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Canada Post Pension Plan
2007 Annual Report

DK7005

We are pleased to present the ***Canada Post Pension Plan 2007 Annual Report.***

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. Our hearing impaired members can contact the Pension Centre directly by calling 613-734-8265.

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

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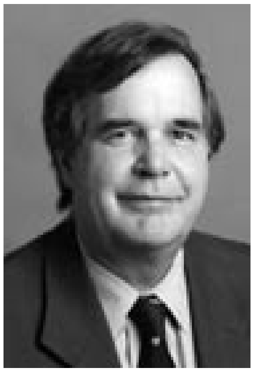
Please give us your feedback by emailing us at pension.services@canadapost.ca., or in writing at:

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

Message from Marc A. Courtois

Chairman of the Board



On behalf of the Board of Directors, I am pleased to report that the Canada Post pension plan continued to achieve growth in 2007 despite the uncertain economic conditions faced at home and abroad. The pension plan held total net assets of $14.7 billion at December 31, 2007, compared with $14.4 billion the previous year.

Since inception date October 1, 2000, the Plan has achieved an annualized investment return of 7.3 per cent, against the benchmark return of 4.8 per cent. A cautious approach to investment strategies was adopted last year to ensure that the interests of plan members were fully protected during the downturn in the business cycle.

It is important to emphasize the necessity of taking a balanced approach to investment strategies as our pension plan represents a long-term commitment. The prudent course adopted over the past year ensured that changes in the business cycle did not undermine the overall strength of the Canada Post pension plan.

The Board of Directors is very much aware of its pension fiduciary responsibilities to the more than 76,900 plan members. Strong governance is essential to ensure that sufficient assets are in place to meet the pension promise and to do so in a cost-effective way. Through 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 12,300 pensioners receiving benefits. As this number continues to grow, please be assured that the Board of Directors is closely monitoring all aspects of your pension plan.

Finally, I would like to thank my fellow Board members, most notably Denyse Chicoyne, the Chair of the Pension Committee, and all Pension Investment and Pension Services employees for their unwavering commitment to providing members with the best possible pension plan.

Message from Moya Greene

President and CEO

This has been a challenging year for the Canada Post pension plan. That said, the Plan continued to grow throughout its seventh full year of operation and is now one of the largest in the country, with net assets totaling $14.7 billion as of December 31, 2007.

It is reassuring to know that our pension, a defined benefit plan that provides inflation-protected benefits to more than 76,900 active members, retired members, deferred pensioners and beneficiaries, is in a fully funded position on all actuarial measures. We are amongst only 29 per cent of pensions that are fully funded.

The current economic conditions are uncertain. This underscores the importance of maintaining a balanced, long-term approach to our investment strategy. Younger members enrolling today will require funds to be available in the Plan for many years into the future.

To help employees plan for a secure future, the Corporation must also ensure we are on a path to achieve sustainable results. The Plan is an important part of employees' compensation packages and the Corporation must continue to achieve profitability and improve productivity if it is to provide a pension that meets the needs of its employees.

That is why we have announced our long-overdue modernization program designed to bring the company's aging infrastructure up to date, ready to meet the demands of a competitive, 21st century business environment. Creating the Modern Post is essential to ensure that the Corporation remains relevant and competitive.

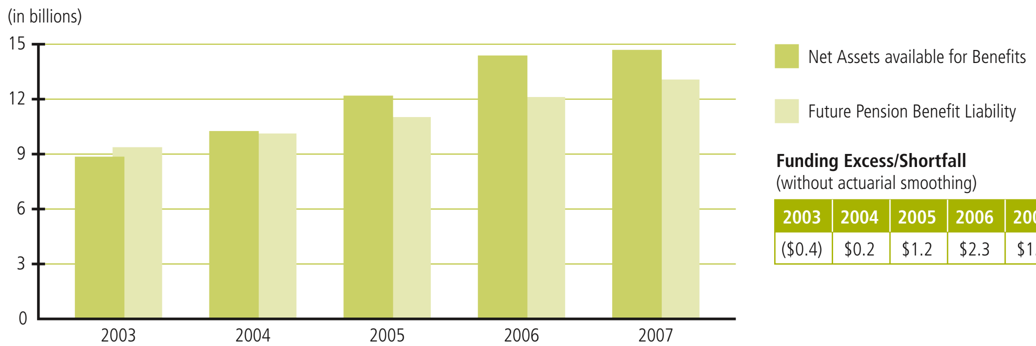
It is satisfying to see our Plan maintain its record of success. This is a true reflection of the efforts of all those involved as we seek to secure our collective future.

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 again exceed future pension benefits in 2007.



Funding Excess/Shortfall
(without actuarial smoothing)

2003	2004	2005	2006	2007
($0.4)	$0.2	$1.2	$2.3	$1.6

Actual Fund Rates of Return vs Policy Benchmark

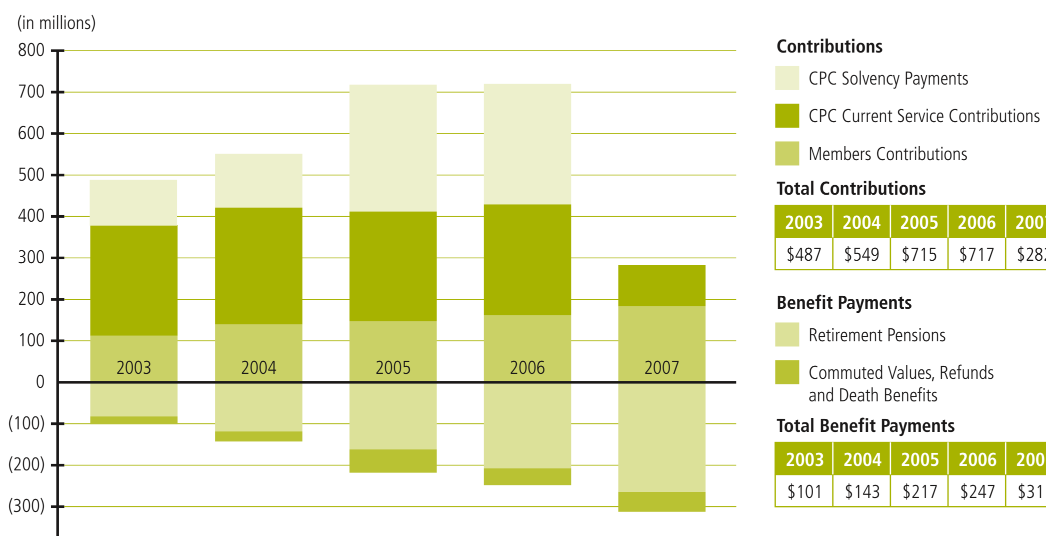
The Plan investment return continues to exceed the policy benchmark return.

Difference between Actual Fund Return and Policy Benchmark

2003	2004	2005	2006	2007
0.4%	1.9%	2.5%	1.2%	1.2%

Contributions and Benefit Payments

Solvency payments not required from Canada Post in 2007.



