CANADA POST POSTES CANADA

From anywhere... to anyone

Canada Post Pension Plan
2010 Annual Report






Total Compensation

Canada Post Pension Plan
2010 Annual Report

Table of Contents

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:

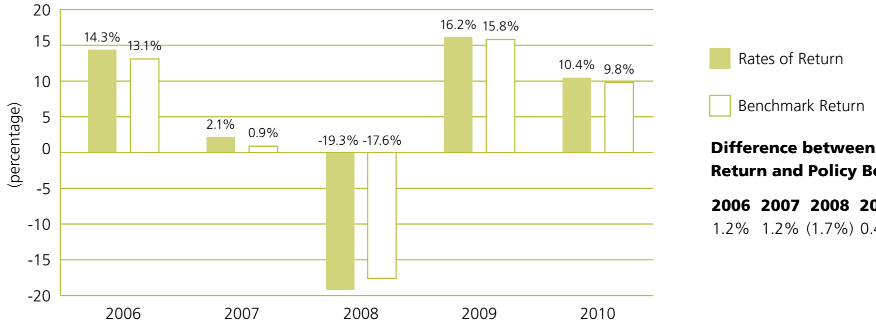
Visit the Canada Post pension plan website at **cpcpension.com**

Call the Pension Centre at 1 877 480-9220 (TTY 613 734-8265) to speak with a Pension Centre Representative.

Operational Highlights

Actual Fund Rates of Return vs Policy Benchmark

The Plan recorded a second straight year of investment positive returns with a rate of return of 10.4 per cent in 2010 beating its benchmark of 9.8 per cent.



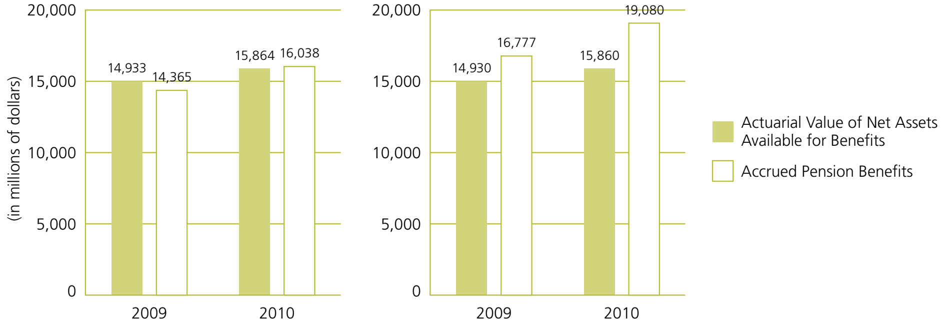
Difference between Actual Fund Return and Policy Benchmark

2006	2007	2008	2009	2010
1.2%	1.2%	(1.7%)	0.4%	0.6%

Plan Funded Status

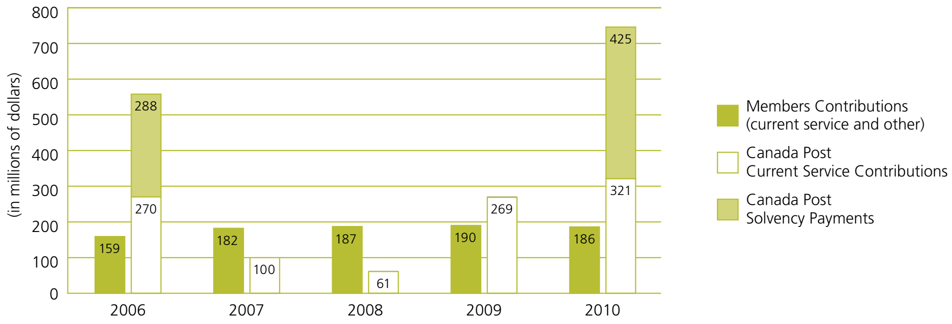
From 2009 to 2010, the Plan went from a going-concern surplus to an estimated going-concern deficit of $174 million and the estimated solvency deficit increased to $3,220 million. Deficits occur when the cost of accrued pension benefits surpasses the growth in assets.

Going-concern funding position **Solvency funding position**



Contributions

Since 2006, Canada Post has contributed $1,734 million in current service cost contributions and special solvency payments.



What's New in the Annual Report?

Here are the major changes between the 2010 and 2009 reports and the effects on the Canada Post Corporation Registered Pension Plan (the Plan).

Discount Rate Decrease for the Estimated December 31, 2010 Funding Position

- The going-concern discount rate used to calculate the estimated current service cost and going-concern liabilities decreased due to changes in actuarial standards and market conditions.
- The solvency discount rate used to calculate the estimated solvency liabilities decreased due to decreasing yields on real return bonds.

Despite the Plan's 2010 strong investment performance, the decrease in discount rates caused an increase in pension liabilities above the Plan's investment returns. This resulted in an estimated solvency deficit of $3,220[1] million using asset smoothing and a going-concern deficit of $174 million.

The estimated 2011 employer contributions are $1,009 million, which consist of current service cost contributions of $357 million and special payments of $652 million to continue eliminating the deficits.

Annual Valuations

Federal pension legislation now requires that actuarial valuations be filed annually with the federal pension regulator, the Office of the Superintendent of Financial Institutions (OSFI), unless the Plan has a significant solvency surplus. A December 31, 2010 actuarial valuation will be filed with OSFI by June 2011.

As Plan funding is important, a Questions and Answers about Actuarial Valuations section was added on page 18.

Federal Pension Reform

In 2010, the federal government proposed pension reform that would enable Crown Corporations to use a letter of credit, which is a promise by a bank or the federal government to pay an employer's obligation. If this is approved in 2011, Crown Corporations may replace special solvency payments with a letter of credit.

Defined Contribution Component of the Plan

A Defined Contribution (DC) component was introduced to the Plan for employees in management and/or exempt positions who started work on or after January 1, 2010. As at December 31, 2010, the assets for the DC component represented less than $500 thousand.

Change in Accounting Policy

An OSFI specification was applied that limits the assumed rate of return used to calculate the amortization of the gains and losses over five years to be no greater than the going-concern discount rate. This change in accounting policy has been accounted for retrospectively. For more information, see Note 3 to the Financial Statements.

Note: For the purposes of this report, "the Plan" refers to the Defined Benefit component only, unless Defined Contribution component is specified.

[1] In accordance with federal pension legislation, asset smoothing allows the Plan to spread (smooth) short-term market fluctuations over five years. Using the fair value of Plan assets (without smoothing), the solvency deficit is approximately $3,710 million.

Understanding the Challenges of Your Pension Plan

As a member of the Canada Post pension plan (the Plan), your retirement benefits are funded by contributions made by you and Canada Post, as well as investment earnings generated by management of the Plan's assets. Despite the Plan's strong investment performance in 2010, Canada Post currently faces serious funding challenges as the projected cost of future pensions has surpassed the growth in Plan assets over recent years.

Where the money comes from:

Contributions from Existing Members

Canada Post Contributions

Net Interest and Investment Income

Assets

At the end of 2010, the Plan had $15.376 billion in net assets available for benefits.

Liabilities (ie-Pension Benefits owed to you)

At the end of 2010, the estimated pension liabilities were higher than the net assets available for benefits, creating both a going-concern deficit and a solvency deficit.

Where the money goes:

Plan members upon retirement

The assets of our Plan do not match the liabilities.

When assets in the Plan are less than our liabilities, we are left with a deficit. It is Canada Post's responsibility to cover that shortfall.

Why is there a Deficit?

The Plan ended 2010 with an estimated solvency deficit of $3.2 billion and a going-concern deficit of $174 million. These deficits resulted from the sharp declines in global capital markets in 2008 and lower discount rates (long-term interest rates used to calculate pension liabilities). Lower discount rates increase pension liabilities and make it more costly to fund pension benefits.

Breakdown of contributions

In 2010...

...for every dollar a typical Plan member contributed…

=

…Canada Post contributed $4.21

=

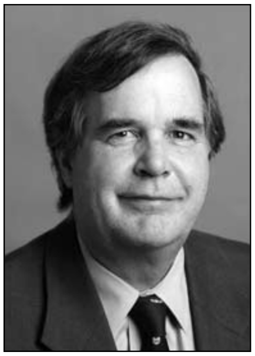
Together all Plan members contributed $177 million in 2010 regular current service cost contributions …

…while Canada Post contributed $321 million in regular current service cost contributions and $425 million in special contributions.

- You and Canada Post alone fund your pension.
- **Future employees do not fund the pensions of existing employees.**
- Canada Post, as the Plan sponsor, is responsible for funding any Plan deficits and is fully committed to meeting its obligations to Plan members. In order to begin addressing the solvency deficit, Canada Post made a special contribution of $425 million IN CASH to the Plan in 2010 – on top of its regular current service cost contribution.

Message from Marc A. Courtois

Chairman of the Board



The Board of Directors of Canada Post (the Board) continued to exercise its pension fiduciary responsibilities throughout 2010, closely monitoring pension activities during the year.

In 2010, financial markets continued to rebound from the global economic downturn of 2008-09. For the second straight year, the Canada Post Corporation Registered Pension Plan (the Plan) achieved solid investment returns as it was well positioned with its investment strategy to take advantage of these recovering financial markets.

Canada Post, as the Plan sponsor, is responsible for funding any Plan deficits to the Defined Benefit component. Because the Plan had ended 2009 in a solvency deficit position, Canada Post began making special solvency payments in 2010 in accordance with federal pension legislation. Canada Post is committed to fully meeting its obligations to Plan members and to living up to its obligations under the federal *Pension Benefits Standards Act, 1985*. This Act sets out the rules for the prudent management of the Plan's funds over the long term for all its members. In order for us to be able to continue to meet these very important and large financial obligations, it is absolutely necessary that Canada Post continues to strive to improve its financial performance.

2010 marked the ten-year anniversary of the establishment of the Plan as a stand-alone entity. The Plan started with 55,000 active members on October 1, 2000 and had grown to nearly 82,000 active members, pensioners, deferred members and beneficiaries at the end of 2010. The Board continues to monitor the Plan as part of the overall pension governance process. Working with the Plan sponsor, the Board always strives to ensure that sufficient funding is in place and excellent service is delivered to all Plan members.

On behalf of the Board I would like to thank Denyse Chicoyne, Chair of the Pension Committee, for her stewardship of the Plan and to thank the pension team for their continued excellent efforts during 2010. I would also like to thank the Investment Advisory Committee of Canada Post for their continued due diligence and guidance and the Pension Advisory Council for their valuable feedback on various aspects of the Plan.

Message from Deepak Chopra

President and CEO

In 2010, Canada and much of the world's developed economies experienced slow recoveries, at best, from the lows of the sharp 2008-09 downturn. Canada Post had another challenging year as volumes continued to decline and revenues were weaker than expected. Fortunately, financial markets overall were positive in 2010, and the Canada Post Corporation Registered Pension Plan (the Plan) recorded a second straight year of positive investment returns. The Plan posted a 10.4 per cent rate of return in 2010, exceeding its benchmark of 9.8 per cent. The Plan ended the year with $15.376 billion in net assets available for benefits.

Canada Post, as the Plan sponsor, currently faces serious funding challenges as the projected cost of future pensions has surpassed the growth in net assets available for benefits over recent years. The financial risk of the Defined Benefit component of the Plan rests solely with Canada Post, and the company is responsible for funding any Plan deficits. The best security for Plan members is a financially sustainable Plan sponsor. Management and the Board of Directors of Canada Post (the Board) continue to work hard to protect the pensions of Plan members by making the necessary changes to ensure that Canada Post remains financially sustainable. Canada Post is committed to fully meeting its obligations to Plan members and to living up to its obligations under the federal *Pension Benefits Standards Act, 1985*.

Because the Plan had ended 2009 in a solvency deficit position, Canada Post began making special solvency payments in 2010 in accordance with federal pension legislation. Canada Post made a special solvency payment of $425 million to the Plan in 2010, in addition to its $321 million regular contribution. We are currently required to make special solvency payments until the deficit is eliminated.

