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Registered Pension Plan
2006 Annual Report

We are pleased to present the ***Canada Post Registered Pension Plan 2006 Annual Report.***

This year we have adopted a new format for our Annual Report. Please give us your feedback by emailing us at **pension.services@canadapost.ca**., or in writing at:

CANADA POST PENSION SERVICES
2701 RIVERSIDE DRIVE, SUITE B320
OTTAWA ON K1A 0B1

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 website at **www.cpcpension.com**

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

Write to:
CANADA POST PENSION CENTRE
P.O. BOX 2073
MISSISSAUGA ON L5B 3C6

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Message from Gordon Feeney

Chairman of the Board

On behalf of the Board of Directors, I am pleased to report that the Canada Post pension plan achieved a 2006 investment return of 14.3 per cent versus the Plan's benchmark of 13.1 per cent. This contributed to pension asset growth of $2.2 billion over the past year. Since inception date October 1, 2000, the Plan has achieved an annualized investment return of 8.2 per cent, against the benchmark return of 5.2 per cent.

Against such a backdrop, it is very easy to become complacent. However, we should recognize that the very high investment returns achieved in recent years may not be sustainable over the longer term. Our pension plan represents a long-term commitment. Younger members enrolling today will require funds to be available in the plan for many years into the future. It is therefore important for investment returns to continue to be sufficient to discharge these obligations.

The Board of Directors is very much aware of its pension fiduciary responsibilities to the more than 74,000 members of the Canada Post pension plan. Strong plan governance is very important to ensure that adequate assets are on hand to meet the pension promise and to provide cost-effective, responsive service to members. Through both the Audit Committee and Pension Committee, both investment management performance and the pension environment are monitored.

Our plan continues to mature and we now have more than 10,000 pensioners receiving benefits. To both current and future pensioners, please be assured that the Board of Directors fully understands the importance of your pension plan.

Finally, I would like to take this opportunity to thank my fellow board members and all Pension Investment and Pension Services employees for their commitment to generate the best financial and service results for members.

Message from Moya Greene

President and CEO

I am pleased to report that the Canada Post pension plan experienced another strong year in 2006, with an investment return that once again exceeded the benchmark. Whether employees plan to spend their retirement years traveling, discovering new hobbies or volunteering in their communities, there is security in knowing that the Corporation is investing in their future to maintain one of the best benefit retirement packages in Canada.

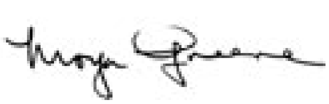
In 2006, the Corporation contributed $288 million to the Plan to fund a solvency deficit that had existed in prior years. I am pleased to announce that as a result of these further contributions and the high investment returns experienced in 2006, our pension plan moved to a fully funded position on all actuarial measures.

It is important to keep in mind that the solvency position of the Plan could still be affected in the future by volatility in interest rates and fluctuations in stock markets both in Canada and abroad. This underscores why Canada Post must remain profitable and become more efficient in its operations. We must have the means of funding any prospective contingencies that might arise. To help employees plan for a secure future, the Corporation must also plan for and invest in a sustainable future for the Corporation. The Plan is an important part of employees' compensation packages and the Corporation must continue to achieve profitability if it is to provide a pension that meets the needs of its employees.

Replacing outdated equipment, implementing capital-renewal plans in aging facilities, and bringing technology up to Modern Post standards are necessary to ensure that the Corporation remains relevant and competitive. These are key components in the Corporation's capital plan and are vital to our future success.

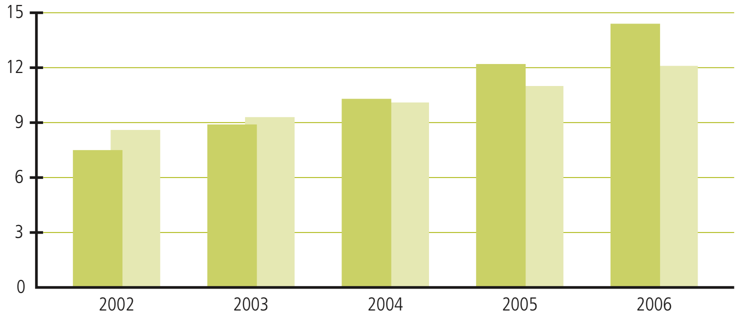
It is very rewarding to see our pension plan continuing to be successful. It is a reflection of the dedication of all employees as we reach for greater levels of achievement.

For more information and to view personal pension information with complete confidentiality, plan members can visit **www.cpcpension.com**



Operational Highlights

Net Assets vs Cost of Future Pension Benefits



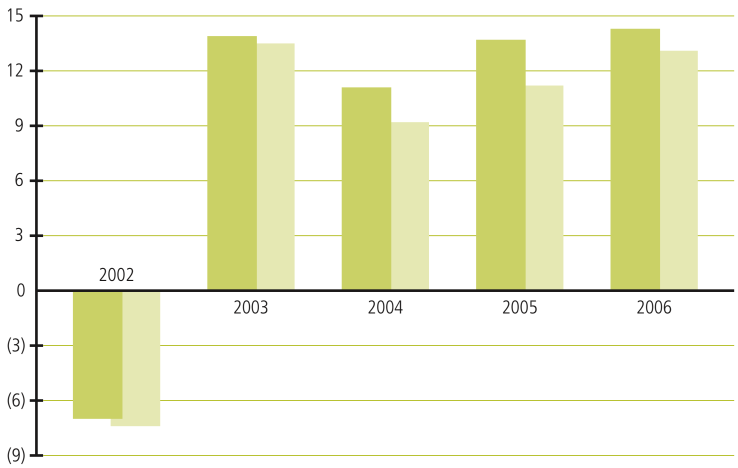
Net Assets available for Benefits

Accrued Pension Benefits

Surplus/(Deficit)
(without actuarial smoothing)

2002	2003	2004	2005	2006
($1.1)	($0.4)	$0.2	$1.2	$2.3

Actual Fund Rates of Return vs Policy Benchmark



Rates of Return

Benchmark Return

Difference between Actual Fund Return and Policy Benchmark

2002	2003	2004	2005	2006
0.4%	0.4%	1.9%	2.5%	1.2%

Contributions and Benefit Payments

Contributions

CPC Solvency Payments

CPC Current Service Contributions

Members Contributions

Total Contributions

2002	2003	2004	2005	2006
$368	$487	$549	$715	$717

Benefit Payments

Retirement Pensions

Commuted Values, Refunds and Death Benefits

Total Benefit Payments

2002	2003	2004	2005	2006
$69	$101	$143	$217	$247

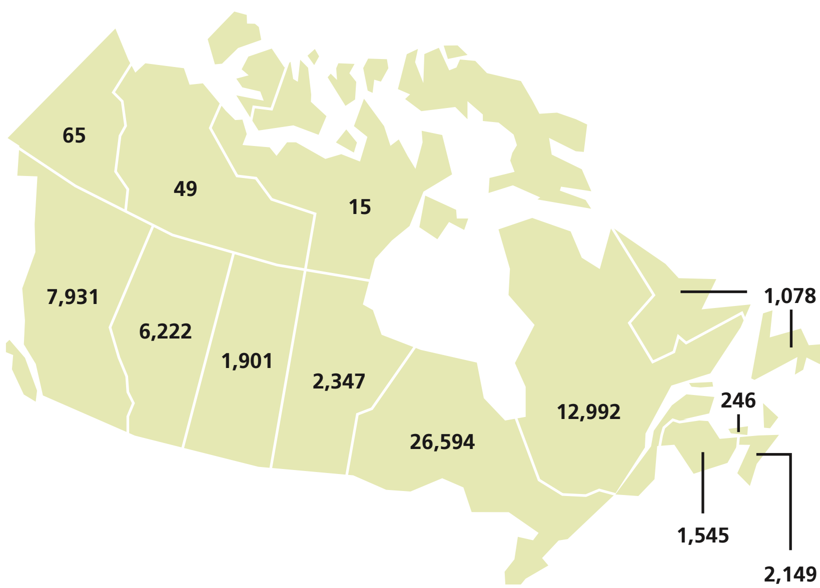
Membership Summary

The Canada Post pension plan is one of Canada's largest single employer defined benefit pension plans with a total of 74,247 active members, pensioners, deferred pensioners and beneficiaries.