Total Contributions

2003	2004	2005	2006	2007
$487	$549	$715	$717	$282

Total Benefit Payments

2003	2004	2005	2006	2007
$101	$143	$217	$247	$311

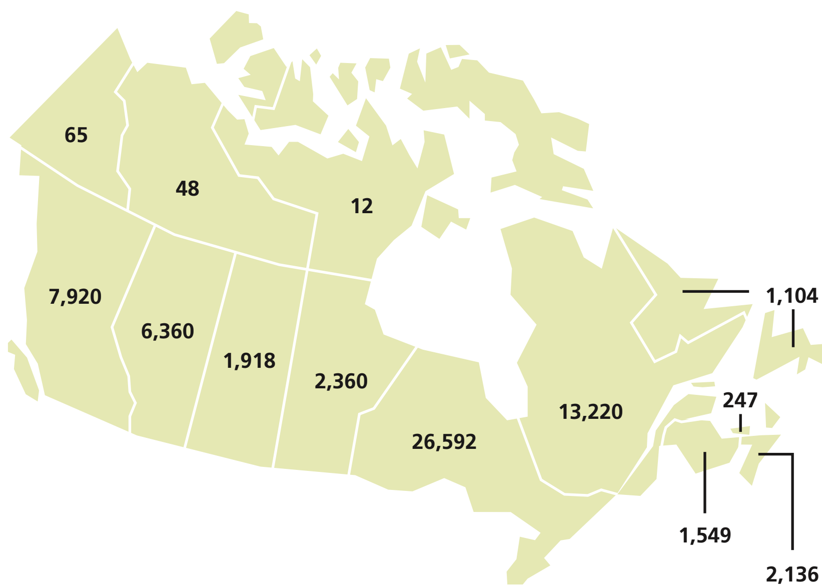
Membership Summary

Membership continues to grow in the Canada Post pension plan (the Plan) making it one of the largest single employer defined benefit pension plans in Canada, with a total of 76,979 active members, pensioners, deferred pensioners and beneficiaries.

	2003	2004	2005	2006	2007
Actives	57,102	63,168	62,292	63,134	63,531
Pensioners	4,451	6,076	7,976	10,165	12,398
Deferred Pensioners and Beneficiaries	444	708	901	948	1,050
	61,997	**69,952**	**71,169**	**74,247**	**76,979**

Total Active Members by Province and Territory

Our 63,531 active members are spread across Canada.



Membership Age Distribution as of December 31, 2007

The Plan has 28,970 active members over age 50. The number of active members retiring year over year is increasing as the "baby boom" generation exit the workforce. Pensioners increased by 2,233 in 2007.

Age	< 30	30-39	40-49	50-59	60-69	70-79	80-89
Active Members	3,014	9,902	21,645	24,834	4,120	16	N/A
Pensioners	N/A	15	132	4,990	6,583	652	26

The average active member is 47.6 years of age (2006 - 47.5 years of age)
The average retiree age is 61.2 years of age (2006 - 60.9 years of age)

Member Services

Pension Services strives to provide all members of the Plan with high quality service in the most cost effective manner. Membership of the Plan continues to grow with the baby "boom" generation now retiring, with over 2,200 in 2007, to make the pensioner population over 12,300.

To support the Plan members, Pension Services must balance the cost of service delivery with the services to be provided. In 2006, an independent study from CEM Benchmarking was again utilized to determine how well that balance was achieved. The average administration cost, by member type, showed that Pension Services performed very well, significantly outperforming the peer group in the major category of active members.

Average Administration Cost, by Member Type

	Membership Type		
	Active	**Inactive**	**Pensioners**
Canada Post	$127	$42	$69
Peer Group	$174	$66	$66

The 2006 CEM study showed a Total Service Score of 73. Pension Services will continue to further refine and improve its co-sourced service delivery model so as to maintain this balance between high service delivery standards and cost effectiveness.

Statistics Charts

Active members	**2007**	2006
Telephone calls	**31,873**	36,975
Transactions		
Buyback of Service	**1,191**	1,253
Pension estimates	**2,062**	1,751
Retirement/ Termination/Death	**4,997**	3,932

Pensioners	**2007**	2006
Telephone calls	**4,283**	3,545
Transactions		
Address change	**44**	267
Bank change	**290**	286

	2007	2006
Website visits	**57,727**	55,857

Contact with Members

Usage of the web continues to grow and is the most cost effective way for members to learn about their pension benefit and communicate with the Pension Centre.

Members are encouraged to contact the Pension Centre by:

- Calling 1-877-480-9220 – TTY 613-734-8265 to use the Voice Response Unit or speak with a Pension Centre representative,
- Visiting the Canada Post pension website at www.cpcpension.com,
- Writing in by mail.

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, 2007, the Canada Post Corporation Registered Pension Plan (the Plan) held net assets of $14,666 million, an increase of $236 million compared to the previous year. The actuarial value of net assets available for benefits of $14,400 million was $266 million less than the fair value of net assets of $14,666 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 $236 million during the year due to investment income of $317 million and contributions of $282 million offset by benefits payments of $311 million and administration expenses of $52 million.

Changes in Accrued Pension Benefits

Accrued pension benefits as at December 31, 2007 were $13,071 million, an increase of $974 million since December 31, 2006.

Changes in Surplus

The current extrapolated estimate of the going-concern surplus is $1,329 million ($993 million in 2006) with an approximate solvency surplus of $400 million ($283 million in 2006).

Asset Performance

Overview

The Canada Post pension plan returned 2.1% in 2007 against a benchmark return of 0.9%. Invested fund assets, held by the custodian, ended the year at $14,612 million, $263 million higher than at the end of 2006.

Canada Post Corporation (the 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 of the Board, the Pension Committee and the Investment Advisory Committee at the time of its adoption by the Board. However, these principles are revisited periodically to ensure that changes to the investment policies may be made, if warranted. In this regard, Canada Post will review its asset mix targets in 2008.

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.

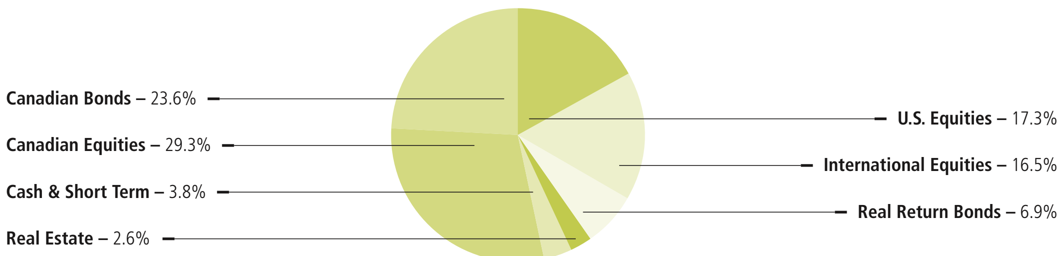
The Corporation believes that an investment portfolio with an appropriate asset mix (the "benchmark portfolio") can, over the long-term, achieve the Plan's investment objective of ensuring that sufficient assets will be available to meet the obligations of the Plan as they come due. Under the current 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 *Federal Pension Benefits Standards Act (1985) (PBSA)* and will maintain appropriate diversification between industry sectors, geographic/economic areas and management styles.