Despite the Plan's positive investment performance in 2010, the Plan's estimated funding position at year-end was a larger solvency deficit and a small going-concern deficit. The deficits were caused by falling discount rates, which increased pension liabilities at levels above our Plan's investment returns. As required by federal pension legislation, an actuarial valuation as of December 31, 2010 will be filed with the federal pension regulator, the Office of the Superintendent of Financial Institutions, by June 2011. Based on its estimates, Canada Post will have to increase its special solvency payments after the valuation is filed, to help erase the deficits. Since the going-concern deficit is small, it is anticipated that this can be eliminated quickly through the special solvency payments and market performance of the Plan.

In 2010, the federal government proposed pension reform that would enable Crown Corporations to use letters of credit to address their funding deficits. If this pension reform is approved in 2011 as proposed, Crown Corporations may replace special solvency payments with a letter of credit, subject to a maximum of 15 per cent of the market value of assets. In early 2011 management and the Board were exploring options which included the letter of credit to satisfy its obligations to Plan members while mitigating the impact on the company's cash resources.

I would like to thank Douglas Greaves, Vice-President Pension Fund and Chief Investment Officer, and the pension team for providing solid, consistent management of the Plan's assets and for providing excellent services to all Plan members. For more information, or for Plan members who wish to view personal pension information in confidence, please visit cpcpension.com.

Report to Members

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

Member Services

The Canada Post Corporation Registered Pension Plan (the Plan) which began operations in 2000 with approximately 55,000 members has grown to nearly 82,000 members in 2010. There were over 3,000 new retirees in 2010 with Pensioners now representing 24.8 per cent of the total.

The Pension Centre

Our Pension Centre staff is responsible to provide and administer Plan member services, such as the processing of elective service purchases, pension estimates, retirements/terminations/deaths, personal identification number (PIN) replacements to access the pension calculator on cpcpension.com, pensioners life insurance beneficiaries, new retirees' pension payments and the collection of employee contributions for a leave of absence. The following section provides additional information regarding the many services that the Pension Centre provided to Plan members.

Telephone calls received	2010	2009
Active Members	45,951	42,380
Pensioners	5,402	5,038

- The Pension Centre processed over 24,000 member services transactions.
- The Pension Centre team continues to provide excellent service to Plan members. An ongoing client satisfaction survey, which gathers input from members who have recently completed a transaction, is performed. The overall satisfaction rating was 4.4 on a target score of 5.0.

Website Online Services: cpcpension.com

Plan members visited the Plan's website, **cpcpension.com**, to find valuable pension information, take an on-line pre-retirement course and calculate pension estimates based on their individual data. There were 69,891visits in 2010 (76,617 in 2009). Plan members used the 'Calculate my pension' feature to perform 192,528 (185,448 in 2009) pension estimates.

Pre-retirement Seminars

During 2010, 85 pre-retirement seminars were provided to 2,921 Plan members and spouses/common-law partners across Canada. The seminars are provided to Plan members who are entitled to an unreduced pension and are within two years of retirement. These seminars help members understand the value of their pension benefit and learn about other factors that affect their retirement decision such as financial, legal, health and lifestyle choices. Out of the 2,921 participants, 416 one-on-one consultations were also provided. Feedback from Plan members for both the pre-retirement seminars and one-on-one consultations was very positive.

For Plan members who cannot participate in the pre-retirement seminars, visit **cpcpension.com** to take the online pre-retirement course "Planning your Retirement".

Our Commitment to High Quality Service Standards and Cost-effectiveness

Pension Services participated in a benchmarking study with CEM Benchmarking Inc. in 2009. CEM provides independent and objective information by comparing how Pension Services administers the Plan against similar public and private sector defined benefit pension plans. The results provide insights into administration costs, service levels, and industry best practices.

The CEM study reported a 2009 service score for Pension Services of 78, which was above the peer group median score of 73. This score ranked 3 out of 11 similar plans that participated in the survey.

The following provides the 2009 costs required to provide services to Plan members:

Average Administration Cost, by Member Type

	Membership Type		
	Active	**Inactive**	**Pensioners**
Canada Post	**$132**	**$69**	**$56**
Peer Group	$196	$93	$85

Pension Services is committed to the continuous improvement of service for Plan members to provide high quality service in a cost-effective way.

Contact Pension Services

For pension or post-retirement information, questions or requests:

Contact a Pension Centre Representative:

08:00 to 18:00 (Eastern Time)

Monday to Friday

1 877 480-9220

613 734-8265 (TTY)

613 683-5908 (Outside North America)

Contact RBC Dexia

Inquiries for RBC Dexia Investor Services related to pension payments:

Benefit Payment Services

East Wing 5th Floor

1 Place Ville Marie

Montreal QC H3B 1Z3

1 800 876-4498

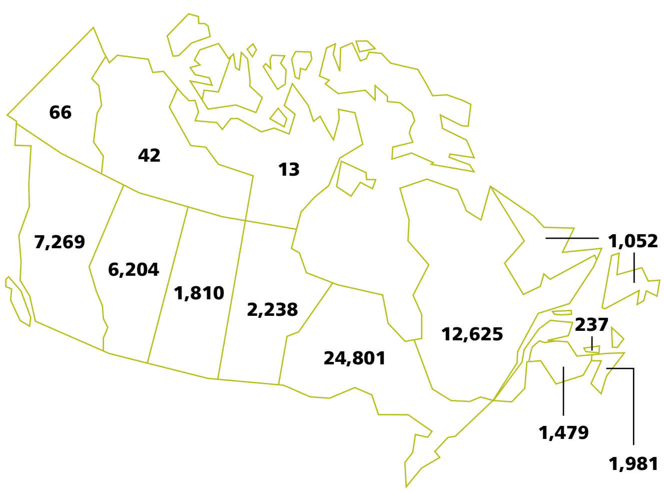
Membership Summary

Membership continues to grow in the Canada Post pension plan (the Plan) making it one of the largest single employer pension plans in Canada, with a total of 81,973 active members, pensioners, deferred members and beneficiaries.

	2006	2007	2008	2009	2010
Active Members	63,134	63,531	63,239	61,755	59,817
% of Active Members	85.0%	82.5%	79.8%	76.6%	73.0%
Pensioners	10,165	12,398	14,753	17,269	20,330
% of Pensioners	13.7%	16.1%	18.6%	21.4%	24.8%
Deferred Members and Beneficiaries	948	1,050	1,249	1,622	1,826
% of Deferred Members and Beneficiaries	1.3%	1.4%	1.6%	2.0%	2.2%
Total	**74,247**	**76,979**	**79,241**	**80,646**	**81,973**

Total Active Members by Province and Territory

As at December 31, 2010, the population of our 59,817 active members is distributed across Canada, as shown below.



Membership Age Distribution as of December 31, 2010

The Plan has 28,935 active members over age 50. The number of active members retiring year over year is continuing to increase. Pensioners increased by 3,061 in 2010.

Age	< 30	30-39	40-49	50-59	60-69	70-79	80-89
Active Members	2,314	9,784	18,784	23,804	5,028	103	N/A
Pensioners	N/A	11	166	6,731	11,731	1,648	43

The average active member age is 48.3 years of age (2009 – 48.1 years of age).
The average retiree age is 62.3 years of age (2009 – 62.0 years of age).

Financial Summary

Net Assets Available for Benefits

The Canada Post Corporation Registered Pension Plan (the Plan) posted strong returns in 2010, which increased the Plan's net assets position.

The Plan ended the year with net assets available for benefits of $15,376 million, an increase of $1,800 million from $13,576 million at the end of 2009. The actuarial (smoothed) value of net assets available for benefits as at December 31, 2010 was $15,864 million, an increase of $944 million compared to $14,920 million as at December 31, 2009. Federal pension legislation allows the Plan to spread (smooth) short-term market fluctuations over five years.

Changes in Net Assets Available for Benefits

The $1,800 million increase in the net assets available for benefits represents investment income of $1,439 million and contributions of $932 million offset by pension benefits payments of $517 million and administration expenses of $54 million.

Investment income, which is comprised of interest, dividend, realized and unrealized gains and losses, was $1,439 million for 2010 and $1,882 million for 2009. For the second straight year, the Plan achieved solid investment returns of 10.4 per cent in 2010 and 16.2 per cent in 2009 as it was well-positioned with its investment strategy to take advantage of financial markets recovering from the 2008 global economic crisis.

During 2010, Plan contributions were $932 million compared to $459 million in 2009, an increase of $473 million. The increase is mainly due to a special solvency payment of $425 million made by Canada Post to begin eliminating the solvency deficit.

Pension benefit payments for 2010 were $517 million compared to $444 million in 2009, an increase of $73 million. The increase is mainly due to 18 per cent more retirees than in 2009.

Changes in Accrued Pension Benefits

Accrued pension benefits were $16,038 million compared to $14,367 million in 2009, an increase of $1,671 million. The increase is due to additional service for active members, accrued interest on pension liabilities and the changes in actuarial assumptions where the discount rate dropped from 6.2 per cent in 2009 to 5.8 per cent in 2010. Discount rate decreases cause increases in the cost of providing pension benefits to Plan members.

Actuarial assumptions are reviewed annually with the Plan actuaries, and approved by the Board of Directors of Canada Post (the Board), to ensure they remain appropriate with the changing economic, market and demographic conditions.

Changes in Surplus/Deficit

In accordance with the federal *Pension Benefits Standards Act, 1985* (PBSA), an actuarial valuation for funding purposes (actuarial valuation) is required to be filed annually, on a going-concern basis and solvency basis, to determine the Plan's financial position and funding requirements. The December 31, 2010 actuarial valuation will be filed by June 2011.

As at December 31, 2010, the estimated going-concern deficit was approximately $174 million compared to a $553 million going-concern surplus in 2009. The estimated solvency deficit was approximately $3,220[1] million as at December 31, 2010 compared to $1,847[1] as per the December 31, 2009 actuarial valuation.

[1]Solvency deficit when using fair value of Plan assets was approximately $3.7 billion and $3.2 billion as at December 31, 2010 and 2009 respectively.

Asset Performance

Overview

The Canada Post pension plan's (the Plan) rate of return was 10.4 per cent in 2010 beating its benchmark rate of return of 9.8 per cent. The Plan's net investment assets held by the custodian at the end of 2010 were $15,275 million, an increase of $1,809 million from the end of 2009.

Canada Post Corporation (the Corporation) provides pension benefits to members through the Plan which is registered under the federal *Pension Benefits Standards Act, 1985* (PBSA). The PBSA requires that the Plan establishes a Statement of Investment Policies and Procedures (SIPP). This SIPP must be based on the "prudent person portfolio approach" so that the Plan's assets are invested in a way that a reasonable and prudent person would apply to the investment portfolio of a pension fund. The Board of Directors of the Corporation (the Board) has adopted the SIPP to ensure the continued prudent and effective management of the Plan so enough assets will be available to pay pension benefits when they become due. The SIPP outlines the broad ranges of allowable Plan investments and is reviewed annually by the Board and Pension Committee.

Investment Objectives and Limitations

The SIPP describes the investment objectives and limitations of the Plan. Under the SIPP, the Plan's primary objective is to ensure that the pension promise is met at a reasonable cost.

Over the long term, investment performance is evaluated on the Plan's ability to meet its pension obligations to Plan members.

Over the short term, the Plan uses a benchmark portfolio to measure investment performance. The Plan's benchmark portfolio represents the performance of the market index of each of the asset categories in the Plan, held at neutral weights. The SIPP contains minimum and maximum asset category limits to allow flexibility when market conditions change.

The Plan maintains at least the minimum diversification standards as established in the PBSA and also maintains appropriate diversification between industry sectors, geographic/economic areas and management styles.

Risk Management Strategy

To reduce risks, the Plan ensures that investment decisions are made in accordance with the SIPP. The SIPP sets the allowable asset mix ranges, which define how much can be invested in each asset class and is designed to provide the Plan with a long-term rate of return of 4.5 per cent above inflation. Achieving this rate helps protect the Plan from fluctuations in its asset value and the ongoing growth of its pension liabilities. Each asset class has specific risks and limits associated with it. A risk management framework was developed through which all portfolios and their associated risk exposures are closely monitored by management and reported to the Pension Committee on a quarterly basis.

An asset-liability study was initiated in 2010 to ensure the Plan's investment strategy remains appropriate in today's challenging environment. In the first half of 2011, updates may be made to the Plan's SIPP by the Board based on the asset-liability study results.