	2002	2003	2004	2005	2006
Active members	56,260	57,102	63,168	62,292	63,134
Pensioners	2,981	4,451	6,076	7,976	10,165
Deferred Pensioners and Beneficiaries	267	444	708	901	948
	59,508	**61,997**	**69,952**	**71,169**	**74,247**

Total Active Members by Province and Territory

Our 63,134 active members are spread across Canada.



Membership Age Distribution as of December 31, 2006

The plan has more than 27,833 active members over age 50. Experience is showing that a considerable number of active members are retiring between age 55 and 59.

The average active member is 47.5 years of age (2005 – 47.4 years of age)
The average active member has 13.0 years of service (2005 – 13.3 years of service)
The average retiree age is 60.9 years of age (2005 – 60.5 years of age)

Age	< 30	30-39	40-49	50-59	60-69	70-79	80-89
Active Members	2,885	9,744	22,672	24,170	3,663	N/A	N/A
Pensioners	N/A	11	127	4,548	5,024	436	19

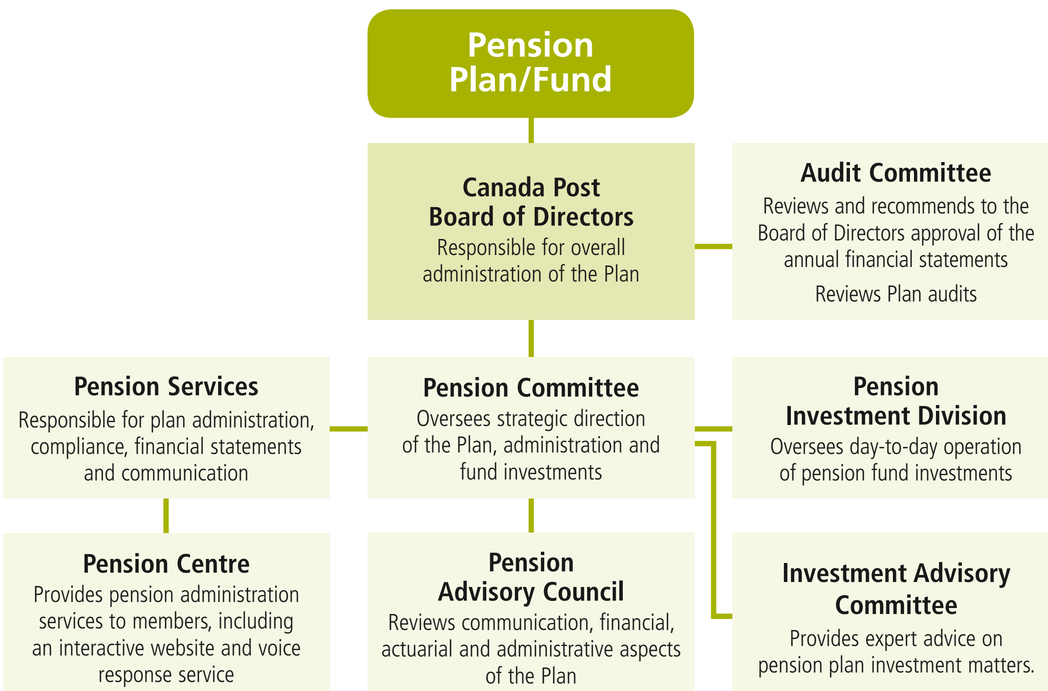
Pension Plan Governance

Pension plan governance is the process and structure used to direct and manage the Canada Post Corporation pension plan. It describes the division of responsibilities between those accountable to ensure that an activity is carried out and those who actually carry out that activity. Good governance allows those tasked with a pension fiduciary responsibility to meet their obligations and thereby help ensure delivery of the pension promise.

The governance structure designed by Canada Post management was based on advice and discussion with external pension industry experts as well as unions/associations, then approved by the Board of Directors.

During 2006, the Plan undertook a benchmarking activity designed to compare the expenses incurred in the plan against other major pension plans. The investment expenses (based on basis points –bps) continue to operate significantly below the median of investment related expenses incurred by large Canadian pension plans. For administration expenses (based on cost per member – cpm) the benchmarking exercise was a first and compared service standards and the cost of delivery, against a benchmark group of large Canadian pension plans. The study found that the 2005 cost of $121 per member was below what would have been expected for a membership distribution that is still largely active, but with a significant percentage of members now in the process of retiring.

Canada Post Pension Plan Governance Structure



Directory of Board, Committee and Council Members

The following outlines the committees involved in governance of the Plan as at December 31, 2006, along with the names of the Board, Committee and Council members:

	Board of Directors	Audit Committee	Pension Committee	Investment Advisory Committee	Pension Advisory Council
Gordon J. Feeney	Chairman	•	•		
Moya Greene	•				
Ernest J. Brennan, F.C.A.	•	Chairperson			
Denyse Chicoyne, C.F.A., MBA	•	•	Chairperson	•	
Dr. Jennifer I. Considine	•		•		
Hassan Khosrowshahi	•	•			
Dr. Daurene E. Lewis, C.M., MBA	•				
Gavin Semple	•				
William H. Sheffield, Corporate Director	•		•		
Jean Turmel	•	•	•		
Donald Woodley	•				
Lorne Braithwaite, MBA, BComm				Chairperson	
Douglas D. Greaves, BA (Hons), C.F.A.				•	•
Bernard Bonin, DSc Econ				•	
Isla Carmichael, PH.D, M.Ed, AM				•	
Hugh Mackenzie, MA				•	
Kenneth W. McArthur, BComm, CA				•	
Louis O'Brien (Canada Post)					Chairperson
John Barrowclough (APOC)					•
Lloyd Baxter (Canada Post)					•
Daryl Bean (PSAC/UPCE)					•
Pat Bertrand (CUPW)					•
Shirley Dressler (CPAA)					•
Robin Ghosh (elected by active members not represented by a bargaining agent)					•
George Kuehnbaum (CUPW)					•
Donald Lafleur (CUPW)					•
Cindy McCallum (CUPW)					•
Micki McCune (elected by all active members of the Plan)					•
Mike Moeller (UPCE/APOC/CPAA Rep)					•
William Price (elected retiree representative)					•
Brad Smith (Canada Post)					•
Barb Stanyar (Canada Post)					•

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

Member Services

Services are delivered to members through a co-sourcing business model where contact with members is primarily through the Pension Centre. Various forms of technology support the Pension Centre Representatives. Members themselves may contact the Pension Centre using direct mail, the pension plan website **www.cpcpension.com**, or by phone 1-877-480-9220 and use the Voice Response Unit, or speak with a Pension Centre Representative.