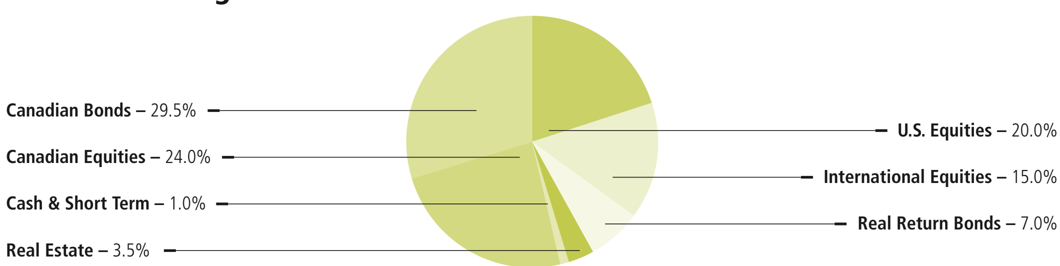
Investment Mix Strategy

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 65.7% 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 34.3% 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



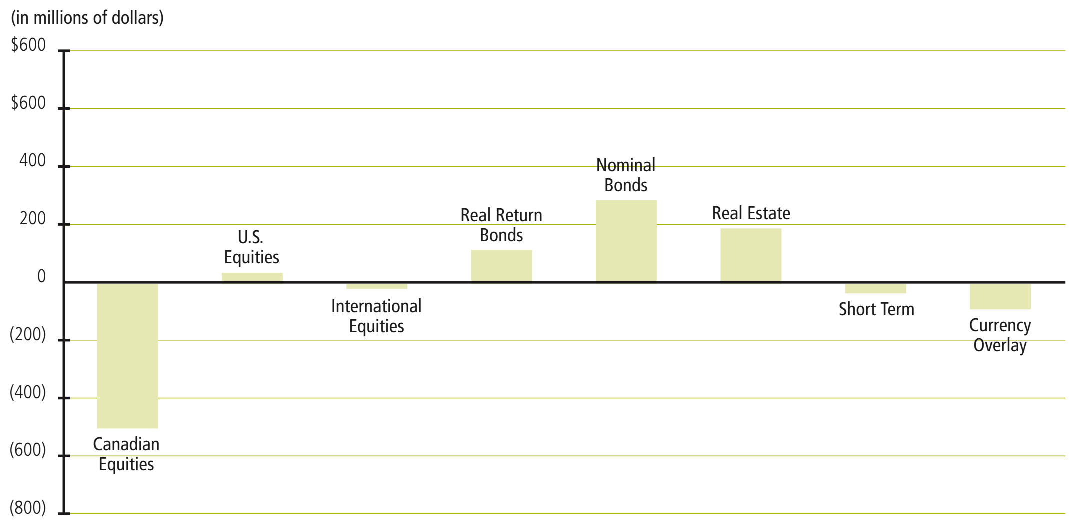
Asset Mix – Target



Fund Investments

Throughout the year, the pension fund redeployed assets from the Canadian equity market in favour of the domestic fixed income and real estate markets. The fund continues to maintain significant assets in the domestic equity market. The allocations made to various asset classes in 2007 is shown in the following diagram.

January 1, 2007 – December 31, 2007



Cash Flows

The chart below depicts the various sources and uses of funds in 2007 for the Plan. Almost 50% of the increase in assets came from investment return, while slightly over 20% is a result of employer contributions.

January 1, 2007 – December 31, 2007

Risk Management Strategy

In order to mitigate risks, the Corporation 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 4.5% above inflation. 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 maintains amounts in cash and marketable securities well in excess of what is needed to pay out benefits. As a result of this strategy the Plan will not be required to sell illiquid assets to fund benefit payments and can therefore invest with a more long-term view. An asset-liability modelling exercise will be completed and new risk management strategies may be implemented in 2008.

The various asset related risks faced by the Plan, are outlined in Note 4 to the Financial Statements.

Market Review and Performance

In Canada, the S&P/TSX Composite Index (S&P/TSX) ended the year with a strong absolute return of 9.8%, and outperformed most equity markets in 2007. The returns however were not widespread, but mostly driven by strong performance from Research in Motion, Potash Corporation and Alcan. There was little sector rotation during the year, with the previously outperforming areas continuing to outperform. Information technology stocks, as well as material stocks, were very strong. In contrast, the less economically sensitive areas of consumer staples and healthcare were weak. Merger and acquisition activity added significantly to the bullish sentiment. The biggest story on that front in Canada was the takeover battle for BCE that involved a number of different private equity groups. In the end, the group led by Ontario Teachers Pension Plan was declared the winner, with a bid that valued the company at $51.7 billion including debt. As a result, shares of BCE took a big jump in April. Shares of Alcan also increased in early May when Alcoa announced that it had launched a hostile bid to buy its Canadian rival for US$33 billion. Other merger and acquisition stories in 2007 included the acquisition by TD Bank of New Jersey's largest bank, Commerce Bancorp, in a cash-and-stock deal worth $8.5 billion. Also providing a boost to the S&P/TSX during the year were oil prices hitting a record high and the government's commitment to cut taxes, including a reduction in the GST from 6% to 5%. Although domestic demand and the housing market remained buoyant, activity in Canada continued to be squeezed by the slowdown in demand from the U.S. and the ascent of the Canadian dollar to its strongest exchange rate since the 1970s.

The U.S. equity markets were weak in 2007 with the S&P 500 Index losing 10.5% in Canadian dollar terms. The biggest story in 2007 has been the collapse of the sub-prime mortgage market in the U.S. The collapse is indicative of the fact that the steady increase in U.S. short-term interest rates since 2004 has had a significant impact on the more aggressive lenders and borrowers in the housing market. Sub-prime mortgages are often adjustable rate mortgages which come with low initial interest rates (teasers) that are subsequently increased to market rates. As the teasers expire and monthly payments are ratcheted upwards, borrowers have less cash on hand to pay their credit card balances and other debt. This had led to weakening consumer spending and slower economic growth. Also, big write-downs at Citigroup, Wachovia, and Merrill Lynch, a spate of disappointing earnings beyond the finance sector, as well as $90-plus oil sparked concerns about the health of the economy. These concerns were partly mitigated by rate cuts from the Federal Reserve in the latter part of 2007.

In international equity markets, performance of the emerging markets continued to surprise on the upside. Expansion in China continued at a rapid rate, with infrastructure building driving growth. European and asian markets also showed solid returns in local currency terms, with the only weakness coming from Japan, where exports have decelerated as activity in the U.S. has slowed. However, international equities were not immune to the U.S. sub-prime woes, and those markets trended downward in the latter part of the year, erasing all of the earlier gains made in 2007, in Canadian dollar terms.

In foreign exchange markets, the U.S. currency has continued to weaken relative to most other major currencies such as the Euro and the Yen in 2007. The Canadian dollar also strengthened significantly versus its U.S. counterpart, reaching parity in September and trading at new highs above 110 cents US in early November. The Canadian dollar's strength was partly due to generally robust economic growth, combined with higher energy and commodity prices. The U.S. dollar remains near historic lows against other currencies, with the U.S. trade deficit still exerting downward pressure on the currency.