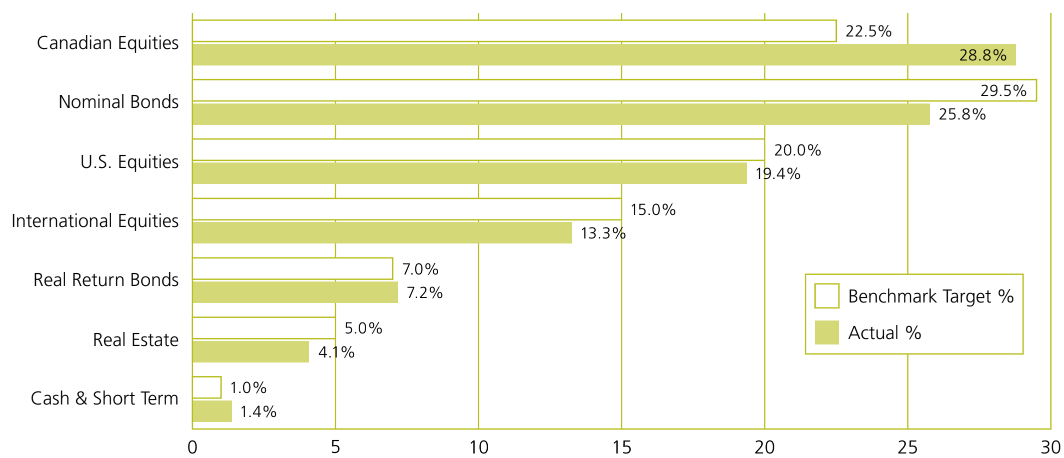
The various asset related risks faced by the Plan, are outlined in Note 5 to the Financial Statements.

Investment Mix Strategy

The Plan currently maintains a long-term asset mix target of 62.5 per cent in equities and real estate and 37.5 per cent in fixed income. The Plan's asset mix compared to the benchmark portfolio is shown in the following chart. Total equity exposure of 65.6 per cent of total assets was above the benchmark of 62.5 per cent due to an over-weight position in Canadian equities, an under-weight position in U.S. and international equities, and an under-weight position in real estate. The total fixed income weight of 34.4 per cent of total assets is below the benchmark weight of 37.5 per cent, due to an under-weight position in nominal bonds. The real return bond exposure was slightly above its target allocation. "Under-weight" and "over-weight" refer to differences from the benchmark portfolio, "under-weight" being less than the benchmark, "over-weight" more.

Asset Mix

Actual Percentage Allocation at December 31, 2010 versus Benchmark Target Percentage

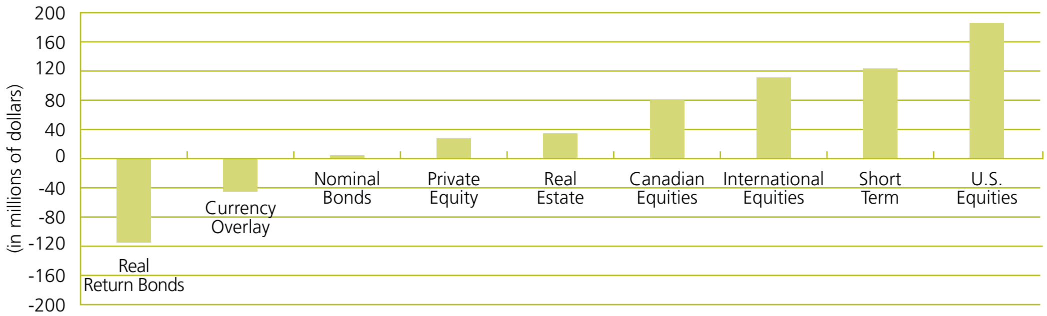


Fund Investments and Cash Flows

As shown in the following chart, during 2010 the Plan took profits from the currency overlay account and real return bonds to increase allocation to U.S., international and Canadian equities as well as private equity and real estate mandates.

As at December 31, 2009, the Plan had a solvency deficit. This means that if the Plan had been terminated on that date, there would not have been enough assets to pay for 100% of the pension benefits to all Plan members. To begin addressing this deficit, the Corporation made a total special solvency payment into the Plan of $425 million.

Change in Fund Investments by Asset Class
January 1, 2010 to December 31, 2010



2010 Economic Backdrop and Key Events in Review

In 2010, the global economy experienced modest growth in the developed world and continued strong economic growth in developing countries. After a strong rebound fuelled by loose fiscal and monetary policy which increased the money supply, the economy had adjusted to a more sustainable growth rate. Factors shaping the recovery were central bank monetary policy support, increased investor confidence, improving financial conditions, global growth, more trade and increased demand for energy and commodities.

European governments approved austerity measures to bring public finances under control. Austerity measures are usually taken when it looks like a government cannot honour its debt. In the spring, the European Union and the International Monetary Fund (IMF) created an aid package for Greece. Concerns about the Greek crisis spreading to Portugal, Spain and Ireland, caused a severe market sell-off around the world. Global policymakers installed an emergency financial safety net to help improve financial markets and strengthen the Euro.

Mid-year, concerns arose that the economy would slide back into recession as the U.S. economy slowed and its unemployment rate remained high.

In November, the U.S. Federal Reserve confirmed it would engage in another round of quantitative easing. This means that it would create money to buy government bonds and other financial assets from financial institutions to increase the money supply and raise financial asset prices. The anticipation of quantitative easing made equities and other risky assets more attractive to investors. This was accompanied by slightly better growth data worldwide and an increase in commodity prices and commodity stocks in the agricultural, energy, base metals and precious metals sectors. As a result, equity markets worldwide improved in the last four months of 2010.

2010 world Gross Domestic Product (GDP) growth of 5 per cent represented a two-pronged recovery: below normal growth of 2 to 3 per cent in the developed countries and higher growth of 7.5 to 10 per cent in the developing countries. Of note was the surprising strength in Germany as the lower Euro made German exports cheaper and the unexpected increase in the value of the Japanese yen. Germany and Japan lead the developed countries in GDP growth with 3.6 and 3.5 per cent respectively.

In Canada, the economy grew by 3.1 per cent in 2010. In the first quarter, it had its highest quarterly growth rate since 2000. GDP growth for the rest of 2010 slowed down, but continued to be positive. A strong Canadian dollar and lower exports due to weak U.S. demand for Canadian goods dampened economic activity.

In the U.S., the economy expanded by 2.9 per cent in 2010. The first half of 2010 showed strong growth. At mid-year, there were fears of another recession due to a slowdown in growth, the weak U.S. employment situation and continuing European sovereign debt issues. However, helped by the confirmation of quantitative easing, the rest of the year showed modest growth.

Developing countries such as China, India and Brazil had GDP growth of 7.5 to 10.3 per cent, but also dealt with inflation on commodity prices, including agricultural products. In summary, 2010 ended with economic improvements in the major world economies with growth in inflation anticipated in the future.

Financial Market Performance

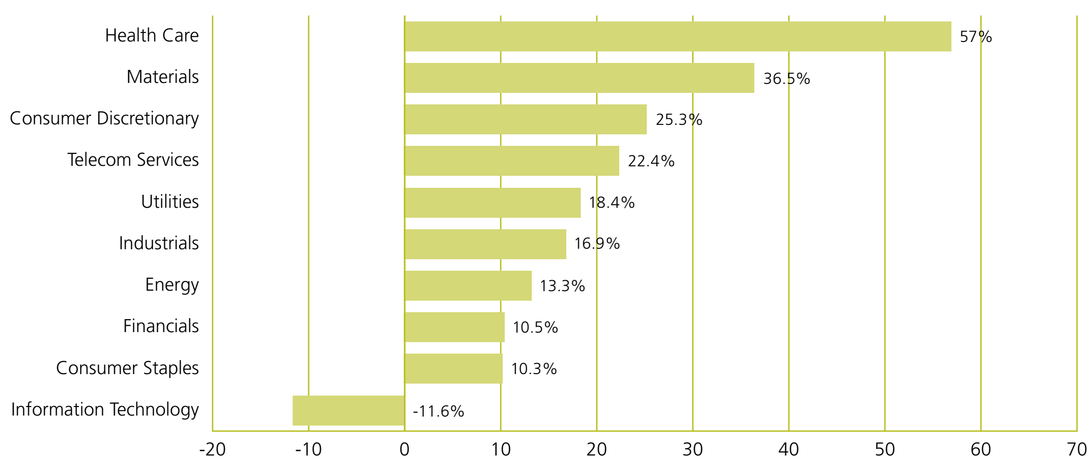
In Canada, the equity market's steady gains were interrupted in the spring when European sovereign debt concerns recurred and a pause in U.S. economic growth caused fears of another recession. Stocks sold-off at mid-year, and then rebounded to gain 17.6 per cent for 2010. This rebound was due to several factors including the U.S. Federal Reserve's decision to embark on quantitative easing, strong corporate balance sheets, investors looking for greater returns moved toward riskier financial assets such as equities and an overall improving world economy.

Commodity demand continued to climb as copper, widely considered a strong indicator for the broader economy, gained 33 per cent to $4.44 US per pound. Oil prices had climbed from $77 US to $91.50 US at the end of December.

The S&P/TSX (Standard & Poor's/Toronto Stock Exchange) Composite Index ended the year up 17.6 per cent. As can been seen in the following chart, all industry sectors except Information Technology gained during the year. Strong performance came from the economically sensitive areas such as materials and consumer discretionary, as well as health care. Information technology was down as Research in Motion faced increased competition and potential constraints from the governments in some overseas markets.

TSX Composite Index Industry Sector Percentage Return

January 1, 2010 to December 31, 2010



In the U.S., the S&P 500 (Standard & Poor's) gained 15.1 per cent in US dollar terms while the international market, as represented by the MSCI EAFE (Morgan Stanley Capital International Europe, Australasia, Far East) index, was up 4.9 per cent in US dollar terms. Depreciation of the U.S. dollar against most currencies meant the gain in Canadian dollar terms was 9.1 per cent (S&P 500) and 2.1 per cent (MSCI EAFE) respectively. Internationally, Europe had negative returns except for Sweden, Switzerland and Germany. Emerging markets were up 10.3 per cent in Canadian dollar terms. Returns were mixed with India and Russia up 19.4 and 17.2 per cent respectively while Brazil was flat at 0.5 per cent and China was down 16.3 per cent in Canadian dollar terms.

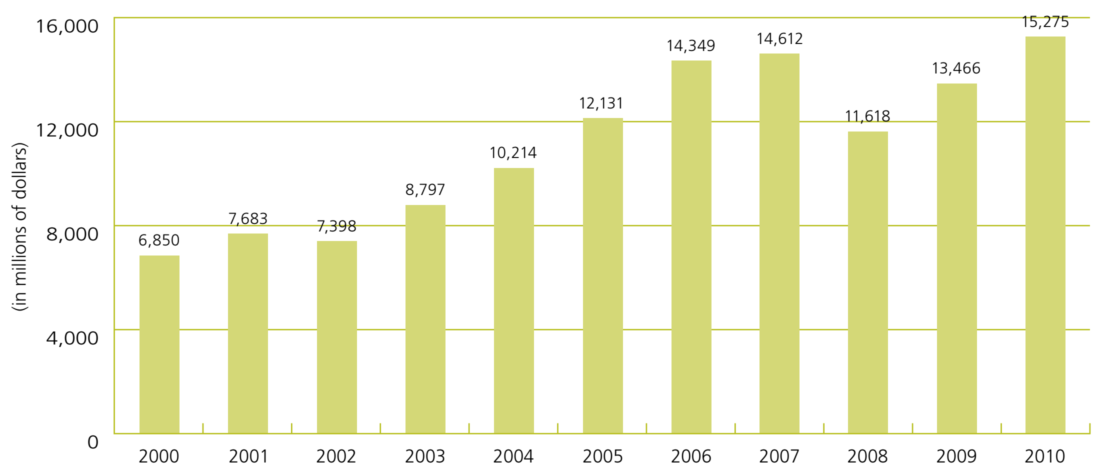
Bond markets performed well in 2010 with the DEX bond index up 6.7 per cent, and the DEX real return bond index up 11.1 per cent. Corporate bonds performed well due to more investor confidence in this sector. Most central banks around the world kept interest rates low to stimulate growth. The commodity-based economies and those facing inflationary pressures started to raise interest rates.