Active members	**2006**	2005
Telephone calls	**36,975**	36,029
Transactions		
Buyback of Service	**1,253**	1,589
Pension estimates	**1,751**	1,953
Retirement/ Termination/Death	**3,932**	3,051

Pensioners	**2006**	2005
Telephone calls	**3,545**	3,883
Transactions		
Address change	**267**	1,087
Bank change	**286**	505

	2006	2005
Website visits	55,857	51,844

During 2006 the 10,000th pensioner received their pension annuity payment. It is anticipated that another 10,000 employees will become pensioners in the next 5 years as the current "baby boom" employees continue to retire.

Management works to provide good service through a combination of means including, but not limited to:

- challenging employees to understand the needs of members,
- hiring motivated and competent people,
- providing the necessary employee pension training so as to remain current in the area of work,
- implementing relevant and test new technology which is supported by documented business processes,
- measuring and reporting on member services to key decision makers.

The business processes which support the operation of the pension plan have been included in a Canada Post wide initiative of documentation and adherence to internal control certification standards. The pension plan component of this initiative is anticipated to be completed in 2007.

Communicating with Members

Our objective is to provide members with easy access to accurate and reliable information. We provide regular newsletters to all members either through Pension Plan News for active members or Intouch for pensioners. To improve service to members the pension plan website was upgraded during 2006 to include more information and provide greater access to electronic forms. The website will continue to be upgraded to meet members needs.

Report to **Members**

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

Financial Summary

Net Assets Available for Benefits

At December 31, 2006, the Canada Post Corporation Registered Pension Plan held net assets of $14,430 million, an increase of $2,219 million compared to the previous year. The actuarial value of net assets available for benefits of $13,090 million was $1,340 million less than the fair value of net assets of $14,430 million due to timing differences in the recognition of excess gains and losses.

Changes in Net Assets Available for Benefits

Net assets available for benefits increased by $2,219 million during the year due to investment income ($1,781 million) and contributions ($717 million), including solvency payments of $288 million, offset by benefits payments ($247 million) and administration expenses ($32 million).

Changes in Accrued Pension Benefits

Accrued pension benefits as at December 31, 2006 were $12,097 million, an increase of $1,081 million since December 31, 2005.

Changes in Surplus

Going concern surplus increased by $513 million to $993 million ($480 million in 2005). Increases in net assets available for benefits of $2,219 million were offset by an increase in accrued pension benefits of $1,081 million and an increase of $625 million in the amount of the adjustment to the actuarial value of assets for excess gains and losses that will be recognized in future years.

Asset Performance

Overview

The Canada Post pension plan returned 14.3% in 2006 against a benchmark return of 13.1%. Invested fund assets, held by the custodian ended the year at $14,349 million, $2,218 million higher than at the end of 2005.

Canada Post Corporation provides pension benefits to its employees through a defined benefit pension plan. The prudent and effective management of the Plan's assets has a direct impact on the cost of the Plan. To this end the Board of Directors of the Corporation, based on recommendations from the Pension Committee, adopt and review at least annually a Statement of Investment Policies and Procedures (SIPP) addressing the manner in which the Fund will be invested.

The SIPP reflects the current investment principles and beliefs of the Board, the Pension Committee and the Investment Advisory Committee at the time of its adoption by the Board. However, these principles and beliefs are revisited periodically to ensure that changes to the investment policies may be made if warranted.

Investment Objectives and Constraints

The SIPP articulates the objectives and constraints of the Plan.

In its governance of the financial strategies underlying the Plan's operations, the Board must deal with the following two objectives:

1. Ensuring that the pension promise is met,
2. Delivering the pension promise at the lowest reasonable cost.

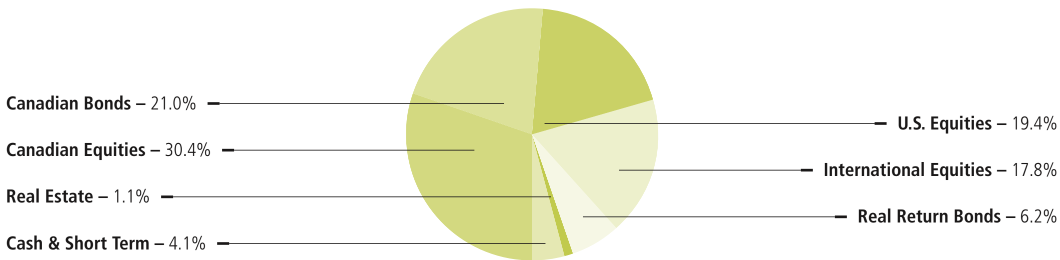
The Corporation believes that an investment portfolio with an appropriate asset mix (the "benchmark portfolio") can, over the long-term, achieve the Fund's investment objective of ensuring that sufficient assets will be available to meet the obligations of the Plan as they come due. Under the current SIPP, it is recognised that it is not always desirable to have the investment portfolio exactly match the long-term asset benchmark allocation and therefore minimum and maximum asset class limits have been established.

The Corporation will maintain at least the minimum diversification standards as established in the *Pension Benefits Standards Act (1985) (PBSA)* and will maintain appropriate diversification between industry sectors, geographic/economic areas and management styles.

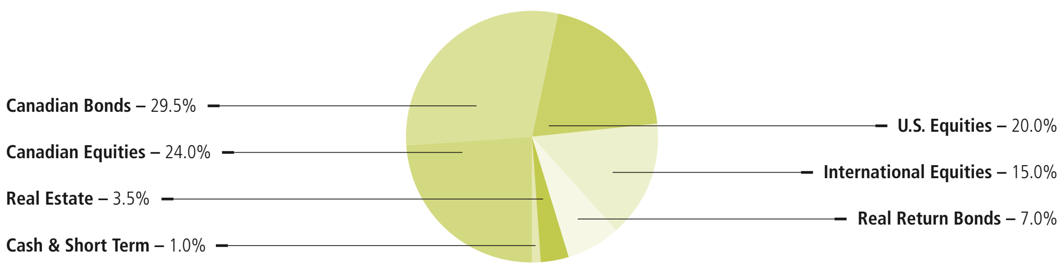
Investment Mix Strategy

The Canada Post pension plan currently maintains a long-term asset mix target of 62.5% equities and 37.5% fixed income. The asset mix of the Canada Post pension plan compared to our benchmark portfolio is depicted below. Total equity exposure of 68.7% of total assets exceeded the benchmark of 62.5% as a result of an over-weighted position in Canadian and international equity investments, and an underweighted position in U.S. equities and real estate. Our total fixed income position of 31.3% of total assets was less than the benchmark of 37.5%, derived from an over-weighted position in cash and short-term investments, a roughly equal weighted position in real return bonds, and an under-weighted position in nominal Canadian bonds.

Asset Mix – Actual



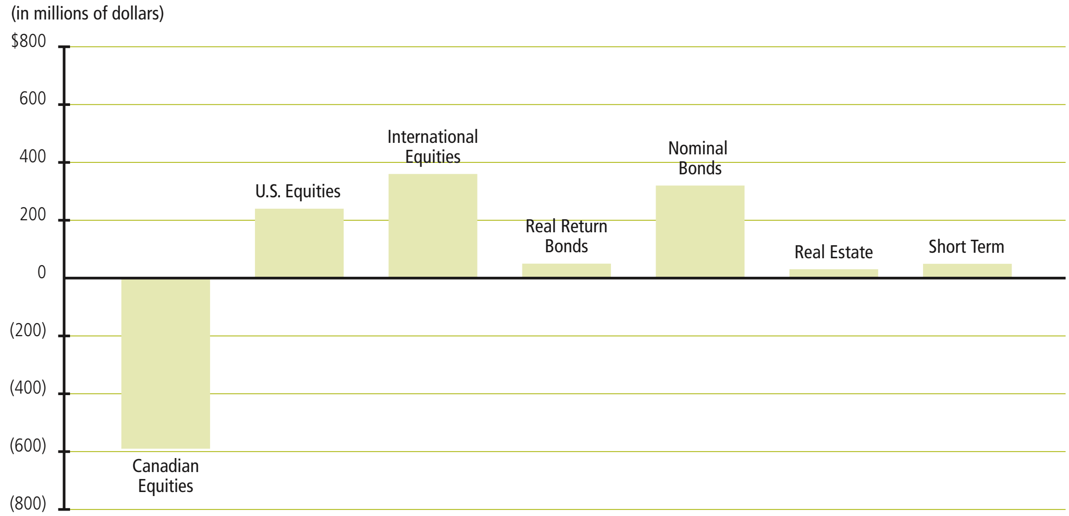
Asset Mix – Benchmark



Throughout the year, the pension fund redeployed assets from the Canadian equity market in favour of the U.S. and international equity markets, as well as the domestic fixed income and real estate markets. The fund continues to maintain significant assets in the domestic equity market. The allocation to various asset classes is shown in the following diagram.

