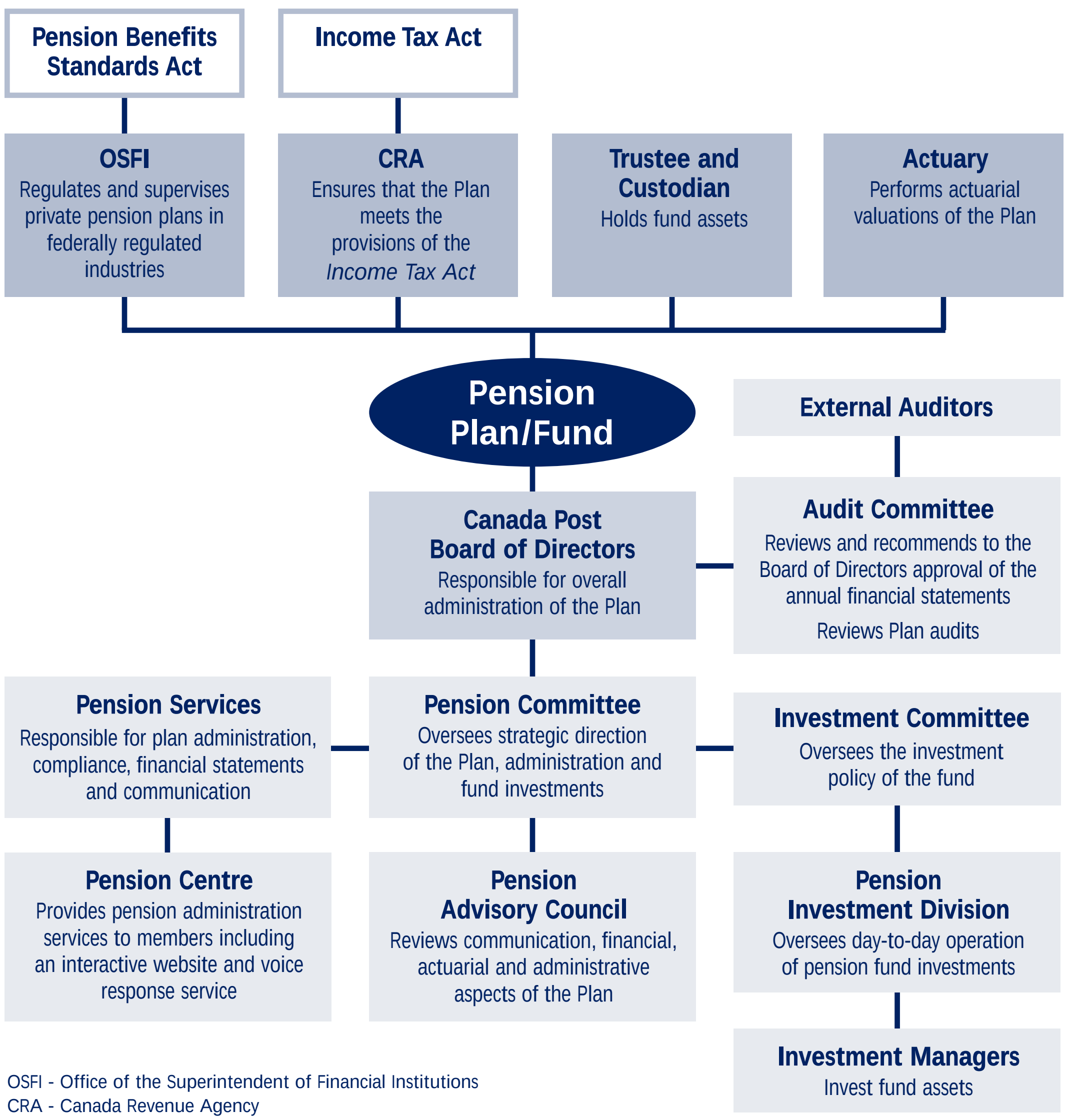
Transactions with the Corporation were concluded in the normal course of activities and measured at the exchange amount. Included in administration expenses is $3.8 million ($2.6 million in 2003) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $ 1.1 million ($0.6 million in 2003) due to the Corporation for administration services provided to the Plan.

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, 2004, along with the names of the Board and Committee members:

	Board of Directors	Audit Committee	Pension Committee	Investment Committee	Pension Advisory Council
Gordon J. Feeney	Chairman	•	•		
Anne Joynt	•				
Vivian G. Albo, BA, BComm (Hons)	•				
Terri M. Lemke, PFP	•		Chairperson	•	
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				•	
Isla Carmichael PH.D., M.Ed, AM				•	
Lorne Braithwaite MBA, BComm				•	
Louis O'Brien (Canada Post)					Chairperson
Dereck Millar (Canada Post)					•
Brad Smith (Canada Post)					•
Barbara Stanyar (Canada Post)					•
Robin Ghosh (elected by active members not represented by a bargaining agent)					•
Ronald Goodwin (Elected retiree representative)					•
Micki McCune (elected by all active members of the Plan)					•
John Barrowclough (APOC)					•
Daryl Bean (PSAC/UPCE)					•
Shirley Dressler (CPAA)					•
Rick Irving (CUPW)					•
George Kuehnbaum (CUPW)					•
Donald Lafleur (CUPW)					•
Cindy McCallum (CUPW)					•
Mike Moeller (UPCE/APOC/CPAA Rep)					•

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