Fund Performance

The Plan earned a rate of return of 10.4 per cent in 2010. This was above its benchmark rate of return of 9.8 per cent, but was below the median gain of 11.3 per cent experienced by the RBC Dexia universe of large Canadian pension plans[1]. After experiencing losses in 2008, the Plan rebounded in 2009 and 2010 achieving its highest level of assets since inception. Total Plan net investment assets are shown in the following chart.

Net Investment Assets

As at December 31



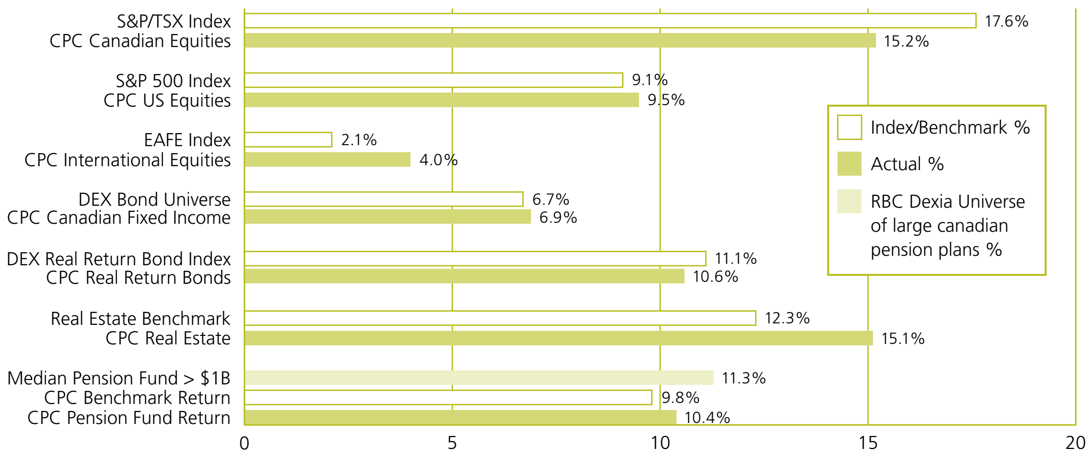
Net investment assets are defined as investments plus investment related receivables minus investment related liabilities.

[1] The RBC Dexia universe of large Canadian pension plans has the industry's largest group of Canadian pension plans greater than $1 billion. The Plan compares itself against this universe.

The 2010 asset class returns are shown in the following chart against their benchmark returns.

1 Year Returns as at December 31, 2010

By Asset class and Total Plan



Canadian equities performed the best of all asset classes despite not performing as well as their benchmark due to underweighting in the materials sector. U.S. equities did slightly better than their benchmark. International equities did better than their benchmark as a result of exposure to emerging market economies, which were up, but are not part of the benchmark index.

Bond returns were positive due to gains by the provincial, municipal and corporate sectors. The modest, sustainable growth in the Canadian economy was reflected in the flattening of the yield curve. The yield curve reflects the expected yields for bonds with terms from one year to thirty years. Over the course of 2010, short-term bond yields increased while the mid to long-term bond yields decreased. When bond yields increase, bond prices decrease and when bond yields decrease, bonds prices increase. As a result, cash and short-term investments returns were almost zero for the year. Real return bonds, which are inflation-linked long bonds, had strong positive returns.

Real estate investments benefited from increased demand. The Plan's real estate benchmark of 50 per cent S&P/TSX Composite Index and 50 per cent DEX Universe Bond Index does not reflect the income and capital gain prospects of real estate in the short term. The Plan's real estate performance greatly exceeded the real estate performance of other pension plans.

Overall the Plan benefited from an over-weight position in the Canadian equity market.

The Plan's largest equity holdings are shown in the following chart.

Equity holdings greater than $25 million
(Per cent of the overall fund)

December 31, 2010 *(In millions)*		
Toronto Dominion Bank	$ 202	1.32%
Royal Bank of Canada	185	1.21%
Bank of Nova Scotia	176	1.15%
Suncor Energy Inc.	154	1.01%
Canadian Natural Resources Ltd.	117	0.77%
Potash Corp. of Saskatchewan	100	0.65%
Canadian National Railway Co.	97	0.64%
Talisman Energy Inc.	94	0.62%
Research in Motion Ltd.	88	0.58%
Barrick Gold Corp.	86	0.56%
Manulife Financial Corp	85	0.56%
Bank of Montreal	82	0.54%
Goldcorp Inc.	79	0.52%
BCE Inc.	76	0.50%
Apple Inc.	75	0.49%
Enbridge Inc.	73	0.48%
SNC-Lavalin Group Inc.	72	0.47%
Canadian Imperial Bank of Commerce	70	0.46%
Teck Resources Limited	69	0.45%
TransCanada Corp.	65	0.43%
Thomson Reuters Corp.	65	0.43%
Cenovus Energy Inc.	64	0.42%
Rogers Communication Inc.	58	0.38%
EnCana Corporation	57	0.37%
Nexen Inc.	56	0.37%
Shaw Communications Inc.	56	0.37%
Microsoft Corp.	55	0.36%
Procter & Gamble Co.	53	0.35%
Schlumberger Ltd.	53	0.35%
Magna International Inc.	53	0.35%
Johnson & Johnson	51	0.33%
Qualcomm Inc.	46	0.30%
Cameco Corp.	46	0.30%
Sun Life Financial Inc.	45	0.29%
Chevron Corporation	44	0.29%
Pepsico Inc.	41	0.27%
Exxon Mobil Corporation	41	0.27%
JP Morgan Chase & Co.	41	0.27%
Rio Tinto Ord.	40	0.26%
Agrium Inc.	40	0.26%
Wells Fargo & Co.	38	0.25%
Telus Corp.	37	0.24%
Oracle Corporation	37	0.24%
AT&T Inc.	36	0.24%
Cisco Systems Inc.	35	0.23%
Kinross Gold Corp.	35	0.23%
Metro Inc.	35	0.23%
American Tower Corp.	35	0.23%
Royal Dutch Shell PLC	34	0.22%
CME Group Inc.	33	0.22%
Nippon Telephone & Telegraph	32	0.21%
Lowes Companies Inc.	32	0.21%
Great West Lifeco Inc.	31	0.20%
Canadian Tire Ltd.	31	0.20%
Intact Financial Corp.	31	0.20%
Costco Wholesale Corp.	30	0.20%
Astrazeneca Group	30	0.20%
Imperial Oil Ltd.	30	0.20%
Loblaw Cos Ltd.	30	0.20%
Shoppers Drug Mart Corporation	29	0.19%
Societe Generale	29	0.19%
General Electric Co.	29	0.19%
Staples Inc.	28	0.18%
Allianz SE	27	0.18%
Nestle SA	27	0.18%
Power Financial Corp	26	0.17%
Bombardier Inc.	26	0.17%
National Bank Canada	25	0.16%
	$ 3,928	**25.76%**

Investment Developments and Initiatives

In 2010 there were several important developments within the Plan as detailed below:

- The Plan continued its diversification strategy, increasing exposures to real estate, private equity and infrastructure.
- An asset-liability study was initiated in 2010 which may result in the addition of new asset classes to the SIPP.
- A Risk Management Officer was appointed to monitor all portfolios and their associated risks which are reported to the Pension Committee on a quarterly basis.
- Both Pension Services and Pension Investments continue to provide pensions and services to its pensioners and other Plan members at below median industry costs.
- The Plan added two U.S. small capitalization stock portfolios.

Looking Forward to 2011

- Pension Investments is committed to earning returns above the benchmark portfolio and selecting the appropriate asset mix and risk level to meet the Plan's long-term funding objectives.
- In 2010, the federal government proposed pension reform that would enable Crown Corporations to use a letter of credit, which is a promise by a bank or the federal government to pay an employer's obligation. If this is approved in 2011, Crown Corporations may replace special solvency payments with a letter of credit.
- Management and the Board are exploring options which include a letter of credit to satisfy its obligations to Plan members while mitigating the impact on the Corporation's cash resources.
- Pension Services and Pension Investments will strive to continue to provide pensions and services to all its Plan members at below median industry costs.
- Employer contributions will total approximately $1,009 million as noted in the What's New in the Annual Report section.

Funding Valuation

The Plan is currently required to file annual actuarial funding valuations with the pension regulator, the Office of the Superintendent of Financial Institutions (OSFI). Valuations are required to set out the funded status of the Plan on a going-concern and solvency basis. Questions and answers about actuarial valuations can be found on the next page.

Pension liabilities on a going-concern and solvency basis are compared to the Plan assets to assess the health of the Plan. The pension liabilities represent the cost of future pension benefits, based on the Plan member's pensionable earnings and pensionable service earned to the date the liability is calculated. For this purpose, the actuary makes assumptions about the future such as expected inflation, returns on invested assets, salary increases, retirement age, life expectancy and other factors. The pension liabilities are compared to the Plan assets to see if there is a surplus or a deficit. Canada Post, as the Plan sponsor, is responsible for funding any deficits.

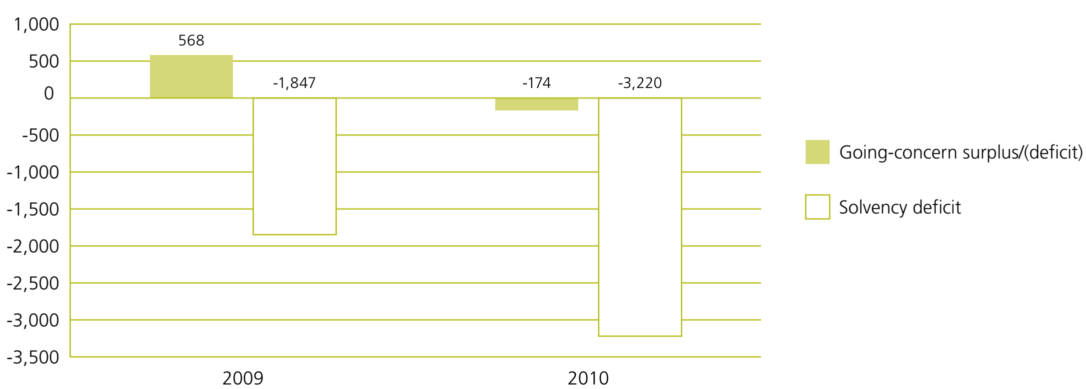
The Plan sponsor is currently facing serious funding challenges as the projected cost of future pensions has surpassed the growth in assets over recent years. Lower discount rates and longer life expectancies of Plan members make it more costly to fund pension benefits. A small change in discount rates can have a significant impact on pension liabilities.

In May 2010, the Plan filed a December 31, 2009 actuarial valuation with OSFI showing a going-concern surplus of $568 million and a solvency deficit of $1,847 million.

The current extrapolated estimate of the financial position of the Plan as at December 31, 2010, based on existing rules and regulations, is a going-concern deficit of approximately $174 million and a solvency deficit of approximately $3,220 million using asset smoothing ($3,710 million on a fair value of Plan assets). While the Plan's rate of return was 10.4 per cent and special solvency contributions were made by the Plan sponsor, this was not sufficient to offset the increase in pension liabilities resulting from lower discount rates.

An actuarial valuation as of December 31, 2010 will be filed with OSFI by June 2011. Based on its estimates, Canada Post will have to increase its special solvency payments after the valuation is filed, to help erase the deficits. Since the going-concern deficit is small, it is anticipated that this can be eliminated quickly through the special solvency payments and market performance of the Plan.

Funded Position



Funding valuation history since Plan inception can be found in the Funding Valuation History chart on page 47.

Questions and Answers about Actuarial Valuations

What is an actuarial valuation and what does it determine?

An **actuarial valuation** is like a report card for the long-term financial health of a pension plan. An independent actuary is hired by the Canada Post Board of Directors to conduct an actuarial valuation. The valuation determines the plan's long-term financial health by comparing plan assets such as stocks and bonds to pension liabilities. This shows whether there is a **surplus** or a **deficit** of funds to cover the value of accumulated pension benefits.

OSFI requires that the actuarial valuation is done on both a "going-concern" and "solvency" basis. These valuations assess the health of a pension plan in hypothetical situations, in order to protect the interests of plan members.