Fund Investments

January 1, 2006 – December 31, 2006



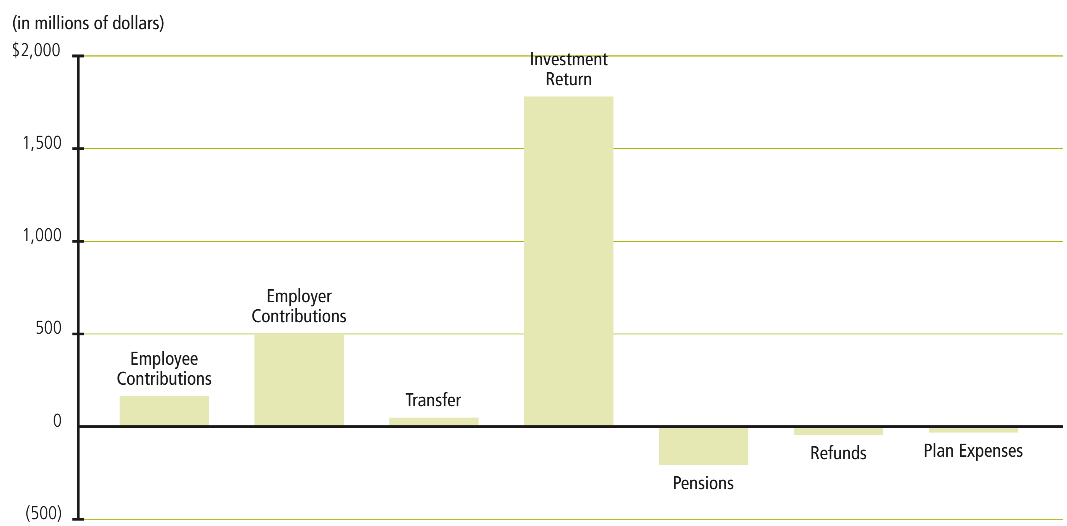
Cash Flows

Canada Post Corporation, as the Plan sponsor, contributed an additional amount of $239 million in special solvency payments to the pension plan in 2006 in order to strengthen its funded position. In addition, excess assets held within the Canada Post Supplementary Retirement Arrangement in the amount of $49 million were transferred to the Registered Pension Plan in the summer of 2006.

The chart below depicts the various sources and uses of funds in 2006 for the Plan. Just over 70% of the increase in assets came from investment return, while slightly over 20% is a result of employer contributions.

Cashflows

January 1, 2006 – December 31, 2006



Risk Management Strategy

In order to mitigate risks, Canada Post ensures that investment decisions are made in accordance with the Canada Post Pension Plan Statement of Investment Policies and Procedures (SIPP). The SIPP sets the allowable asset mix range, which prescribes how much can be invested in each asset class and is designed to provide the Plan a long-term rate of return of 7%. Each asset class has specific risks associated with it.

Liquidity risk for a pension plan is the risk that illiquid assets will need to be sold at inopportune times to meet benefit payments. The Canada Post pension plan has positive cash flows for the next few years, which mitigates liquidity risk. This means the Plan takes in more money through contributions than it pays out in benefits. More mature plans rely partially on investment earnings to make the benefit payments. As a result of this situation the Plan can invest with a view that it will not be required to liquidate asset positions to fund actual benefit payments and can invest with a more long-term view. An asset-liability modelling exercise was completed in 2006 and new risk management strategies are being contemplated for 2007.

The various asset related risks faced by the Plan, are outlined in Note 3 to the Financial Statements.

Market Review and Performance

Equity markets continued to rally in 2006, ending the year with annual gains that generally surprised most market forecasters. The Canadian and U.S. equity markets were no exception, although they did not manage to keep pace with the rally in the international equity market.

Canadian equity markets as represented by the TSX bolted out of the blocks in the early part of 2006, correcting mid-year and ending the year up 17.3%. The move was bolstered by high commodity prices, as well as merger and acquisition activity which saw the takeover of such Canadian mining icons as Dofasco, Inco, and Falconbridge. Other sectors showing strong gains included information technology, telecommunication services and financials. All 10 sectors had positive returns in 2006. Unlike last year, energy related issues did not drive the Canadian equity markets in 2006. The Canadian dollar resumed its upward run trading briefly above US $0.91 in May before receding to end at US $0.86, basically flat on the year, partly due to lower energy prices.

The US equity markets were strong in 2006 with the S&P 500 gaining 15.4% in Canadian dollar terms. Signs of slowing in the housing sector, which has been one of the primary underpinnings of strength for the consumer, were offset by declines in energy prices and employment gains.

International equity markets were generally up across the board in 2006. Asian and European markets were strong, with the exception of Japan, the only market not to post a double-digit return, as Japan's economic recovery continued to progress more slowly than expected.

Fixed income market returns were modest relative to equities in 2006. The Bank of Canada continued to tighten, adding 25 basis points in each of January, March, April and May, lifting the benchmark interest rate to 4.25% before staying on the sidelines for the rest of the year. Overall the Scotia Capital Bond Universe index returned 4.1% on the year.

Fund Performance

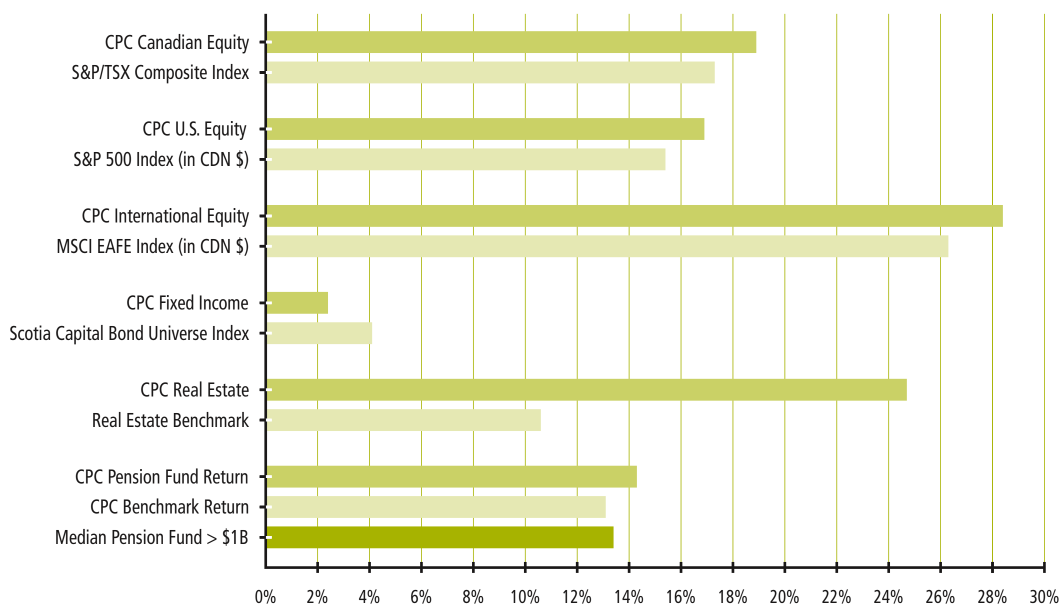
The Canada Post pension plan earned a return of 14.3% during 2006. This return exceeded our benchmark return of 13.1% represented by the blended return of our benchmark portfolio. This return compared to the median pension fund return of 13.4% provided by the RBC universe of large Canadian pension plans.