The Bank of Canada cut rates by 25 basis points in December, lowering the benchmark interest rate to 4.25% after staying on the sidelines for most of the year. The Federal Reserve, reacting to concerns about the sub-prime lending crisis, cut its federal funds rate half a percentage point in September, by 25 basis points in October, and again by 25 basis points to 4.25% in December. Overall the DEX Universe Bond index returned 3.7% on the year.

Fund Performance

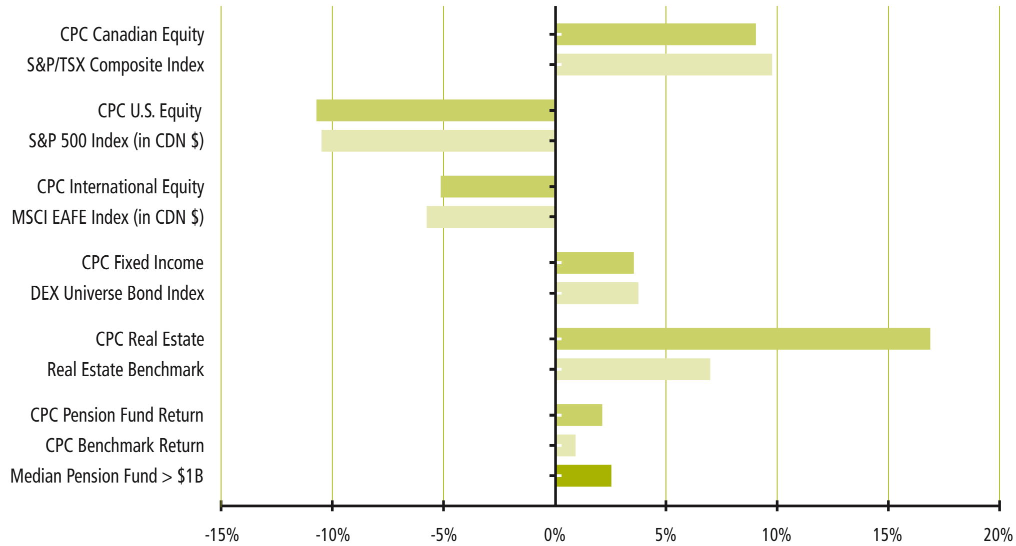
The Canada Post pension plan earned a return of 2.1% in 2007. This gain exceeded our benchmark return of 0.9% represented by the blended return of our benchmark portfolio but was marginally lower than the median gain of 2.5% experienced by the RBC universe of large Canadian pension plans.

In spite of the difficult market conditions in 2001 and 2002, our pension plan has earned a respectable, annualized rate of return of 7.3% since inception (7 1⁄4 years) an amount that substantially exceeded the benchmark return of 4.8%. As shown below, 2007 was a difficult year for active management and as a result, returns exceeded benchmarks only in international equities and real estate, with Canadian and U.S. equities as well as Canadian fixed income marginally underperforming during the year. Plan performance was enhanced by greater than benchmark exposure to Canadian equities and less than benchmark exposure to lower returning U.S. equities throughout 2007. Plan performance was also enhanced by our currency hedging program which was brought in-house in late 2006.

Although returns were challenging in 2007, it should be noted that 4-year returns exceed benchmark in all asset categories. The Plan also generated a return above the median pension fund in the RBC universe over this period.

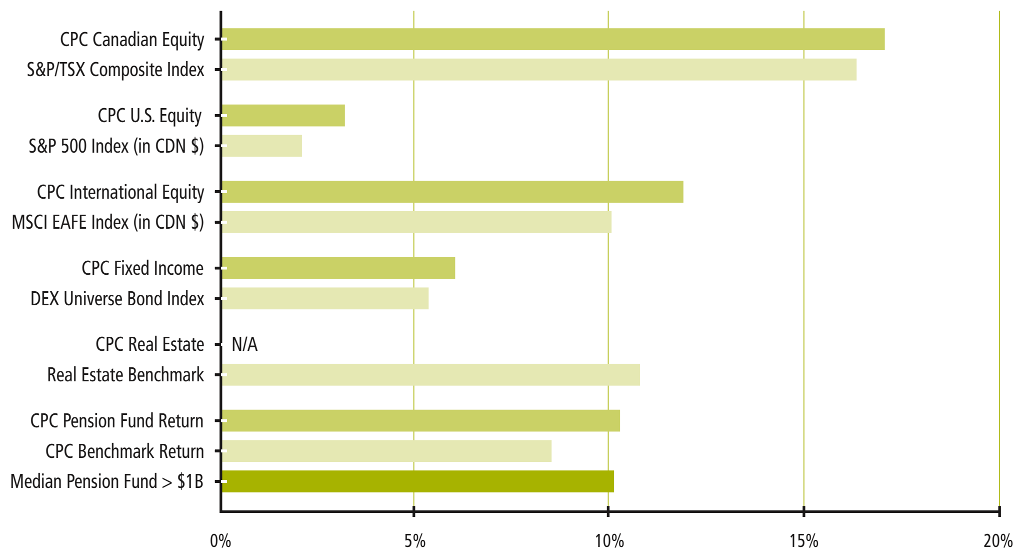
1-Year Index and Fund Returns

January 1, 2007 – December 31, 2007



4-Year Index and Fund Returns

January 1, 2004 – December 31, 2007



Investment Developments and Initiatives

A review of our Canadian equity investments led to the initiation of a number of changes to our investment structure in 2007. Following this review, the Plan moved to a structure of six, as opposed to five active Canadian equity managers to further diversify investment styles. One fund manager was terminated and two new managers were appointed.

A review of international equity investments also led to a change to our investment structure with one international equity manager replaced by a new fund manager.

The Plan became active in real estate investments in 2004. We have increased commitments to real estate managers over the years, and have begun making direct investments in 2007. As at December 31, 2007, our real estate portfolio is valued at $387 million.

Further to the Pension Committee of the Board of Director's approval, the internal management of passive equity strategies has commenced. Management of both the S&P 500 equity index and the S&P/TSX equity index portfolios was brought in-house. This will generate cost savings and enhance the overall efficiency of the management of such assets.

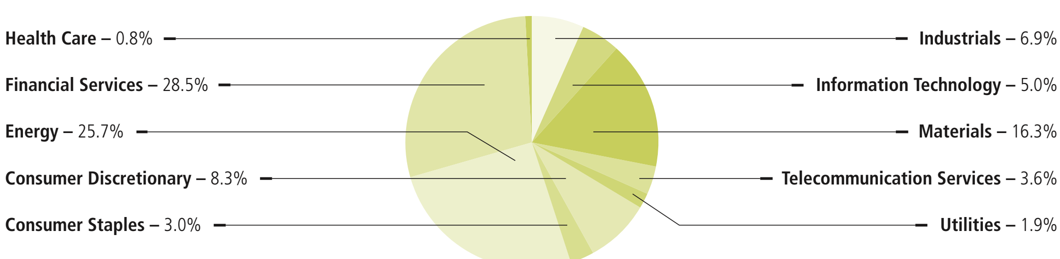
In the summer, fears of whether the sub-prime mortgage problem in the U.S. would be contained led to a flight to quality as well as a widening of credit spreads as markets re-priced risk. This led to a crisis in the Canadian commercial paper market, where certain non-bank Asset Backed Commercial Paper (ABCP) issuers have been unable to refinance maturing debt. The Corporation and the Plan had marginal exposure to the sector. As a result of this crisis, the Pan-Canadian Investors Committee (the Committee) for third-party structured ABCP was formed. The Corporation joined the Committee as a member, along with several other pension plans. An agreement was reached in principle by all stakeholders regarding a restructuring of the ABCP in late December. Under the terms of the restructuring, all of the ABCP outstanding will be exchanged for longer-dated notes that match the maturity of the underlying assets. On this basis, the Plan has written down the value of our ABCP holdings by $7 million. Given the small size of these exposures relative to the total size of the Plan, the impact on Plan performance was negligible.