What is a going-concern valuation?

The **going-concern valuation** assumes that the Plan continues in operation, and is longer term in focus. It determines if there are enough assets being held in the Plan to pay for pension benefits paid in the future for accumulated service to date. It also assesses whether the level of contributions made by Plan members and Canada Post is sufficient to cover the additional pension liability created over the coming year, resulting in another year of credited service for current employees contributing to the Plan.

The last filed valuation as at December 31, 2009 showed that the Plan had a going-concern surplus. This means that in the long term, based on the assumptions and methods used for this valuation, there were enough assets to pay for future pension benefits. The estimated December 31, 2010 going-concern position shows a small deficit which means that the assets are slightly below the amount required to pay for future benefits.

What is a solvency valuation?

The **solvency valuation** assumes the Plan is terminated on the date of valuation. This test exists so pension regulators can ensure that, in such an extremely unlikely situation, Plan members are paid what would be fully owed to them to that point.

The last filed valuation as at December 31, 2009 showed that the Plan had a solvency deficit. This means that if the Plan had been terminated on December 31, 2009, there would not have been enough assets to pay for 100 per cent of the pension benefits. The estimated December 31, 2010 solvency position shows a larger deficit than 2009. Again, this is a hypothetical test applied by regulators and does not reflect the actual state of Canada Post and our Plan.

What happens if there are deficits?

Based on current federal pension legislation:

- If an actuarial valuation reports a solvency deficit – a shortfall of Plan assets to solvency liabilities, Canada Post, as the Plan sponsor is required to make special payments over five years or less to the Plan to eliminate the deficit.
- If an actuarial valuation reports a going-concern deficit – a shortfall of Plan assets to going-concern liabilities, the Plan sponsor is required to make special payments over 15 years or less to the Plan to eliminate the deficit.

In general, plan sponsors must, in a given year, pay the amount necessary to cover the ongoing current service cost, plus any special payments required in that year to pay down a funding deficiency over the appropriate time period.

Plan Governance

Supported by the Governance Structure below, the Board of Directors ensures the Plan is administered responsibly and in the best interest of all Plan members. Effective Board, Committee and management decisions are in place on account of approved processes and strict controls. The Governance Structure describes the accountabilities of those tasked with pension fiduciary responsibilities to ensure delivery of the pension promise.

In 2010, Internal Audit contributed to ensuring that the oversight and compliance governance principle was effectively followed by the Plan. Internal Audit conducted an audit that assessed compliance with various contractual and regulatory requirements pertaining to investment managers and concluded that controls were operating effectively to ensure compliance with the Statement of Investment Policies and Procedures, contract provisions and regulations.

Further in 2010, the Plan was randomly selected by the Office of the Superintendent of Financial Institutions (OSFI) for an on-site examination of both the administration and investment functions. OSFI, in its recommendations, suggested minor administrative process adjustments and commented that the Plan had good controls, processes, procedures, and oversight and governance practices.

The Plan also fulfills its communications fiduciary responsibility as outlined in federal pension legislation. In 2010, communications issued to members included the Canada Post Pension Plan 2009 Annual Report, Your Personalized Pension Statement, communiqués, Pension Plan News and Intouch bulletins. All publications and more can be found on **cpcpension.com**.

Board, Committee and Council Memberships

The following outlines the Board, Committee and Council memberships involved in the governance of the Plan as at December 31, 2010.

	Board of Directors	Audit Committee	Pension Committee	Human Resources and Compensation Committee	Investment Advisory Committee	Pension Advisory Council
Marc A. Courtois	Chairman	•	•	•		
Stewart Bacon	•					
Denyse Chicoyne, CFA, MBA	•		Chairperson		•	
Thomas Cryer, FCA	•	Chairperson	•			
A. Michel Lavigne, FCA	•	•	•			
Siân M. Matthews	•			•		
The Honourable Stewart McInnes, Q.C.	•					
Iris Petten	•			•		
Robert Pletch, Q.C.	•	•				
William H. Sheffield	•		•	Chairperson		
Donald Woodley	•			•		
Lorne Braithwaite, BComm, MBA					Chairperson	
Isla Carmichael, Ph.D, M.Ed, AM					•	
Phillip H. Doherty, BComm, MBA, CA					•	
Hugh Mackenzie, MA					•	
Kenneth W. McArthur, BComm, CA					•	
Douglas D. Greaves, BA (Hons), CFA (Canada Post)					•	Chairperson
Nabil Allaf (Canada Post)						•
Daryl Bean (PSAC/UPCE)						•
Gayle Bossenberry (CUPW)						•
Madeleine Cléroux (CUPW)						•
Terry Cotton (APOC)						•
George Kuehnbaum (CUPW)						•
Donald Lafleur (CUPW)						•
John MacKinnon (Canada Post)						•
Daniel Maheux (CPAA)						•
Micki McCune (elected by all active members of the Plan)						•
Tim McGurrin (Canada Post)						•
Mike Moeller (UPCE/APOC/CPAA)						•
John Polak (elected by active members not represented by a bargaining agent)						•
William Price (elected by all retirees of the Plan)						•
Brad Smith (Canada Post)						•

APOC – Association of Postal Officials of Canada

CPAA – Canadian Postmasters and Assistants Association

CUPW – Canadian Union of Postal Workers

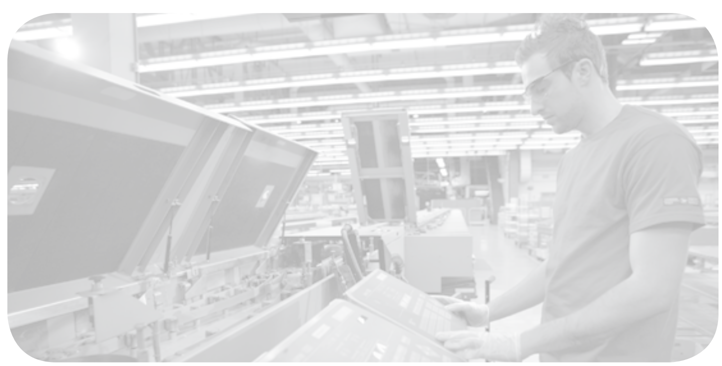
PSAC – Public Service Alliance of Canada

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.

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 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, 2010, 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 fairness of the Plan's financial reporting and the internal control recommendations observed during the audit.

Deepak Chopra
President and
Chief Executive Officer
March 22, 2011

Wayne Cheeseman
Chief Financial Officer
March 22, 2011

Actuaries' Opinion

Ottawa
March 18, 2011

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, 2010, 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, 2010, as a going concern. While the actuarial assumptions used to estimate liabilities for the Plan's financial statements reflect management's expectations 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, 2010 of the results of our December 31, 2009 actuarial valuation of the Plan's going-concern liabilities,
- pension fund data provided by Canada Post as of December 31, 2010,
- 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 which reflect management's expectations 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

Independent Auditor's Report

To the Board of Directors of the Canada Post Corporation

We have audited the accompanying financial statements of the **Canada Post Corporation Registered Pension Plan**, which comprise the statement of net assets available for benefits and accrued pension benefits and (deficit)/surplus as at December 31, 2010 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in (deficit)/surplus for the year then ended and the related notes including a summary of significant accounting policies.

Management's responsibility for financial statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and (deficit)/surplus of the **Canada Post Corporation Registered Pension Plan** as at December 31, 2010 and the changes in net assets available for benefits, changes in accrued pension benefits and changes in (deficit)/surplus for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants
March 24, 2011
99 Bank Street, Suite 800, Ottawa, Ontario

Financial Statements

Statement of Net Assets Available for Benefits and Accrued Pension Benefits and (Deficit)/Surplus

As at December 31 *(In millions of dollars)*	**2010**	(restated note 3.a) 2009
Net assets available for benefits		
Assets		
Investments (note 4)	**$ 15,218**	$ 13,399
Investment related receivables (note 4)	**103**	144
Contribution/other receivables (note 6)	**123**	130
	15,444	13,673
Liabilities		
Investment related liabilities (note 4)	**46**	77
Accounts payable and accrued liabilities (notes 7 and 18)	**22**	20
	68	97
Net assets available for benefits	**15,376**	13,576
Actuarial asset value adjustment (note 13)	**488**	1,344
Actuarial value of net assets available for benefits	**$ 15,864**	$ 14,920
Accrued pension benefits and (deficit)/surplus		
Accrued pension benefits (note 14)	**$ 16,038**	$ 14,367
(Deficit)/surplus	**(174)**	553
Accrued pension benefits and (deficit)/surplus	**$ 15,864**	$ 14,920

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

For the year ended December 31 *(in millions of dollars)*	**2010**	2009
Increases in assets		
Net investment income (note 9)	**$ 1,439**	$ 1,882
Contributions (note 10)	**932**	459
	2,371	2,341
Decreases in assets		
Benefits (note 11)	**517**	444
Administration expenses (notes 12 and 18)	**54**	30
	571	474
Increase in net assets available for benefits	**1,800**	1,867
Net assets available for benefits, beginning of year	**13,576**	11,709
Net assets available for benefits, end of year	**$ 15,376**	$ 13,576

See accompanying notes to the financial statements

Statement of Changes in Accrued Pension Benefits

For the year ended December 31 *(in millions of dollars)*	**2010**	2009
Accrued pension benefits, beginning of year	**$ 14,367**	$ 14,107
Increase in accrued pension benefits:		
Interest on accrued pension benefits	**890**	850
Benefits accrued	**497**	560
Changes in actuarial assumptions (note 14.b)	**853**	–
	2,240	1,410
Decrease in accrued pension benefits:		
Benefits (note 11)	**517**	444
Experience gains (note 14.c)	**52**	110
Changes in actuarial assumptions (note 14.b)	**–**	596
	569	1,150
Net increase in accrued pension benefits	**1,671**	260
Accrued pension benefits, end of year	**$ 16,038**	$ 14,367

Statement of Changes in (Deficit)/Surplus

For the year ended December 31 *(in millions of dollars)*	**2010**	(restated note 3.a) 2009
Surplus/(deficit), beginning of year	**$ 553**	$ (1,227)
Increase in net assets available for benefits	**1,800**	1,867
Change in actuarial asset value adjustment (note 13)	**(856)**	187
Increase in actuarial value of net assets available for benefits	**944**	2,054
Net increase in accrued pension benefits	**(1,671)**	(260)
(Deficit)/surplus, end of year – as previously reported	**(174)**	567
Change in actuarial asset value adjustment (note 3.a)	**–**	(14)
(Deficit)/surplus, end of year – as restated	**$ (174)**	$ 553

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 registered with the Canada Revenue Agency (CRA) under registration number 1063874, and is subject to the requirements of the *Income Tax Act* (Canada) (ITA) and the regulations thereunder. The Plan is also registered with the Office of the Superintendent of Financial Institutions Canada (OSFI) under registration number 57136, and is subject to the *Pension Benefits Standards Act, 1985* (PBSA) and the regulations thereunder. Canada Post Corporation (the Corporation) sponsors and administers the Plan.

The Plan is comprised of both a Defined Benefit component (DB component) and a Defined Contribution component (DC component). The DB component was established by the Corporation effective October 1, 2000 and covered all employees. Effective January 1, 2010, the Corporation established the DC component for all newly hired Management and Exempt employees, along with those newly hired unionized employees who later transfer to a Management and Exempt position. These new employees are only eligible to participate in the DC component of the Plan.

b) Benefits

i. Defined Benefit component

Retirement pensions
A retirement pension is available 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 eligibility service or at age 55 with 30 years of eligibility 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 dependent children, lump-sum payments, refunds of contributions with interest and 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.

ii. Defined Contribution component

Retirement benefits

Retirement benefits are based on the accumulation of contributions and investment income allocated to the member's account. The Corporation contributes 4% of each member's eligible earnings. Up to 5% of additional matching contributions are made by the Corporation based upon each member's age and years of eligible service at the time of contribution. Member contributions are optional up to a maximum of 4%. These contributions are invested as directed by each member from a selection of investment options authorized by the Plan's Pension Committee.