In spite of the difficult market conditions in 2001 and 2002, our pension fund has earned a respectable, annualized rate of return of 8.2% since inception (6 ¼ years) an amount that substantially exceeded the benchmark return of 5.2%. As shown below, our 2006 returns exceeded benchmarks in all asset classes, with the exception of domestic fixed income due to the poor performance of the real return bond market during the year.

Fund performance was enhanced by greater than benchmark exposure to Canada and international equities and lesser than benchmark exposure to lower returning domestic fixed income securities throughout 2006.

Index and Fund Returns

January 1, 2006 – December 31, 2006



Investment Developments and Initiatives

A review of our international equity investments led to a change to our investment structure. Our contract with an existing international equity manager was terminated and a new manager was appointed in its place.

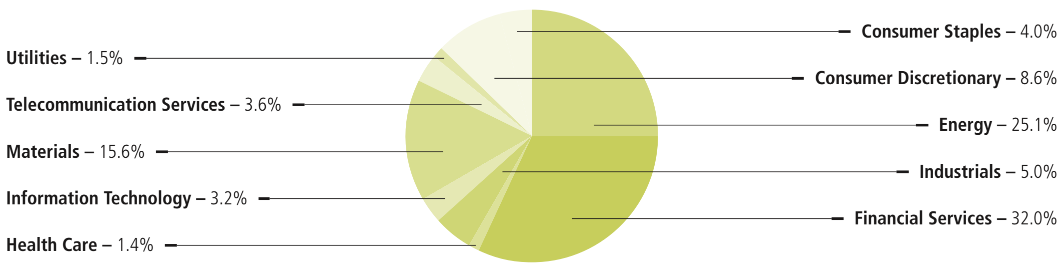
In October 2006, the Federal Government proposed legislation that would increase income taxes payable by entities that have organized themselves as income trusts. The announcement of these changes has had a dramatic impact on the value of listed income trust securities. Owing to the strategy adopted by the Canada Post pension plan in late 2005 that effectively minimized our holdings of these securities, our overall portfolio was not impacted by the sharp declines witnessed in early November.

As of September 2006, the currency hedging program which was until then managed externally, has been brought in-house, which has allowed the plan to reduce costs. Currency hedging is conducted to limit the Plan's foreign currency exposure to a maximum of 30%. Investment staff is now able to adjust the size and composition of the hedge as necessary in response to changes in asset values and currency levels.

Actual Equity Holdings by Industry Sector

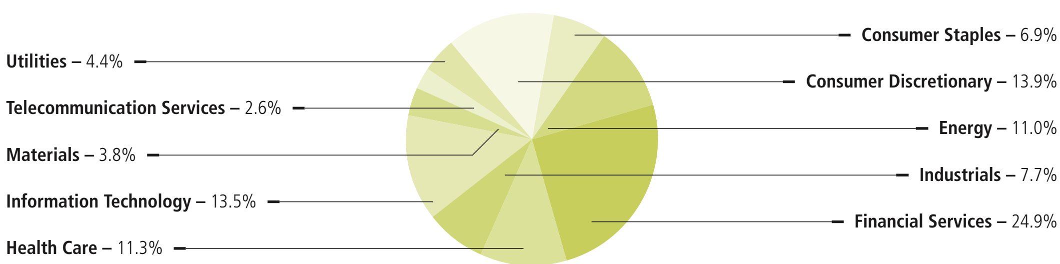
Canadian Equity Portfolio

as at December 31, 2006



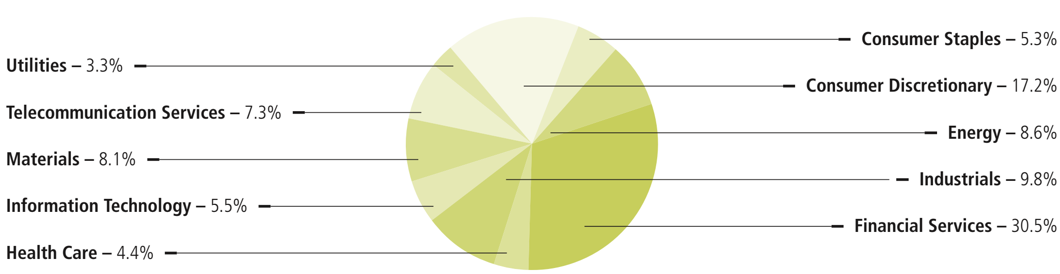
U.S. Equity Portfolio

as at December 31, 2006



International Equity Portfolio

as at December 31, 2006



Equity holdings greater than $50 million

(percentage of the overall fund)

December 31, 2006
(In millions of dollars)

Royal Bank	$ 237	1.7%
Bank of Nova Scotia	192	1.3%
Manulife Financial	191	1.3%
TD Bank	163	1.1%
Bank of Montreal	138	1.0%
Suncor Energy	122	0.9%
EnCana	121	0.8%
Talisman Energy	115	0.8%
Nexen	112	0.8%
Canadian Natural Resources	109	0.8%
CIBC	104	0.7%
BCE	91	0.6%
Exxon Mobil	89	0.6%
Sun Life Financial	86	0.6%
Petro Canada	80	0.6%
Rogers Communications	79	0.6%
Alcan	78	0.5%
TransCanada	72	0.5%
Research in Motion	71	0.5%
Barrick Gold	65	0.5%
Canadian National Railway	65	0.5%
Citigroup	63	0.4%
ING Groep	62	0.4%
Imperial Oil	58	0.4%
Teck Cominco	56	0.4%
Husky Energy	55	0.4%
Potash Corporation of Canada	54	0.4%
Enbridge	53	0.4%
Royal Dutch Shell	51	0.4%
	$ 2,832	**19.9%**

Economic Environment Going Forward

We believe that current business conditions are conducive to further moderate gains in equity markets. However, the potential negative impact of rising short and long-term interest rates, continued U.S. budget and trade deficits, relatively high levels of consumer indebtedness and moderation in corporate profit growth may place constraints on the extent of such returns during the year.

In Canada, the relatively high value of the Canadian dollar will continue to negatively impact manufacturing and processing industries. Any sustained retrenchment in the realized price of oil and natural gas will also negatively impact business conditions in Western Canada.

Returns since 2003 have been gratifying. However, it should be noted that a return of 14.3% as we experienced in 2006 is above what could be viewed as the historic norm and might well be difficult to repeat in 2007 and subsequent years.