Actual Equity Holdings by Industry Sector

As indicated below, Canadian, U.S. & international equity portfolios are well diversified across a variety of industry sectors.

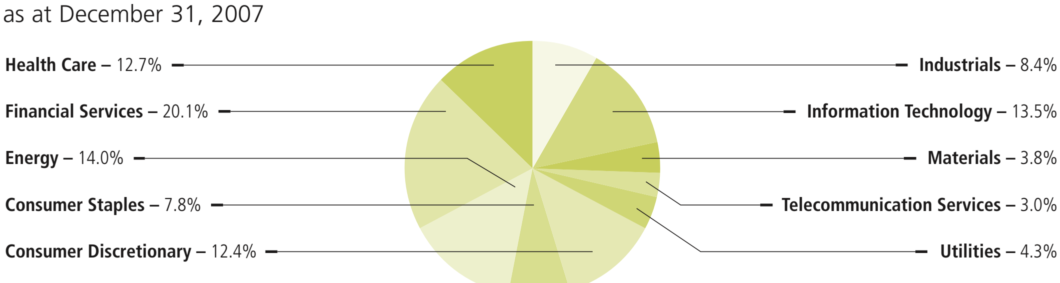
Canadian Equity Portfolio

as at December 31, 2007



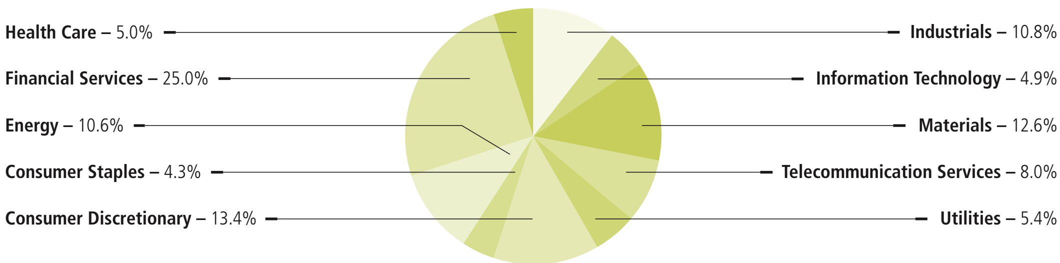
U.S. Equity Portfolio

as at December 31, 2007



International Equity Portfolio

as at December 31, 2007



Equity holdings greater than $55 million

(percentage of the overall fund)

December 31, 2007
(In millions of dollars)

Royal Bank of Canada	$ 189	1.29%
Manulife Financial	184	1.26%
Bank of Nova Scotia	169	1.16%
TD Bank	166	1.14%
Suncor Energy	139	0.95%
EnCana	134	0.92%
Research in Motion	128	0.88%
Potash Corporation of Canada	127	0.87%
Nexen	104	0.71%
Canadian Natural Resources	99	0.68%
Petro Canada	97	0.66%
Rogers Communications	96	0.66%
Talisman Energy	94	0.64%
TransCanada	79	0.54%
Sun Life Financial	78	0.54%
BCE	75	0.51%
Royal Dutch Shell	72	0.49%
Bank of Montreal	72	0.49%
Exxon Mobil	70	0.48%
Gold Corp	67	0.46%
Canadian National Railway	64	0.44%
SNC Lavalin	63	0.43%
CIBC	60	0.41%
E.ON AG	60	0.41%
ING Group	60	0.41%
Barrick Gold	59	0.41%
Teck Cominco	58	0.40%
Imperial Oil	56	0.38%
Vodafone	55	0.38%
	$ 2,774	**19.00%**

Economic Environment Going Forward

Most financial markets began the year in negative territory as subprime and other credit concerns carried over into 2008. We believe, however, that positive underlying global economic conditions, particularly in Canada and in developing international markets, as well as low interest rates and possible heightened inflation expectations, support an overweight position in equities and continued opportunistic investment in hard assets such as real estate. Markets, however, will likely continue to exhibit unusually high volatility, as nervous participants respond to the latest news headlines.

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.

Funding Valuation

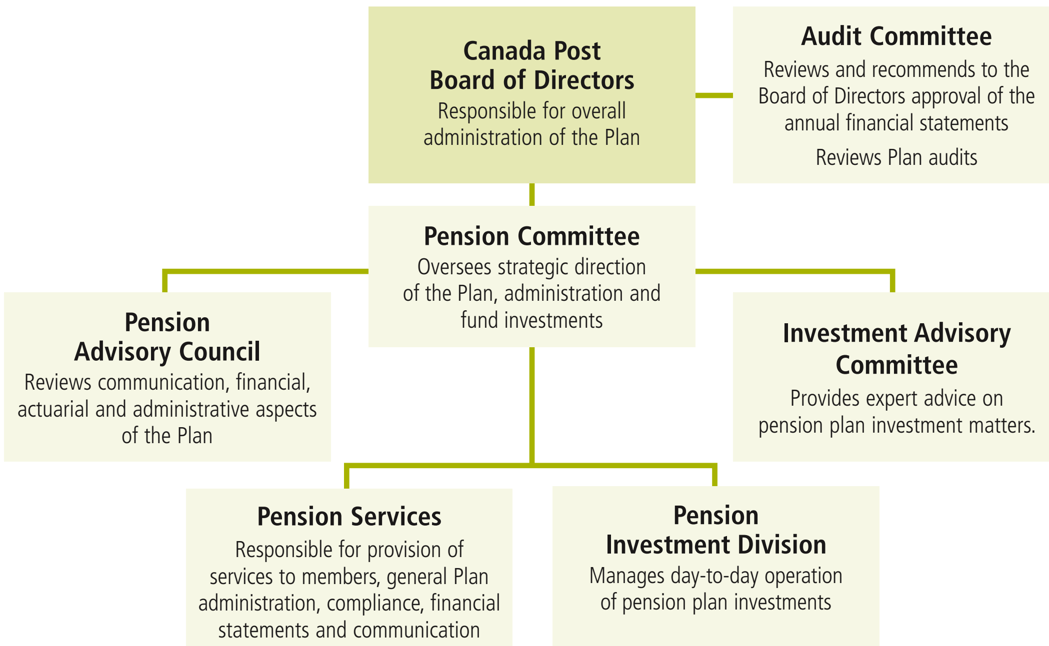
The Plan is required to file periodic actuarial valuations with the pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). These actuarial valuations are required to set out the funded status of the Plan on a going-concern and a solvency basis. The financial position of the Plan as at December 31, 2006 showed solvency excess of $283 million and a going-concern funding excess of $993 million.