Termination of employment benefits

Termination of employment benefits prior to vesting would result in a return of the member's contributions plus accumulated investment income. Termination subsequent to vesting would result in a return of an amount equivalent to the member's account balance.

c) Funding

Defined Benefit component

Plan benefits are funded by contribution and investment earnings. Contributions are required from both the Corporation and the employee in order to fund 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 annually to determine the funded position of the Plan. Employees who are members of the Plan are required to contribute a percentage of their pensionable earnings to the Plan fund. For 2010, employee contributions were 5.7% of earnings up to the Year's Maximum Pensionable Earnings (defined by the Canada Pension Plan and Quebec Pension Plan as $47,200 in 2010) and 9.2% of earnings in excess of this maximum. An increase to employee contributions of 0.4% of pensionable earnings will come into effect starting on January 1, 2011.

d) Plan amendments

In 2010, no amendments were made to the Plan provisions. In 2009, an amendment was made to the provisions of the Plan document to add a Defined Contribution component to the Plan effective January 1, 2010.

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 an estimate of 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. The calculations of fair value are based on market conditions at a specific point in time and may not be reflective of future fair value.

- 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. Fixed income securities 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 are valued at year-end quoted market 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. Pooled funds are valued at year-end net asset values, as provided by the pooled fund manager, using the year-end quoted market prices of underlying securities held in the pooled fund.
  5. Derivative contracts, including foreign exchange forward contracts, interest rate futures and interest rate swaps are valued at year-end quoted market prices. Foreign exchange forward contracts are valued based on the year-end foreign currency exchange rates. Interest rate futures are valued based on prices from the applicable exchange. Interest rate swaps are valued by third party swap pricing vendors.
  6. Real estate investments are annually valued 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 or income approach. Direct and segregated pooled fund investments are typically carried at cost in the year of acquisition, as an approximation of fair value, unless specific and conclusive reasons exist to change the value.
  7. Private equity investments are valued at fair value by the external private investment fund managers and are audited annually. The external private equity manager will determine the fair value using appropriate valuation techniques. In determining such valuations, consideration is given to 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.

- Investment transactions and income

Investment transactions are recognized on a trade-date basis. Real estate investment transactions are recognized on the date of closing for direct investments. Real estate and private equity pooled fund investment transactions are recognized on the cash call date. Investment income, including interest income, is recorded on an accrual basis. Dividend income is recognized on the ex-dividend date. Real estate and private equity income, net of expenses, is recognized as dividends or distributions are declared. Realized capital gains and losses on the sale of investments and the close of derivative contracts are included as gains and losses on disposition. Unrealized gains and losses on investments represent the change in the difference between the cost and fair value of investments at the beginning and end of each year.

- Investment transaction costs

Transaction costs are incremental costs incurred in the purchase and sale of investments. Transaction costs are expensed and included in administration expenses in the statement of changes in net assets available for benefits.

c) Non-investment assets and liabilities

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

d) Accrued pension benefits

Accrued pension benefits are determined based on actuarial valuations prepared by an independent firm of actuaries. The year-end valuation of accrued pension benefits is based on the most recent going-concern actuarial valuation prepared for funding purposes extrapolated to the year-end reporting date (note 14). The valuation uses the projected accrued benefit actuarial cost method and management's estimate of certain future events.

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. 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 has been determined by smoothing returns above or below an actuarial rate of return assumption over a five-year period. The actuarial rate of return assumption is determined by reference to the lower of an assumed long term rate of return or the discount rate. The fair value of net assets is adjusted by the unrecognized actuarial value adjustment to arrive at the actuarial value of net assets. The actuarial value adjustment is limited to a maximum of 10% of 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 the actuarial asset value adjustment, accrued pension benefits, accrued contributions on team incentive payments and the valuation of investments. Management monitors estimates and assumptions used in the preparation of the financial statements, as actual results may differ from these estimates, and the differences could be material.

i) Benefits

Benefits include payments made during the year and accruals for unpaid but earned benefits at December 31.

3. Change in accounting policy and recently issued accounting standards

a) In 2010, the Plan changed its accounting policy for determining the actuarial asset value adjustment. Prior to 2010, the actuarial asset value adjustment was determined by reference to a long-term rate of return assumption. In 2010, the policy was changed to apply an OSFI specification to limit the rate of return used in calculating the actuarial asset value adjustment to be no greater than the discount rate. As a result of this change in policy, the discount rate in effect for the current year and all prior years was used to determine the actuarial asset value adjustment.

The effect of the change in 2009 is as follows:

- decrease of $14 million from $1,358 million to $1,344 million to the actuarial asset value adjustment.
- actuarial value of net assets available for benefits decreased from $14,934 million to $14,920 million and the previously reported surplus changed from $567 million to $553 million.

In 2010, this change in accounting policy resulted in a $116 million decrease in the actuarial asset value adjustment.

b) In April 2010, the Canadian Institute of Chartered Accountants (CICA) issued Section 4600, Pension Plans, effective for annual financial statements for fiscal years beginning on or after January 1, 2011. This section establishes standards for the measurement, presentation and disclosure of plan investments and pension obligations. Based on the new section, assets presented in the pension plan financial statements will have to be measured at fair value. The actuarial asset value adjustment will no longer be permitted as a valuation methodology for accounting purposes. The impact on the financial statements would have been an increase in deficit of $488 million as at December 31, 2010 and a decrease in surplus of $1,344 million as at December 31, 2009.

The new standard will be implemented for the Plan's annual financial statements for the fiscal year ending December 31, 2011.

4. Investments

Summary of investments

(in millions of dollars)	2010 Fair Value	2010 Cost	2009 Fair Value	2009 Cost
Cash and short-term securities	$ 374	$ 374	$ 168	$ 168
Fixed income				
Canadian *	3,637	3,528	3,480	3,437
United States	120	121	83	86
International	141	137	101	96
Real return bonds	1,098	859	1,102	929
	4,996	4,645	4,766	4,548
Equities				
Canadian	4,210	3,098	3,598	2,824
United States	2,813	2,916	2,373	2,633
International	2,162	2,171	1,973	2,074
	9,185	8,185	7,944	7,531
Real Estate (note 8.a)	624	608	508	553
Private Equity (note 8.c)				
United States	35	35	11	14
International	4	5	2	3
	39	40	13	17
Investments	**15,218**	**13,852**	13,399	12,817
Accrued investment income	42	42	39	39
Investment trades to settle	17	17	81	81
Withholding taxes recoverable	1	1	2	2
Derivatives	43	3	22	–
Investment related receivables	**103**	**63**	144	122
Investment trades to settle	(39)	(39)	(77)	(77)
Derivatives	(7)	–	–	–
Investment related liabilities	**(46)**	**(39)**	(77)	(77)
Transaction costs	–	**(11)**	–	(11)
Net investments	**$ 15,275**	**$ 13,865**	$ 13,466	$ 12,851

* All MAV II restructured notes (ABCP) were sold in 2010 for $11 million. In 2009, Canadian fixed income included ABCP with a fair value of $8 million.

a) Fair value measurements

i. Fair value hierarchy

Net investments, recognized at fair value in the statement of net assets available for benefits and accrued pension benefits and surplus, must be classified in three fair value hierarchy levels, based on the transparency of the inputs used to measure the fair value as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The classification of net investments by fair value hierarchy as at December 31, 2010 was as follows:

			2010	
(in millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and short-term securities	$ 95	$ 279	$ –	$ 374
Equities	9,172	15	4	9,191
Fixed income	46	4,965	–	5,011
Private equity	–	–	39	39
Real Estate	–	–	624	624
Derivatives	2	36	(2)	36
	$ 9,315	**$ 5,295**	**$ 665**	**$ 15,275**

The classification of net investments by fair value hierarchy as at December 31, 2009 was as follows:

			2009	
(in millions of dollars)	**Level 1**	**Level 2**	**Level 3**	**Total**
Cash and short-term securities	$ 71	$ 97	$ –	$ 168
Equities	7,931	24	2	7,957
Fixed income	14	4,774	10	4,798
Private equity	–	–	13	13
Real Estate	–	–	508	508
Derivatives	1	22	(1)	22
	$ 8,017	**$ 4,917**	**$ 532**	**$ 13,466**

ii. Significant transfers between level 1 and level 2

Changing market conditions during the year may result in transfers between the various fair value hierarchy levels if there is a change in the availability of quoted market prices or observable market inputs. In 2010, equities with a fair value of $3 million transferred from level 1 to level 2 (2009 – no significant transfers between level 1 and level 2).

iii. Changes in level 3 fair value measurements

Level 3 investments include certain equities, derivative contracts, private equity and real estate investments (note 2.b). Non-observable market inputs used to determine the fair value of level 3 investments include broker quotes, pricing services, fund managers, financial models as well as the use of market rental rates, occupancy rates, growth rates and discount rates for its real estate investments. Total net gains reported as net investment income in the statement of changes in net assets available for benefits relating to investments valued using non-observable inputs and held at December 31, 2010 were $63 million (2009 – loss of $60 million). Transfers from level 2 to level 3 occurred as inputs to the valuation models ceased to be observable. Prior to transfer, the fair value of the instruments was determined using observable market transactions for the same or similar instruments.

Changes in the fair value of level 3 investments during the year are as follows:

(in millions of dollars)	**Balance December 31, 2009**	**Net Purchases (Sales)**	**Gains/(losses) Realized**	**Gains/(losses) Unrealized**	**Net Transfers In/(Out) – Level 3**	**Balance December 31, 2010**
Equities	$ 2	$ (2)	$ –	$ –	$ 4	$ 4
Fixed income	10	(12)	(12)	15	(1)	–
Private equity	13	23	–	3	–	39
Real Estate	508	55	–	61	–	624
Derivatives	(1)	3	(1)	(3)	–	(2)
	$ 532	**$ 67**	**$ (13)**	**$ 76**	**$ 3**	**$ 665**

b) Derivative financial instruments

Derivative financial instruments are financial contracts, the value of which is derived from the value of the underlying assets, indices, interest rates or currency rates. The Plan uses derivatives to manage financial risk and to enhance returns. Derivative contracts are transacted either in the over-the-counter (OTC) market or on regulated exchanges. Derivative financial instruments held by the Plan include interest rate swaps, interest rate futures and foreign exchange forward contracts.

Interest rate swaps are negotiated agreements that are transacted between counter-parties in the OTC market in which the counter-parties agree to exchange periodic cash flows based on agreed upon reference rates applied to a specified notional amount. No exchange of principal takes place.

Interest rate futures are standard contracts traded on regulated futures exchanges. Interest rate futures are contractual obligations to buy or sell an interest-rate sensitive financial instrument on a predetermined future date at a specified price.

Foreign exchange forward contracts are negotiated agreements that are transacted between counter-parties in the OTC market. Foreign exchange forward contracts are contractual obligations to exchange one currency for another currency at a specified price at a predetermined future date.

Notional values of derivative contracts represent the contracted amount to which a rate or price is applied for computing the cash flows to be exchanged. Notional amounts are the basis upon which the returns from, and the fair value of, the contract is determined. They are not recorded as assets or liabilities in these financial statements and they do not necessarily indicate the amount of future cash flow or the current fair value of the derivative contracts. Accordingly, notional amounts do not indicate the Plan's exposure to credit or market risks.

Derivative contracts represent unrealized gains or losses and are recorded in the statement of net assets available for benefits and accrued pension benefits. Derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. Fair values of derivative contracts can fluctuate significantly.

The notional value and fair value of derivative contracts, as at December 31, 2010 was as follows:

	Notional Value		**Fair Value**	
(in millions of dollars)	**Long**	**Short**	**Assets**	**Liabilities**
Foreign exchange forward contracts	$ 1,328	$ (1,292)	$ 38	$ (2)
Interest rate futures	104	(102)	2	–
Interest rate swaps	140	(142)	3	(5)
	$ 1,572	**$ (1,536)**	**$ 43**	**$ (7)**

The notional value and fair value of derivative contracts, as at December 31, 2009 was as follows:

	Notional Value		**Fair Value**	
(in millions of dollars)	**Long**	**Short**	**Assets**	**Liabilities**
Foreign exchange forward contracts	$ 1,106	$ (1,084)	$ 22	$ –
Interest rate futures	79	(79)	–	–
Interest rate swaps	114	(114)	1	(1)
	$ 1,299	**$ (1,277)**	**$ 23**	**$ (1)**

The net fair value of derivative contracts as at December 31, 2010 is $36 million (2009 – $22 million). Note 5.a provides the collateral or margin fair value of securities deposited with and received from various financial institutions.