Regulatory Environment

The last few years have been challenging for virtually all pension plans in Canada. Plunging long-term interest rates until 2005 have had serious implications for the valuation of pension liabilities, and combined with poor equity returns during 2000-2002, have led to funding shortfalls for most Canadian defined benefit pension plans. As a result, the Department of Finance initiated a consultation exercise with the objective of seeking the views of Canadians on how to strengthen the legislative and regulatory framework for defined benefit pension plans registered under the Pension Benefits Standards Act in order to improve the security of pension plan benefits and ensure the viability of defined benefit pension plans. Canada Post submitted a response to the Department of Finance which provided our perspective on the issues faced by federally regulated pension plans, and subsequently we met with the Department of Finance to more fully explain our position. We hoped that this process would lead to changes in the present actuarial methodology of calculating solvency liabilities to a basis more comparable with practices followed by pension plans in other Canadian jurisdictions. Subsequent to this consultation, the Minister of Finance provided temporary solvency funding relief measures to federally regulated defined benefit pension plans in the spring 2006 Federal budget.

Funding Valuation

The Canada Post pension plan (the Plan) is required to file periodic actuarial valuations with the pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). These actuarial valuations are required to set out the funded status of the Plan on a going-concern and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the Pension Benefits Standards Act, 1985 (the PBSA) requires the Corporation to make special payments to the Plan to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, the PBSA normally requires the Corporation to make special payments to the Plan to eliminate this shortfall over 5 years. However, in November 2006, the Federal Government approved Solvency Funding Relief Regulations (the Regulations) offering a choice of different forms of temporary solvency funding relief to federally regulated defined benefit pension plans, including extending the solvency funding period to 10 years, subject to various terms and conditions. Under the Regulations funding relief is available for the first actuarial valuation, showing a shortfall on a solvency basis, after December 30, 2005.

In December 2006 the Board of Directors authorized the Corporation to apply the 10-year funding rules, applicable to Crown Corporations in the Regulations, to the December 31, 2005 actuarial valuation of the Plan. Accordingly, an amended December 31, 2005 actuarial valuation was filed with OSFI in January 2007. Although the going-concern ($351 million excess) and the solvency ($1,201 million shortfall) funded status of the Plan did not change as a result of filing an amended December 31, 2005 actuarial valuation, the 2006 minimum required special payments were reduced from $320 million to $153 million. The Corporation made $288 million in special payments to the Plan in 2006. As the amended December 31, 2005 actuarial valuation disclosed a solvency shortfall, an actuarial valuation, as at December 31, 2006, will be filed with OSFI in June 2007.

A preliminary estimate of the financial position of the Plan as at December 31, 2006 showed an expected solvency excess of approximately $500 million ($1,201 million solvency shortfall in 2005) and an expected going-concern funding excess of $993 million ($351 million in 2005). The elimination of the solvency shortfall in 2006 is due to special payments made by the Corporation of $288 million, an actual return on plan assets of 14.3% compared to an assumed blended solvency discount rate of 5.0% per year, and an increase in real return bond yields of 0.35%. Based on these extrapolated results the Corporation expects to file a December 31, 2006 actuarial valuation with OSFI that will disclose an excess on both a solvency and going-concern basis. As the Plan is expected to be in a solvency excess position as at December 31, 2006, special contributions to the Plan will not be required unless a future actuarial valuation discloses a solvency deficiency. After filing the December 31, 2006 actuarial valuation for the Plan, the Corporation will be required to file the next actuarial valuation for the Plan with OSFI no later than December 31, 2009 or at an earlier date if required under the PBSA. However, as small changes in discount rates can have a significant impact on the results of actuarial valuations prepared on a solvency basis, the Corporation, as the plan sponsor, will continue to carefully monitor the impact of changes in discount rates, the return on plan assets, and changes in legislation on the financial position of the Plan on both a solvency and going-concern basis.

Financial **Reporting**

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.

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 of Canada Post Corporation and four directors who are not employees of the Corporation, meets regularly with management to satisfy itself that the responsibilities delegated are properly discharged.

The Plan's actuary, Mercer Human Resource Consulting, completed an actuarial assessment of the assets and going-concern liabilities of the Plan as of December 31, 2006, for inclusion in the Plan's financial statements. The results of the actuaries' assessment are set out in the actuaries' opinion. This assessment was performed in accordance with accepted actuarial practice. The actuarial assumptions used in these financial statements are management's best estimate of future economic events.

The Plan's external auditors, PricewaterhouseCoopers 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 15, 2007

Vice-President, Finance
and Comptroller
March 15, 2007

Actuaries' Opinion

Ottawa,
March 15, 2007

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, 2006, 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, 2006, 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, 2006, of the results of our December 31, 2005 actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2006,
- 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

March 28, 2007

To the Board of Directors of the Canada Post Corporation Registered Pension Plan

We have audited the statement of net assets available for benefits and accrued pension benefits and surplus of the **Canada Post Corporation Registered Pension Plan** (the "Plan") as at December 31, 2006 and the statements of changes in net assets available for benefits, accrued pension benefits and surplus for the year then ended. These financial statements are the responsibility of the Plan's administrator. 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 pension 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, accrued pension benefits and surplus of the Plan as at December 31, 2006 and the changes in net assets available for benefits, accrued pension benefits and surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative financial statements as at December 31, 2005 and for the year then ended were audited by another firm of Chartered Accountants who expressed an opinion, without reservation, on those statements in their report dated March 3, 2006.

PricewaterhouseCoopers LLP

Chartered Accountants
Ottawa, Ontario

Financial Statements

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND SURPLUS

(in millions of dollars)

As at December 31	**2006**	2005
NET ASSETS AVAILABLE FOR BENEFITS		
ASSETS		
Investments (note 3)	**$ 14,356**	$ 12,091
Investment related receivables (note 3)	**129**	75
Contribution receivables (note 4)	**102**	102
	14,587	12,268
LIABILITIES		
Investment related liabilities (note 3)	**136**	35
Accounts payable and accrued liabilities (note 5)	**21**	22
	157	57
Net assets available for benefits	**14,430**	12,211
Actuarial asset value adjustment (note 10)	**(1,340)**	(715)
Actuarial value of net assets available for benefits	**$ 13,090**	$ 11,496
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (note 11)	**$ 12,097**	$ 11,016
Surplus	**993**	480
Accrued pension benefits and surplus	**$ 13,090**	$ 11,496

See accompanying notes to the financial statements

Approved on behalf of the Board

Gordon Feeney
Chairman of the Board of Directors

Ernest J. Brennan
Chairperson of the Audit Committee

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

For the year ended December 31	**2006**	2005
INCREASES IN ASSETS		
Investment income (note 6)	**$ 1,781**	$ 1,434
Contributions (note 7)	**717**	715
	2,498	2,149
DECREASES IN ASSETS		
Benefits paid (note 8)	**247**	217
Administration expenses (note 9)	**32**	28
	279	245
Increase in net assets available for benefits	**2,219**	1,904
Net assets available for benefits, beginning of year	**12,211**	10,307
Net assets available for benefits, end of year	**$ 14,430**	$ 12,211

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

(in millions of dollars)

For the year ended December 31	**2006**	2005
Accrued pension benefits, beginning of year, as previously reported	**$ 11,016**	$ 10,126
Increase in accrued pension benefits		
Interest on accrued pension benefits	**677**	615
Benefits accrued	**516**	493
Changes in actuarial assumptions (note 11.b)	**96**	(6)
Experience losses (gains) (note 11.c)	**39**	5
	1,328	1,107
Decrease in accrued pension benefits		
Benefits paid (note 8)	**247**	217
Net increase in accrued pension benefits	**1,081**	890
Accrued pension benefits, end of year	**$ 12,097**	$ 11,016

STATEMENT OF CHANGES IN SURPLUS

(in millions of dollars)

For the year ended December 31	**2006**	2005
Surplus, beginning of year	**$ 480**	$ 77
Increase in net assets available for benefits	**2,219**	1,904
Change in actuarial asset value adjustment (note 10)	**(625)**	(611)
Increase in actuarial value of net assets available for benefits	**1,594**	1,293
Net increase in accrued pension benefits	**(1,081)**	(890)
Surplus, end of year	**$ 993**	$ 480

See accompanying notes to the financial statements

Notes to the Financial Statements

1. 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 Canada Post Corporation Registered Pension Plan document. If there is any conflict between this summary and the official Plan document, the official Plan document will govern.

a) General

The Plan is a defined benefit plan. The Plan was established by Canada Post Corporation (the Corporation) effective October 1, 2000. 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 (PBSA), 1985 and the regulations thereunder (PBSA). The Corporation administers the Plan.

b) Benefits

Retirement pensions
A retirement pension is based on pensionable service, the highest average pensionable earnings for five consecutive years of employment, and the age of the member at retirement. Members are eligible for an early retirement pension from age 50. An unreduced retirement pension is available at age 60 with at least two years of pensionable service or at age 55 with 30 years of pensionable service.