The Corporation filed a December 31, 2006 actuarial valuation with OSFI that disclosed the excess on both a solvency and going-concern basis. As the Plan was in solvency excess position as at December 31, 2006, the Corporation will not be required to file the next actuarial valuation for the Plan with OSFI until 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. The extrapolated valuation as at December 31, 2007 shows a solvency excess of approximately $400 million, up from $283 million at the end of 2006, and a going-concern funding excess of $1,329 million, up from $993 million at the end of 2006.

Pension Plan Governance

Pension plan governance is the process and structure used to direct and manage the 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.

Canada Post Pension Plan Governance Structure



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

The organization structure supporting the Plan was strengthened in 2007 by having the Vice-President, Pension Fund and Chief Investment Officer accountable for both the Pension Investment Division and Pension Services.

Communication with members is an important fiduciary obligation. In 2007, the 2006 Plan annual report was issued in the spring as well as the annual personalized pension benefit statement for active or inactive members. The latter is a legal requirement under the Federal Pension Benefit Standards Act, 1985. In addition, publications of Pension Plan News and In Touch were issued to their respective audiences. The web site continued to attract even higher usage in 2007 and all the aforementioned publications may be found on the pension plan web site at www.cpcpension.com

Directory of Board, Committee and Council Members

The following outlines the committees involved in governance of the Plan as at December 31, 2007, along with the names of the Board, Committee and Council members:

	Board of Directors	Audit Committee	Pension Committee	Investment Advisory Committee	Pension Advisory Council
Marc A. Courtois	Chairman	•	•		
Moya Greene	•				
Ernest J. Brennan, F.C.A.	•	•			
Denyse Chicoyne, C.F.A., MBA	•	•	Chairperson	•	
Thomas W. Cryer, F.C.A.	•	Chairperson	•		
Siân M. Matthews	•				
Dr. Daurene E. Lewis, C.M., MBA	•				
Robert Pletch, Q.C.	•	•			
William H. Sheffield, Corporate Director	•	•	•		
Jean Turmel	•		•		
Donald Woodley	•				
Lorne Braithwaite, MBA, BComm				Chairperson	
Isla Carmichael, PH.D, M.Ed, AM				•	
Hugh Mackenzie, MA				•	
Kenneth W. McArthur, BComm, CA				•	
Douglas D. Greaves, BA (Hons), C.F.A.				•	Chairperson
Lloyd Baxter (Canada Post)					•
Daryl Bean (PSAC/UPCE)					•
Pat Bertrand (CUPW)					•
Terry Cotton (APOC)					•
George Kuehnbaum (CUPW)					•
Donald Lafleur (CUPW)					•
Stuart Learmont (elected by active members not represented by a bargaining agent)					•
Daniel Maheux (CPAA)					•
Cindy McCallum (CUPW)					•
Micki McCune (elected by all active members of the Plan)					•
Peter McGann (Canada Post)					•
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

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 (Canada) Limited, completed an actuarial assessment of the assets and going-concern liabilities of the Plan as of December 31, 2007, 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 25, 2008

Chief Financial Officer
March 25, 2008

Actuaries' Opinion

Ottawa
March 14, 2008

Mercer (Canada) Limited 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, 2007, 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, 2007, 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, 2007 of the results of our December 31, 2006 actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2007,
- 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 (Canada) Limited and are considered management's best estimate of these events.

We have tested the membership and pension fund data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the 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 (Canada) Limited

Auditors' Report

March 28, 2008

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, 2007 and the statements of changes in net asset available for benefits, changes in accrued pension benefits and changes in 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, 2007 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.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public 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	**2007**	2006
NET ASSETS AVAILABLE FOR BENEFITS		
ASSETS		
Investments (note 4)	**$ 14,573**	$ 14,356
Investment related receivables (note 4)	**85**	129
Contribution receivables (note 5)	**74**	102
	14,732	14,587
LIABILITIES		
Investment related liabilities (note 4)	**46**	136
Accounts payable and accrued liabilities (note 6)	**20**	21
	66	157
Net assets available for benefits	**14,666**	14,430
Actuarial asset value adjustment (note 12)	**(266)**	(1,340)
Actuarial value of net assets available for benefits	**$ 14,400**	$ 13,090
ACCRUED PENSION BENEFITS AND SURPLUS		
Accrued pension benefits (note 13)	**$ 13,071**	$ 12,097
Surplus (note 15)	**1,329**	993
Accrued pension benefits and surplus	**$ 14,400**	$ 13,090

See accompanying notes to the financial statements

Approved on behalf of the Board

Marc A. Courtois
Chairman of the Board of Directors

Thomas Cryer
Chairperson of the Audit Committee

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in millions of dollars)

For the year ended December 31	**2007**	2006
INCREASES IN ASSETS		
Investment income (note 8)	**$ 317**	$ 1,781
Contributions (note 9)	**282**	717
	599	2,498
DECREASES IN ASSETS		
Benefits (note 10)	**311**	247
Administration expenses (note 11)	**52**	32
	363	279
Increase in net assets available for benefits	**236**	2,219
Net assets available for benefits, beginning of year	**14,430**	12,211
Net assets available for benefits, end of year	**$ 14,666**	$ 14,430

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

(in millions of dollars)

For the year ended December 31	2007	2006
Accrued pension benefits, beginning of year	**$ 12,097**	$ 11,016
Increase in accrued pension benefits		
Interest on accrued pension benefits	**733**	677
Benefits accrued	**544**	516
Changes in actuarial assumptions (note 13.b)	**(9)**	96
Experience losses (note 13.c)	**17**	39
	1,285	1,328
Decrease in accrued pension benefits		
Benefits (note 10)	**311**	247
Net increase in accrued pension benefits	**974**	1,081
Accrued pension benefits, end of year	**$ 13,071**	$ 12,097

STATEMENT OF CHANGES IN SURPLUS

(in millions of dollars)

For the year ended December 31	2007	2006
Surplus, beginning of year	**$ 993**	$ 480
Increase in net assets available for benefits	**236**	2,219
Change in actuarial asset value adjustment (note 12)	**1,074**	(625)
Increase in actuarial value of net assets available for benefits	**1,310**	1,594
Net increase in accrued pension benefits	**(974)**	(1,081)
Surplus, end of year	**$ 1,329**	$ 993

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 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 in 2007, 5.6% of earnings up to the Year's Maximum Pensionable Earnings (defined by the Canada Pension Plan and Quebec Pension Plan as $43,700 in 2007) and 9.1% of earnings in excess of this maximum.

d) Plan amendments

No material amendments were made to the Plan provisions in 2007. In 2006, an amendment was made to the provisions in the Plan document giving newly hired management and exempt employees the option to participate in either the Plan or the Canada Post Group Retirement Savings Plan.

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 closing prices using the average of the bid and ask prices. Where quoted year-end closing 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 closing prices. Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used by management to determine fair value using appropriate valuation techniques. In making such valuations, consideration is given to the use of bid and ask prices, previous transaction prices, discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other valuation techniques that are judged relevant to the specific situation.