The fair value of derivative contracts by term to maturity, as at December 31, was as follows:

	Terms to maturity				**2010**	2009
Derivative investments *(in millions of dollars)*	Within 1 Year	> 1 to 5 Years	> 5 to 10 Years	Over 10 Years	**Total**	Total
Foreign exchange forward contracts	$ 36	$ –	$ –	$ –	$ 36	$ 22
Interest rate futures	2	–	–	–	2	–
Interest rate swaps	2	(1)	(4)	1	(2)	–
	$ 40	$ (1)	$ (4)	$ 1	**$ 36**	$ 22

5. Financial risk management

The Plan is subject to a variety of financial risks as a result of its investment activities that could adversely affect its cash flows, financial position, and income. The objective of investment risk management is to minimize the potential adverse effect of these risks and to optimize the gains over the entire portfolio.

The Board of Directors of Canada Post (the Board), with the assistance of the Pension Committee, staff, agents and advisors, is responsible for prudently managing, investing, and administering the Plan in order to secure the pension promise for Plan members. This requires the Board oversight of the assets and liabilities to ensure they are being managed in the best interest of the members. The Board has established an investment risk management framework, which outlines the Board's appetite for risk and guides the development of investment strategies to meet the Plan's overall objectives.

Risk management for the Plan is performed by the Investment Management team through compliance with various processes and policies. Some of the policies in place include the Statement of Investment Policies and Procedures (SIPP) and each of the Fund Mandates. The SIPP, approved by both the Pension Committee and the Board, 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.

Risks assessment analysis for each risk category is performed and monitored regularly against the strategy and actions taken, when appropriate, according to the Plan's approved policies. In addition, as required these risks are reviewed with the Investment Advisory Committee, the Pension Committee and the Board of the Corporation.

a) Credit risk

Credit risk is the risk of loss should the counter-party to a transaction default or otherwise fail to perform under the terms of the contract. The Plan is exposed to credit risk through its short-term securities, fixed income securities, derivative contracts, and real estate investments. Credit risk on short-term securities is mitigated by only transacting with highly-rated counter-parties and establishing limits on the amount and term of short-term investment. Credit risk on fixed income investments is mitigated by establishing limits on exposure to individual counter-parties, monitoring credit ratings, and adhering to the investment criteria set out in the Plan's SIPP.

The Plan's fixed income investment credit risk exposure, as at December 31, is as follows:

Credit rating *(in millions of dollars)*	**2010**		2009	
AAA/AA	$ 3,476	70%	$ 3,567	75%
A	1,231	25%	997	21%
BBB	289	5%	201	4%
<BBB	–	–	1	–
	$ 4,996	**100%**	$ 4,766	100%

Credit risk on OTC derivative foreign exchange forward contracts and interest rate swap contracts is mitigated through the use of master netting agreements with counter-parties. In addition, for derivative interest rate swaps there is an exchange of collateral between the parties in the event the fair value of outstanding transactions between the parties exceeds an agreed threshold. Credit risk on exchange traded interest rate futures derivatives is limited as these transactions are standardized contracts executed on established exchanges, each of which is associated with a well-established clearing house that assumes the obligations of both counter-parties and guarantees performance. Counter-parties also require a minimum credit rating of "A". Counter-party exposure is determined daily and collateral, consisting of cash and other acceptable securities, is either requested or delivered based on contracted terms.

Cash and securities with a fair value of $3 million (2009 – $1 million) have been deposited with various financial institutions as collateral or margin. The Plan is not allowed to pledge the same securities with other financial institutions or sell them to another entity unless the Plan is able to substitute such securities with other securities that the counter-parties accept.

Cash with a fair value of $1 million (2009 – $2 million) has been received from various financial institutions as collateral. The Plan holds the collateral received as long as the counter-party is not a defaulting party or an affected party in connection with a specified condition listed on the contractual agreements and there is no early termination of the contractual agreement. The Plan is permitted to sell or re-pledge the collateral in the event of default by the owner of the collateral. There have been no counter-party defaults as of December 31, 2010.

Credit risk on the Plan's real estate investments arises from the possibility that tenants may be unable to fulfill their lease commitments. The Plan mitigates this risk by diversifying investments by property type and geographic location and ensuring investments are managed by professional property managers.

b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk, currency risk, and other price risk.

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flow of the Plan's investments will fluctuate due to changes in market interest rates. It arises primarily on interest-bearing financial instruments held in the Plan's short-term securities, fixed income portfolio and derivative interest rate contracts. Interest rate risk indirectly affects equities as earnings multiples change with changes in interest rates and the relative attractiveness of equities also changes with changes in interest rates. Excess cash is invested in short-term securities.

To properly manage the Plan's interest rate risk, guidelines on the weighting, term to maturity and duration for the short-term securities and fixed income securities are set and monitored. In addition, to further mitigate interest rate risk the Plan may enter into interest rate futures and interest rate swap contracts.

The terms to contractual maturity of the Plan's fixed income securities, as at December 31, are as follows:

	Terms to maturity				**2010**		2009	
Interest-bearing financial instruments *(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	$ 257	$ 649	$ 224	$ 105	$ 1,235	2.1%	$ 1,311	2.1%
Canadian corporate	19	443	481	682	1,625	3.6%	1,389	3.6%
Government of United States	–	1	–	–	1	0.5%	21	4.2%
United States corporate	–	30	61	28	119	4.4%	63	5.1%
International corporate	2	81	27	30	140	3.8%	101	4.2%
Provincial and municipal	2	169	239	368	778	3.6%	779	3.8%
Real return – Canada	–	–	–	902	902	1.0%	920	1.5%
Real return – Provincial	–	8	28	160	196	1.3%	182	1.8%
	$ 280	**$ 1,381**	**$ 1,060**	**$ 2,275**	**$ 4,996**	**2.7%**	$ 4,766	2.8%

As at December 31, 2010, an increase or decrease of 1% in the prevailing interest rates, assuming a parallel shift in the yield curve, with all other variables remaining constant, would decrease or increase the value of net assets by approximately $445 million (2009 – $376 million). The Plan's interest rate sensitivity was determined based on the weighted duration of the Plan's portfolio. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

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. It arises from Plan investments that are denominated in a currency other than the Canadian dollar, which is the Plan's reporting currency. The Plan is exposed to the risk that the value of these securities denominated in other currencies will fluctuate due to changes in foreign currency exchange rates.

The Plan does not speculate in currencies or hold net short positions, but to mitigate its overall currency exposure, the Plan enters into derivative contracts for the purchase or sale of foreign currency, to adjust the exposure to a particular currency. To mitigate counter-party risk, all transactions settle on a net basis. The Plan hedges between 15% and 45% of its total foreign currency exposure. No single foreign currency exposure can exceed 20% of Plan assets. All current contracts expire within 3 months. The Plan only deals with highly-rated counter-parties, typically major financial institutions, with a minimum credit rating of "A" as reported by a recognized credit rating agency.

The Plan's net exposure, net of derivatives, by geographical location of the issuer and by currency, as at December 31, is as follows:

(in millions of dollars)	**Geographical location**		**Currency**	
Currency – Canadian $ equivalent, net of foreign exchange forward contracts	**2010**	2009	**2010**	2009
Canadian dollar	$ 9,945	$ 8,859	$ 11,344	$ 10,040
United States dollar	3,057	2,582	2,378	1,973
Euro	718	797	455	563
Other European	613	492	433	391
Japanese yen	482	310	328	219
Other Pacific	232	187	243	188
Emerging markets	228	239	94	92
	$ 15,275	$ 13,466	**$ 15,275**	$ 13,466

As at December 31, 2010, if the Canadian dollar strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets would have decreased or increased by approximately $393 million (2009 – $343 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

The Plan's derivative foreign currency forward contracts by currency, as at December 31, are as follows:

(in millions of dollars)	**2010**				2009			
	Notional Value			**Average**	Notional Value			Average
Currency	**Receivable**	**Payable**	**Net**	**rate**	Receivable	Payable	Net	rate
United States dollar	$ 833	$ (813)	$ 20	$ 1.02	$ 699	$ (689)	$ 10	$ 1.06
Euro	230	(218)	12	1.41	228	(220)	8	1.56
Japanese yen	155	(155)	–	0.01	96	(92)	4	0.01
British pound	102	(99)	3	1.61	73	(73)	–	1.69
Hong Kong dollar	8	(7)	1	0.13	10	(10)	–	0.14
	$ 1,328	**$ (1,292)**	**$ 36**		$ 1,106	$ (1,084)	$ 22	

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices other than those arising from interest rate risk or currency risk. Changes in market prices may be caused by factors specific to an individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. The Plan moderates other price risk by its policy of diversifying its investments across asset classes and geographical locations based on criteria established in the SIPP. Fund managers and Investment staff regularly monitor the portfolio by sector, country, market capitalization and trading liquidity.

The Plan's exposure to other price risk, as at December 31, is as follows:

	2010		2009	
(in millions of dollars)	**Effective other price risk exposure**	**% of total other price risk exposure**	Effective other price risk exposure	% of total other price risk exposure
Equities				
Canadian	$ 4,210	46%	$ 3,598	45%
United States	2,813	31%	2,373	30%
International	2,162	23%	1,973	25%
	$ 9,185	**100%**	$ 7,944	100%

As at December 31, 2010, 60% (2009 – 59%) of the Plan's net investments were traded on stock exchanges. If equity prices on the stock exchanges increased or decreased by 10% as at year-end, with all other factors remaining constant, net assets would have increased or decreased by approximately $962 million (2009 – $794 million). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

c) Liquidity risk

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they fall due. Liquidity risk also includes the risk of not being able to liquidate assets in a timely manner at a reasonable price. The financial liabilities of the Plan include investment related liabilities, all of which will become due within the next year. The Plan is also exposed to the settlement of derivatives, margin calls on derivatives and pension related payments. Note 4.b provides the terms to contractual maturity of the Plan's derivative contracts.

The Plan forecasts its cash requirements over the short and long-term to determine whether sufficient funds will be available. The Plan's primary sources of liquidity are funds generated from the Plan's investments and employer and employee contributions. The Plan primarily invests in securities that are traded in active markets and can be readily sold. Real estate and private equity investments are also subject to liquidity risk which is mitigated by managing the overall amount invested in those asset classes and by limiting the amount invested in any one property or pooled fund. The Plan retains sufficient cash and short-term security positions to maintain a reasonable level of liquidity.

The Plan's primary future liabilities include the accrued pension benefits (note 14). In the normal course of operations, the Plan enters into contracts that give rise to commitments (note 19) which may also impact liquidity.

6. Contribution/other receivables

(in millions of dollars)		**2010**	2009
Current service contributions	– Sponsor	$ 39	$ 36
	– Members	21	24
Other contributions *	– Leave of absence	32	31
	– Elective service	29	30
Other		2	9
		$ 123	$ 130

* Leave of absence contribution receivables for approved leave of absence without pay are generally payable over a period equal to twice the period of leave of absence. Elective service contribution receivables for eligible service are payable over a maximum payment period of 20 years for members 45 years or older at the date of election, or to age 65 for members less than age 45 at the date of election.