Termination of employment benefits
Termination of employment benefits depend on a member's years of pensionable service and age and may include a return of contributions with interest, a lump sum amount equivalent to the commuted value of the pension, or a deferred pension.

Bridge benefits
A bridge benefit is a temporary benefit in addition to a retirement pension. It is payable from retirement until the member reaches age 65, unless death or disability occurs first.

Disability pensions
A disability pension is an immediate pension payable on an unreduced basis. It is available to qualified members prior to age 60.

Death benefits
Death benefits include on-going financial support to survivors and dependant children, lump-sum payments, and refunds of contributions with interest. The Plan provides a minimum payment guarantee on the death of the member.

Indexing of benefits
Pension and survivor benefits are automatically indexed for inflation, in January of each year, by a percentage that reflects the average increase in the consumer price index.

c) Funding

Contributions are required from both the Corporation and the employee in order to fund the Plan benefits. These contributions, along with investment earnings are designed to ensure the financial security of member benefits. The Plan's funding policy is reviewed annually, and continually aims to achieve long-term stability in contribution rates for both the Corporation and Plan members. Contribution rates are established through actuarial funding valuations which are conducted regularly to determine 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, 5.2% of earnings up to the Year's Maximum Pensionable Earnings (defined by the Canada Pension Plan and Quebec Pension Plan as $42,100 in 2006) and 8.7% of earnings in excess of this maximum.

d) Plan amendments

In 2006, an amendment was made to the provisions in the Plan document to provide management and exempt employees, hired on or after October 1, 2006, and union employees who transfer to a permanent management and exempt position on or after October 1, 2006 with the option of not participating in the Plan. Otherwise, no significant amendments were made to the Plan provisions in 2006 or 2005.

2. 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 discounts earned, approximate fair value.

  2 Bonds are valued on the basis of quoted market prices 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.

  4 Foreign exchange forward contracts are valued using year-end quoted market prices.

5 Real estate investments are valued on the basis of external appraisals, usually annually (and at least once every three years), by professionally qualified independent appraisers, certified by the Appraisal Institute of Canada. The appraisals are in accordance with generally accepted appraisal practices and procedures, based mainly on the discounted cash flows of income approach.

- 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) Accrued pension benefits

Accrued pension benefits are based on the most recent actuarial valuation extrapolated to the year-end reporting date (see note 11).

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. Solvency contributions are recorded in the year recommended by the Plan actuary in the statutory 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 of 7% (7% in 2005). 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) Use of estimates

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. Significant estimates are used primarily in the determination of accrued pension benefits. Management monitors estimates and assumptions used in the preparation of the financial statements, as actual results may differ from these estimates.

3. Investments

Summary of investments

(in millions of dollars)	**2006**		2005	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 729	$ 724	$ 644	$ 643
Fixed income				
Canadian	2,952	2,881	2,528	2,430
United States	64	63	56	55
Real return bonds	891	778	824	628
	3,907	3,722	3,408	3,113
Equities				
Canadian	4,282	2,958	4,064	2,941
Real estate	161	130	100	88
United States	2,706	2,479	2,089	2,146
International	2,571	2,034	1,786	1,579
	9,720	7,601	8,039	6,754
Investments	**14,356**	**12,047**	12,091	10,510
Accrued investment income	43	43	39	39
Investment trades to settle	84	84	35	35
Withholding taxes receivable	2	2	1	1
Investment related receivables	**129**	**129**	75	75
Investment trades to settle	(103)	(103)	(33)	(33)
Foreign exchange forward contracts	(33)	-	(2)	-
Investment related liabilities	**(136)**	**(103)**	(35)	(33)
Net investments	**$ 14,349**	**$ 12,073**	$ 12,131	$ 10,552

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 credit and price risks that could adversely affect its cash flows, financial position, and income. Credit risk is the risk of loss should the counterparty 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. Price risk is the risk of loss that results from changes in interest rate risk, currency risk, and market risk.

i. Interest rate risk

Interest rate risk is the risk that the fair 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:

	Terms to maturity				**2006**		2005	
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**	Total	Yield to Maturity
Fixed income-Bonds								
Government of Canada	$ 147	$ 482	$ 116	$ 220	$ 965	4.1%	$ 776	3.9%
Government of the United States	-	-	56	-	56	4.9%	48	4.6%
United States corporate	-	8	-	-	8	4.3%	8	4.2%
Provincial and municipal	13	206	102	324	645	4.5%	492	4.4%
Canadian corporate	123	647	169	403	1,342	4.9%	1,260	4.7%
Real return - Canada	-	-	-	697	697	1.8%	707	1.5%
Real return - Provincial	-	-	30	164	194	2.0%	117	1.7%
	$ 283	**$1,343**	**$ 473**	**$ 1,808**	**$ 3,907**	**3.8%**	$ 3,408	3.6%

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 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)	**2006**	2005	**2006**	2005
Canadian dollar	$ 8,953	$ 8,199	$ 10,116	$ 8,824
United States dollar	2,804	2,143	2,203	1,801
Euro	1,489	963	799	462
Other European	143	85	566	474
Japanese yen	552	503	411	428
Other Pacific	230	124	179	113
Emerging markets	178	114	75	29
	$ 14,349	$ 12,131	**$ 14,349**	$ 12,131

Foreign exchange forward contracts

The Plan enters into foreign exchange forward contracts in order to limit the currency exposure associated with holding securities denominated in foreign currencies. The maximum allowable exposure is 30% of Plan assets. The Plan does not speculate or hold net short positions. All current contracts expire within four months. The Plan only deals with highly-rated counterparties, typically major financial institutions, with a minimum credit rating of "A" as reported by a recognized credit rating agency. The Plan's foreign exchange forward contracts by currency, as at December 31, are as follows:

Currency (in millions of dollars)	**2006** Receivable	**2006** Payable	**2006** Net	**2006** Average rate	2005 Receivable	2005 Payable	2005 Net	2005 Average rate
United States dollar	$ 753	$ (778)	$ (25)	$ 1.12	$ 465	$ (465)	$ –	$ 1.17
Euro	165	(173)	(8)	1.48	93	(93)	–	1.38
British pound	57	(59)	(2)	2.18	–	–	–	–
Swiss franc	22	(22)	-	0.96	15	(15)	–	0.90
Japanese yen	135	(133)	2	0.01	76	(78)	(2)	0.01
Australian dollar	–	–	–	–	4	(4)	–	0.86
	$ 1,132	**$ (1,165)**	**$ (33)**		$ 653	$ (655)	$ (2)	

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 Dexia Investor Services Trust. 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. In addition, a full indemnity is provided by the Royal Bank of Canada. As at December 31, 2006, the Plan's investments included loaned securities with a fair value of $2,882 million ($2,823 million in 2005). The fair value of securities collateral received in respect of these loans was $3,074 million ($3,004 million in 2005). Securities lending generated $4 million in 2006 ($4 million in 2005).