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

5 Real estate is 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 13).

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, if applicable, 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%. 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.

i) Benefits

Benefits include payments made during the year and accruals for benefits at December 31st.

3. Change in accounting policy

In October 2007, the Emerging Issues Committee of the Canadian Institute of Chartered Accountants issued an abstract on accounting by pension plans for transaction costs. As a result of this abstract, starting with the 2007 year-end, transaction costs are included in administration expenses in the statement of change in net assets available for benefits. In prior years transaction costs were included in the cost of investments. This change was applied retrospectively without prior year restatement. The effect of this change was a reclassification between realized and unrealized gains (losses) and had no effect on the opening net assets of the Plan.

4. Investments

Summary of investments

(in millions of dollars)	**2007**		2006	
	Fair Value	**Cost**	Fair Value	Cost
Cash and short-term securities	$ 676	$ 673	$ 729	$ 724
Fixed income				
Canadian*	3,325	3,280	2,952	2,881
United States	31	32	64	63
International	87	86	–	–
Real return bonds	995	896	891	778
	4,438	4,294	3,907	3,722
Equities				
Canadian	4,157	3,063	4,282	2,958
United States	2,403	2,592	2,706	2,479
International	2,513	2,411	2,571	2,034
	9,073	8,066	9,559	7,471
Real estate (note 7.a)	386	322	161	130
Investments	**14,573**	**13,355**	14,356	12,047
Accrued investment income	45	45	43	43
Investment trades to settle	29	29	84	84
Withholding taxes receivable	2	2	2	2
Foreign exchange forward contracts	9	–	–	–
Investment related receivables	**85**	**76**	129	129
Investment trades to settle	(46)	(46)	(103)	(103)
Foreign exchange forward contracts	–	–	(33)	–
Investment related liabilities	**(46)**	**(46)**	(136)	(103)
Transaction costs (note 3)	–	(9)	–	–
Net investments	**$ 14,612**	**$ 13,376**	$ 14,349	$ 12,073

* Canadian fixed income includes non-bank third party asset-backed commercial paper (ABCP) with a fair value of $17 million and a cost of $24 million.

a) Asset-backed commercial paper

At December 31, 2007, the Plan held ABCP with a cost of $24 million and a fair value of $17 million. At the dates the Plan acquired these investments they were rated R1 (High) by Dominion Bond Rating Service (DBRS), the highest credit rating issued for commercial paper, and backed by R1 (High) rated assets and liquidity agreements. The investment matured during the third quarter of 2007 but, as a result of liquidity issues in the Canadian ABCP market, did not settle on maturity. The Plan has reclassified its ABCP as Canadian fixed income investments after initially classifying them as cash and short-term securities.

On August 16, 2007, an announcement was made by a group representing banks, asset providers and major investors that they had agreed in principle to a long-term proposal and interim agreement to convert the ABCP into long-term floating rate notes (the Montreal Proposal). On September 6, 2007, the Pan Canadian Investors Committee (the Committee), consisting of major investors, was formed to propose a solution to the liquidity problem affecting the ABCP and oversee the proposed restructuring process. The agreement was extended several times, most recently on January 31, 2008. This extension will allow the Committee to present a restructuring plan to investors, enabling the restructuring plan to be finalized around March 31, 2008. The Plan is represented on the Committee.

The ABCP in which the Plan has invested has not traded in an active market since mid-August 2007 and there are currently no market quotations available.

Based on details provided by the Committee and other public information, it is estimated that, of the $24 million of ABCP in which the Plan has invested:

- $17 million is represented by a combination of leveraged debt, synthetic assets and traditional securitized assets and the Plan will, on restructuring, receive replacement senior and subordinated long-term floating rate notes. The senior notes are expected to obtain a AAA rating while the subordinated notes are likely to be unrated; and
- $7 million is represented by assets that have an exposure to US sub-prime mortgages. On restructuring the Plan is likely to receive long-term floating rate notes that are likely to be unrated.

The valuation technique used by the Plan to estimate the fair value of its investment in ABCP incorporates risk-adjusted returns considering the best available public information regarding market conditions for such investments as at December 31, 2007. The discount range applied, depending on the particular investment was 7% - 55%. The Plan assumes the ABCP will be converted to floating rate notes in accordance with the key elements of the Committee's proposed framework agreement. Under the terms of the proposed restructuring, investors are expected to participate in either Master Asset Partnership 1 (MAP 1) or Master Asset Partnership 2 (MAP 2). Under the terms of MAP 1, investors must commit to providing their share of the pro-rata required margin funding facility, in effect providing their own form of self-insurance. Under the terms of MAP 2, investors are not required to participate in a margin funding facility as this facility is provided by another third party. The Plan intends to participate in MAP 2. Furthermore, in determining the fair value of the ABCP, the Plan assumes that returns will be reduced by the cost of a margin facility estimated to be approximately 2.5%. As a result of the above methodology the fair value of ABCP was reduced by $7 million in 2007.

Since the fair value of the ABCP is determined using a risk-adjusted return approach employing various assumptions and is based on the Plan's assessment of market conditions as at December 31, 2007, the reported fair value may change significantly in subsequent periods. In addition, the fair value estimate is dependent on the likelihood, nature and timing of future restructuring under the terms of the Montreal Proposal and the framework for the proposed restructuring agreement.

Continuing uncertainties regarding the value of the assets that underlie the ABCP, the credit and liquidity risks associated with the restructured notes and the final outcome of the restructuring process could give rise to further changes in the fair value of the Plan's investment in ABCP.

b) Risk management

The Plan's Statement of Investment Policies and Procedures (SIPP) 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 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 SIPP. 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				2007		2006	
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	$ 6	$ 841	$ 276	$ 153	$ 1,276	4.1%	$ 965	4.1%
Government of the United States	–	–	–	–	–	–	56	4.9%
Canadian corporate	44	327	274	630	1,275	5.4%	1,342	4.9%
United States corporate	7	8	14	2	31	4.3%	8	4.3%
International corporate	–	30	30	27	87	5.0%	–	–
Provincial and municipal	64	112	231	367	774	4.6%	645	4.5%
Real return – Canada	–	–	25	820	845	1.9%	697	1.8%
Real return – Provincial	–	–	–	150	150	2.3%	194	2.0%
	$ 121	**$1,318**	**$ 850**	**$ 2,149**	**$ 4,438**	**3.9%**	$ 3,907	3.8%

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)	**2007**	2006	**2007**	2006
Canadian dollar	$ 9,544	$ 8,953	$ 10,405	$ 10,116
United States dollar	2,482	2,804	2,242	2,203
Euro	1,521	1,489	866	799
Other European	126	143	500	566
Japanese yen	483	552	329	411
Other Pacific	189	230	186	179
Emerging markets	267	178	84	75
	$ 14,612	$ 14,349	**$ 14,612**	$ 14,349

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 Plan hedges back between 15% and 45% of its total foreign currency exposure. No single foreign currency exposure can exceed 20% of Plan assets. The Plan does not speculate or hold net short positions. All current contracts expire within three 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:

	2007				2006			
Currency (in millions of dollars)	**Receivable**	**Payable**	**Net**	**Average rate**	Receivable	Payable	Net	Average rate
United States dollar	$ 490	$ (483)	$ 7	$ 1.00	$ 753	$ (778)	$ (25)	$ 1.12
Euro	121	(123)	(2)	1.42	165	(173)	(8)	1.48
British pound	63	(61)	2	2.02	57	(59)	(2)	2.18
Swiss franc	16	(16)	–	0.90	22	(22)	–	0.96
Japanese yen	160	(158)	2	0.01	135	(133)	2	0.01
	$ 850	**$ (841)**	**$ 9**		$ 1,132	$ (1,165)	$ (33)	

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 SIPP.

c) 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, 2007, the Plan's investments included loaned securities with a fair value of $4,011 million ($2,882 million in 2006). The fair value of securities collateral received in respect of these loans was $4,311 million ($3,074 million in 2006). Securities lending generated $5 million in 2007 ($4 million in 2006).