4. Contribution receivables

(in millions of dollars)		**2006**	2005
Current service contributions	– Sponsor	$ 35	$ 36
	– Members	13	12
Past service contributions	– Members*	54	54
		$ 102	$ 102

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

5. Accounts payable and accrued liabilities

(in millions of dollars)	**2006**	2005
Accounts payable and accrued liabilities	$ 8	$ 7
Accrued benefits payable	13	15
	$ 21	$ 22

6. Investment income

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

(in millions of dollars)	**2006**	2005
Interest income		
Cash and short-term securities	$ 27	$ 21
Bonds - Canadian	132	122
- Real return	24	23
	183	166
Dividend income		
Canadian equities	80	69
Real estate	7	3
United States equities	62	29
International equities	48	39
	197	140
Securities lending income (note 3.b)	4	4
Realized capital gains (losses) on disposal		
Canadian fixed income	48	68
United States fixed income	(1)	-
Canadian equities	453	346
Real estate	2	-
United States equities	63	64
International equities	247	40
	812	518
Realized currency (losses) gains on disposal		
Canadian equities	(2)	(1)
United States equities	(58)	(127)
International equities	(52)	1
	(112)	(127)
Net realized investment income	1,084	701
Unrealized net capital gains	469	826
Unrealized net currency gains (losses)	228	(93)
Net change in unrealized gains on investments	697	733
	$ 1,781	$ 1,434

7. Contributions

(in millions of dollars)		**2006**	2005
Sponsor	- Current service	$ 270	$ 269
	- Solvency payments		
	Regular	239	270
	Transfer from SRA	49	32
Members	- Current service	153	138
	- Past service	6	6
		$ 717	$ 715

The Corporation made solvency deficit payments of $239 million to the Plan fund in 2006. The Corporation's minimum required annual solvency payments for 2006, as a result of filing an amended December 31, 2005 actuarial valuation with OSFI in January, 2007 were $153 million. The Corporation applied the solvency relief measures provided for in the Solvency Funding Relief Regulations and implemented a one-time re-amortization of the Plan's solvency deficit as at December 31, 2005 over a ten year period. The Corporation also transferred $49 million of funding excess, as determined by the actuary for the Canada Post Corporation Supplementary Retirement Arrangement (SRA), from the SRA to the Plan fund in 2006 (note 12).

8. Benefits paid

(in millions of dollars)	**2006**	2005
Retirement pensions	$ 205	$ 161
Commuted value transfers, death benefits and refunds	42	56
	$ 247	$ 217

9. Administration expenses

(in millions of dollars)	**2006**	2005
Plan administration	$ 9	$ 9
External investment management fees	20	17
Professional fees	1	1
Custodial fees	2	1
	$ 32	$ 28

10. 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 (see note 2.g). The actuarial asset value adjustment changed by $625 million ($611 million in 2005) during the year. The composition of the actuarial asset value adjustment, as at December 31, is summarized below:

	Unamortized (gains)	Unamortized (gains) to be recognized in				Unamortized (gains)/losses
(in millions of dollars)	**2006**	2007	2008	2009	2010	2005
2002	**$ –**	$ –	$ –	$ –	$ –	$ 2
2003	**(99)**	(99)	–	–	–	222
2004	**(138)**	(69)	(69)	–	–	(199)
2005	**(399)**	(133)	(133)	(133)	–	(207)
2006	**(704)**	(176)	(176)	(176)	(176)	(533)
	$ (1,340)	$ (477)	$ (378)	$ (309)	$ (176)	$ (715)

11. Accrued pension benefits

a) Actuarial methodology

The actuarial methods used to prepare these financial statements are consistent with those used to prepare the statutory actuarial valuation on a going concern basis, with the exception that the discount rate used to determine the contribution requirements in the statuary actuarial valuation was set at 7% per annum. The most recent statutory actuarial valuation, prepared by Mercer Human Resource Consulting as at December 31, 2005 was extrapolated to determine the accrued pension benefit as at December 31, 2006. The valuation used the projected benefit method prorated on service with respect to benefits, and assumes that the Plan will continue on a going-concern basis.

b) Actuarial assumptions

The actuarial assumptions used in determining accrued pension benefits of $12,097 million ($11,016 million in 2005) are management's best estimate of future economic events and include demographic and financial assumptions. During 2006, 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:

	2006	2005
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 economic assumptions, various assumptions were also made for salary promotional scale, mortality, retirement and turnover. Changes in actuarial assumptions of $96 million (decrease of $6 million in 2005) were due to changes to assumed pensionable earnings increases ($75 million) and removal of faster than average promotional salary increase assumptions ($21 million).

c) Experience losses (gains)

Experience losses of $39 million ($5 million in 2005) were due to demographic losses ($31 million), past service buyback losses ($28 million), economic gains ($13 million), data adjustment gains ($9 million) and other miscellaneous experience losses ($2 million).

12. The SRA

The SRA provides Plan members and their survivors with benefits that 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 accrued pension benefits of the SRA are not included in these financial statements.

Under section 12.5(d) of the Arrangement's plan document, in 2006, the Corporation's Board of Directors approved a transfer of $49 million ($32 million in 2005) from the SRA to the Plan. This amount represented the funding excess as reported in the December 31, 2005 actuarial valuation of the SRA.

13. Funding valuation

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed at least every three years, on a going concern and solvency basis, 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 must be filed when the Plan's solvency ratio is less than 100%. Under the PBSA, a solvency shortfall must be eliminated over a five-year period. However, in 2006 the Government of Canada approved new Solvency Funding Relief Regulations, under the PBSA, offering temporary funding relief to federally regulated defined benefit pension plans. Under these regulations, in January 2007 the Corporation filed an amended December 31, 2005 actuarial valuation reflecting new funding requirements determined on the basis of amortizing the Plan's solvency shortfall of $1,201 million evenly over 10 years. Based on the amended actuarial valuation, solvency payments of $153 million were owed to the Plan by the Corporation for 2006. The amended actuarial valuation requires quarterly solvency payments of $38 million to be remitted to the Plan fund in 2007. Any deterioration or improvement in the solvency position of the Plan that is revealed when the next actuarial valuation is performed, as of December 31, 2006, will result in a change to the amount of required solvency payments. This report will be filed with OSFI by June 30, 2007. A preliminary estimate of the financial position of the Plan, on a solvency basis, as at December 31, 2006 showed an expected solvency excess of approximately $500 million ($1,201 million solvency shortfall in 2005).

On a going concern basis, as at December 31, 2006, the Plan's estimated funding excess is $993 million ($351 million in 2005). The funding valuation methodology and the assumptions used to determine the Plan's actuarial liabilities and contribution requirements on a going concern basis are consistent with those used to produce the results shown in the statement of changes in accrued pension benefits, with the exception that the discount rate used to determine the contribution requirements in the actuarial valuation was set at 7% per annum.

14. Related party transactions

Transactions with the Corporation were conducted in the normal course of activities and measured at the exchange amount. Included in administration expenses is $4.7 million ($4.7 million in 2005) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $0.6 million ($0.6 million in 2005) due to the Corporation for administration services provided to the Plan.

15. Commitments

In addition to foreign exchange forward contracts, the Plan has committed to enter into real estate investments, which may be funded over the next several years in accordance with agreed to terms and conditions. As at December 31, 2006, these potential commitments totalled $91 million ($47 million in 2005).

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