5. Contribution receivables

(in millions of dollars)		**2007**	2006
Current service contributions	– Sponsor	$ –	$ 35
	– Members	16	13
Past service contributions	– Members*	58	54
		$ 74	$ 102

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

6. Accounts payable and accrued liabilities

(in millions of dollars)	**2007**	2006
Accounts payable and accrued liabilities	$ 10	$ 8
Accrued benefits payable	10	13
	$ 20	$ 21

7. Investment in real estate

a) Investment in real estate

The Plan's investment in real estate as at December 31, is as follows:

	2007		2006	
(in millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Direct investments	$ 85	$ 79	$ –	$ –
Pooled funds	301	243	161	130
	$ 386	**$ 322**	$ 161	$ 130

b) Real estate income

Real estate income for the year ended December 31, is as follows:

(in millions of dollars)	**2007**	2006
Investment income	$ 9	$ 7
Realized capital gains on disposal	3	2
Unrealized capital gains	33	19
	$ 45	$ 28

8. Investment income

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

(in millions of dollars)	**2007**	2006
Interest income		
Cash and short-term securities	$ 36	$ 27
Bonds - Canadian	157	132
- Real return	27	24
	220	183
Dividend income		
Canadian equities	88	80
United States equities	71	62
International equities	58	48
	217	190
Real estate (note 7.b)	9	7
Securities lending income (note 4.c)	5	4
Realized capital gains (losses) on disposal		
Canadian fixed income	(1)	48
United States fixed income	(4)	(1)
Canadian equities	581	453
United States equities	102	63
International equities	272	247
Real estate (note 7.b)	3	2
	953	812
Realized currency losses on disposal		
Canadian equities	(4)	(2)
United States equities	(12)	(36)
International equities	(23)	(74)
Cash and short-term securities	(1)	–
	(40)	(112)
Net realized investment income	1,364	1,084
Unrealized net capital (losses) gains*	(640)	469
Unrealized net currency (losses) gains	(407)	228
Net change in unrealized (losses) gains on investments	(1,047)	697
	$ 317	$ 1,781

* Unrealized net capital (losses) gains include $7 million relating to the change in fair value of ABCP.

9. Contributions

(in millions of dollars)		**2007**	2006
Sponsor	- Current service	$ 100	$ 270
	- Solvency payments		
	Regular	–	239
	Transfer from SRA	–	49
Members	- Current service	173	153
	- Past service	8	6
	- Transfers from other plans	1	–
		$ 282	$ 717

As the Plan's December 31, 2006 actuarial valuation disclosed a solvency surplus of $283 million ($1,201 million solvency deficit in 2005) the Corporation was not required to make special payments to the Plan and did not transfer any funding excess from the Canada Post Corporation Supplementary Retirement Arrangement (SRA) in 2007. In ceasing current service contributions in July, due to the Plan's fully funded status on all actuarial measures, the Corporation recovered special payments previously made to the Plan of $161 million.

10. Benefits

(in millions of dollars)	**2007**	2006
Retirement and survivor pensions	$ 262	$ 205
Commuted value transfers, lump sum death benefits and refunds	48	42
Transfers to other plans	1	–
	$ 311	$ 247

11. Administration expenses

(in millions of dollars)	**2007**	2006
Plan administration	$ 10	$ 9
Investment fees*	39	20
Professional fees	1	1
Custodial fees	2	2
	$ 52	$ 32

* 2007 investment fees include transaction costs of $17 million (note 3).

12. 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 2.g). The actuarial asset value adjustment decreased by $1,074 million ($625 million increase in 2006) during the year. The composition of the actuarial asset value adjustment as at December 31, is summarized below:

	Unamortized (gains)/losses	Unamortized (gains)/losses to be recognized in				Unamortized (gains)
(in millions of dollars)	**2007**	2008	2009	2010	2011	2006
2003	**$ –**	$ –	$ –	$ –	$ –	$ (99)
2004	**(70)**	(70)	–	–	–	(138)
2005	**(264)**	(132)	(132)	–	–	(399)
2006	**(528)**	(176)	(176)	(176)	–	(704)
2007	**596**	149	149	149	149	–
	$ (266)	$ (229)	$ (159)	$ (27)	$ 149	$ (1,340)

13. 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. The most recent statutory actuarial valuation, prepared by Mercer (Canada) Limited as at December 31, 2006 was extrapolated to determine the accrued pension benefit as at December 31, 2007. 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 $13,071 million ($12,097 million in 2006) are management's best estimate of future economic events and include demographic and financial assumptions. During 2007, 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:

	2007	2006
Discount rate net of expenses	**6.0%**	6.0%
Salary escalation rate		
- Union groups	per the most recent collective agreement	
- Other	**3.5%**	3.5%
- Following expiry of collective agreement	**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 $9 million (increase of $96 million in 2006) were the result of pensionable earnings changes due to recently negotiated collective agreements.

c) Experience losses

Experience losses of $17 million ($39 million in 2006) were due to economic losses ($25 million) and past service buyback losses ($17 million) offset by demographic experience ($19 million) and gains from data adjustments ($6 million).

14. 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.

As the Plan's actuarial valuation disclosed a solvency surplus as at December 31, 2006, no transfers from the SRA to the Plan occurred in 2007 ($49 million in 2006).

15. 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 financial position and to determine the Plan's funding requirements. Annual actuarial valuations are required to be filed when the Plan's solvency ratio is less than 100%.

The latest actuarial valuation for regulatory funding purposes was prepared as at December 31, 2006, by the Plan's actuary Mercer (Canada) Limited, and a copy of this valuation was filed with OSFI and CRA. At December 31, 2006, the valuation disclosed a going-concern surplus of $993 million ($351 million in 2005) and a solvency surplus of $283 million (deficit of $1,201 million in 2005). As the solvency deficit was eliminated in 2006 no further solvency payments to the Plan were required in 2007. The current extrapolated estimate of the financial position of the Plan as at December 31, 2007 is a going-concern surplus of $1,329 million and a solvency surplus of approximately $400 million.

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.

16. 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 $5.4 million ($4.7 million in 2006) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $1.2 million ($0.6 million in 2006) due to the Corporation for administration services provided to the Plan.

17. 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, 2007, these potential commitments totalled $166 million ($91 million in 2006).

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