7. Accounts payable and accrued liabilities

(in millions of dollars)	**2010**	2009
Accounts payable and accrued liabilities	$ 10	$ 7
Accrued benefits payable	12	13
	$ 22	$ 20

8. Investment in real estate and private equity

(a) Investment in real estate

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

	2010		2009	
(in millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Direct investments	$ 262	$ 244	$ 191	$ 209
Pooled funds	362	364	317	344
	$ 624	**$ 608**	$ 508	$ 553

(b) Real estate net investment income (loss)

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

(in millions of dollars)	**2010**	2009
Investment income	$ 22	$ 20
Realized capital gains on disposal	–	14
Unrealized net capital gain (losses)	61	(86)
	$ 83	$ (52)

(c) Investment in private equity

The investment in private equity as at December 31, is as follows:

	2010		2009	
(in millions of dollars)	**Fair Value**	**Cost**	Fair Value	Cost
Pooled funds	**$ 39**	**$ 40**	$ 13	$ 17

(d) Private equity net investment income (loss)

Private equity income (loss) for the year ended December 31, is as follows:

(in millions of dollars)	**2010**	2009
Unrealized net currency losses	$ (1)	$ (1)
Unrealized net capital gain (losses)	4	(3)
	$ 3	$ (4)

9. Net investment income

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

(in millions of dollars)	**2010**	2009
Interest income		
Cash and short-term securities	$ 2	$ 3
Fixed income	158	158
Fixed income – real return bonds	28	30
Derivatives	3	1
	191	192
Dividend income		
Canadian equities	93	90
United States equities	52	52
International equities	48	59
	193	201
Real estate (note 8.b)	22	20
Realized capital gains (losses) on disposal		
Canadian fixed income	38	38
International fixed income	3	(5)
United States fixed income	2	1
Canadian equities	152	(171)
United States equities	93	(188)
International equities	13	(349)
Derivatives	1	–
Real estate (note 8.b)	–	14
	302	(660)
Realized currency (losses) gains on disposal		
Canadian fixed income	5	–
United States fixed income	1	1
Canadian equities	(1)	3
United States equities	(32)	50
International equities	(37)	48
	(64)	102
Net realized investment income (loss)	**644**	(145)
Unrealized net capital gains	883	2,686
Unrealized net currency losses	(88)	(659)
Net change in unrealized gains on investments	**795**	2,027
	$ 1,439	$ 1,882

10. Contributions

(in millions of dollars)		**2010**	2009
Sponsor	– Current service	$ 321	$ 269
	– Special payments	425	–
Members	– Current service	177	184
	– Past service	7	5
	– Transfers from other plans	2	1
		$ 932	$ 459

After taking into consideration adjustments to smooth out investment gains and losses, the Plan's December 31, 2009 actuarial valuation disclosed a solvency deficit of $1,847 million which initiated the Corporation to begin making special payments to the Defined Benefit component of the Plan.

11. Benefits

(in millions of dollars)	**2010**	2009
Retirement and survivor pensions	$ 466	$ 392
Commuted value transfers, lump sum death benefits and refunds	51	49
Transfers to other plans	–	3
	$ 517	$ 444

12. Administration expenses

(in millions of dollars)	**2010**	2009
Plan administration	$ 11	$ 10
Investment fees*	41	26
Professional fees	2	1
Custodial fees	1	2
Other	(1)	(9)
	$ 54	$ 30

* Investment fees include transaction costs of $12 million (2009 – $10 million).

13. Actuarial asset value adjustment

The actuarial asset value adjustment decreased by $856 million during the year (2009 restated – $173 million increase). As described in note 3.a, the plan applied the OSFI policy specification limiting the assumed rate of return to be used to calculate the actuarial asset value adjustment to be no greater than the discount rate. As this represents a change in accounting policy, the effect of the $14 million decrease to the actuarial asset value adjustment has been retrospectively applied to 2009. The composition of the actuarial asset value adjustment, as at December 31, 2010 is summarized below:

(in millions of dollars)	**Unamortized (gains)/losses 2010**	Unamortized (gains)/losses to be recognized in 2011	2012	2013	2014	Unamortized (gains)/losses 2009
2006	**$ –**	$ –	$ –	$ –	$ –	$ (176)
2007	**120**	120	–	–	–	298
2008	**1,482**	741	741	–	–	2,332
2009	**(690)**	(230)	(230)	(230)	–	(801)
2010	**(424)**	(106)	(106)	(106)	(106)	–
Adjustment	**$ 488**	$ 525	$ 405	$ (336)	$ (106)	1,653
Effect of 110% cap						(295)
Change in accounting policy						(14)
Net adjustment, as restated						$ 1,344

2010
Canada Post
Pension Plan
Annual Report

14. Accrued pension benefits

a) Actuarial methodology

The actuarial methods used to prepare these financial statements are consistent with those used to prepare the actuarial valuation on a going-concern funding basis. The most recent actuarial valuation, prepared by Mercer (Canada) Limited as at December 31, 2009, was extrapolated to determine the accrued pension benefits as at December 31, 2010. The valuation used the projected accrued benefit actuarial cost method 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 $16,038 million (2009 – $14,367 million) reflect management's expectations of long-term economic and demographic conditions. During 2010, 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:

	2010	2009
Discount rate	**5.8%**	6.2%
Salary escalation rate		
– Union groups	per the most recent collective agreement	
– Following expiry of collective agreements and non-unionized groups – average of	**3.0%**	3.0%
Consumer price index (CPI)	**2.5%**	2.5%

The accrued pension benefit is sensitive to changes in the above economic assumptions. Various assumptions were also made for salary/promotional scale, mortality, retirement and turnover. Changing the discount rate and other economic assumptions resulted in an increase of $867 million (2009 – decrease of $563 million) and the impact of the changes in actuarial assumptions due to new collective agreements resulted in a decrease of $14 million in 2010 (2009 – decrease of $33 million).

c) Experience (gains) losses

The composition of experience (gains) losses, as at December 31, is summarized below:

(in millions of dollars)	**2010**	2009
Past service buyback	$ 15	$ 10
Economic	(32)	(105)
Demographic	(35)	(15)
	$ (52)	$ (110)

15. Supplementary Retirement Arrangement (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.

16. Funding valuation

In accordance with the PBSA and the ITA, an actuarial valuation is required to be filed every year, to estimate the Plan's surplus or deficit on a going-concern and solvency basis, and to determine the Plan's minimum funding requirements. The last actuarial valuation filed with OSFI and CRA, as at December 31, 2009, disclosed a going-concern surplus of $568 million and a solvency deficit of $1,847 million at that date.

The current extrapolated estimate of the financial position of the Plan as at December 31, 2010, based on existing rules and regulations, is a going-concern deficit of approximately $174 million and a solvency deficit of approximately $3,220 million. The going-concern and solvency extrapolations take into consideration adjustments to smooth out investment gains and losses (note 2.g). Based on the current estimate, the actuary has determined the minimum special solvency payments for 2011 to be approximately $652 million. However, as the federal pension legislation and regulations are currently under review, future funding arrangements may differ from those currently in effect which could affect the estimated minimum special solvency payment for 2011.

17. Capital

Management of the Plan defines its capital as the funded status (surplus/(deficit)) as determined annually based on the fair value of the net assets, the actuarial value adjustment and an actuarial valuation prepared by an independent actuary. The funding surpluses or deficits, are used to measure the long term health of the Plan to meet its obligations to its members and their survivors.

Management's objective, when managing the Plan's capital, is to ensure the Plan is fully funded to meet its benefit obligations over the long term.

The Pension Committee is responsible for ensuring the Plan assets are managed in accordance with the SIPP and the objectives and goals outlined therein.

18. 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 $6.5 million (2009 – $5.2 million) for administration services provided by the Corporation to the Plan. Included in accounts payable and accrued liabilities is $1.3 million (2009 – $0.8 million) due to the Corporation for administration services provided to the Plan.

19. Commitments

In addition to derivative contracts (note 4b), the Plan has committed to enter into real estate and private equity investments which may be funded over the next several years in accordance with agreed to terms and conditions. As at December 31, 2010, potential commitments of $275 million (2009 -$273 million) consisted of $147 million for private equity investments and $128 million for real estate investments.

Five-year Financial Review

In millions of dollars	2010	restated 2009	2008	2007	2006
Assets					
Investments	$ 15,218	$ 13,399	$ 11,676	$ 14,573	$ 14,356
Investment related receivables	103	144	82	85	129
Contribution/other receivables	123	130	109	74	102
Total assets	**15,444**	**13,673**	**11,867**	**14,732**	**14,587**
Liabilities					
Investment related liabilities	46	77	140	46	136
Accounts payable and accrued liabilities	22	20	18	20	21
Total liabilities	**68**	**97**	**158**	**66**	**157**
Net assets available for benefits	**15,376**	**13,576**	**11,709**	**14,666**	**14,430**
Actuarial asset value adjustment	488	1,344	1,171	(266)	(1,340)
Actuarial value of net assets available for benefits	**$ 15,864**	**$ 14,920**	**$ 12,880**	**$ 14,400**	**$ 13,090**
Accrued pension benefits and surplus/(deficit)					
Accrued pension benefits	$ 16,038	$ 14,367	$ 14,107	$ 13,071	$ 12,097
Surplus/(deficit)	(174)	553	(1,227)	1,329	993
Total accrued pension benefits and surplus/(deficit)	**$ 15,864**	**$ 14,920**	**$ 12,880**	**$ 14,400**	**$ 13,090**

In millions of dollars	2010	2009	2008	2007	2006
Changes in Net Assets Available for Benefits					
Investment income/(losses)	**$ 1,439**	**$ 1,882**	**$ (2,778)**	**$ 317**	**$ 1,781**
Contributions – sponsor					
Current Service	321	269	61	100	270
Special payments	425	–	–	–	239
Transfer	–	–	–	–	49
Contributions – members					
Current Service	177	184	181	173	153
Past Service	7	5	5	8	6
Other	2	1	1	1	–
Total contributions	**932**	**459**	**248**	**282**	**717**
Less					
Benefits					
Retirement and survivor pensions	466	392	325	262	205
Commuted value transfers and other	51	49	48	48	42
Transfers to other plans	–	3	1	1	–
Total benefits	**517**	**444**	**374**	**311**	**247**
Administration expenses					
Plan administration	11	10	10	10	9
Investment fees	41	26	40	39	20
Other	2	(6)	3	3	3
Total administration expenses	**54**	**30**	**53**	**52**	**32**
Increase/(decrease) in net assets	**$ 1,800**	**$ 1,867**	**$ (2,957)**	**$ 236**	**$ 2,219**
Performance					
Rate of return	10.4%	16.2%	-19.3%	2.1%	14.3%
Benchmark	9.8%	15.8%	-17.6%	0.9%	13.1%

Funding Valuation History

Funding valuations must be filed with the Office of the Superintendent of Financial Institutions (OSFI). OSFI requires that the funding valuation be done on both a going-concern and solvency basis. Prior to 2010, mandatory funding valuations had to be filed every three years unless the plan was in a solvency deficit position. However plan sponsors could voluntarily file earlier, if desired. Starting in 2010, funding valuations must be filed every year unless the solvency funded status is greater than 120%. The next funding valuation, as at December 31, 2010, will be filed by June 2011. For reference, all previously filed funding valuations are detailed below.

Filed Funding Valuations[1, 2]

In millions of dollars	2009	2007	2006	2005	2004	2003	2002	2001	2000
Going concern – assumed the Plan continues in operation									
Fair value of assets	$13,576	$14,666	$14,430	$12,211	$10,307	$ 8,918	$ 7,500	$ 7,756	$ 7,058
Asset smoothing adjustment	1,357	(266)	(1,340)	(715)	(103)	325	974	113	–
Smoothed value of assets	14,933	14,400	13,090	11,496	10,204	9,243	8,474	7,869	7,058
Funding target	14,365	13,143	12,097	11,145	10,108	9,359	8,446	7,762	6,856
Funding surplus (deficit)	$ 568	$ 1,257	$ 993	$ 351	$ 96	$ (116)	$ 28	$ 107	$ 202
Funding ratio	104.0%	109.6%	108.2%	103.1%	100.9%	98.8%	100.3%	101.4%	102.9%
Assumptions used for filed going concern valuations									
Discount rate	6.2%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Inflation rate	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Solvency – assumed the Plan is terminated on the date of valuation									
Fair value of assets	$13,573	$14,664	$14,428	$12,209	$10,305	$ 8,916	$ 7,481	$ 7,737	$ 7,040
Asset smoothing adjustment	1,357	–	–	–	(103)	325	–	–	–
Solvency assets	14,930	14,664	14,428	12,209	10,202	9,241	7,481	7,737	7,040
Solvency liability	16,777	14,215	14,145	13,410	11,338	9,425	7,940	6,933	6,218
Solvency excess (deficit)	$ (1,847)	$ 449	$ 283	$ (1,201)	$ (1,136)	$ (184)	$ (459)	$ 804	$ 822
Solvency ratio	89.0%	103.2%	102.0%	91.0%	90.0%	98.0%	94.2%	111.6%	113.2%

[1] Valuations are as at December 31 of each year shown, except for the valuation at plan inception (October 1, 2000)
[2] December 31, 2008 funding valuation was not required by OSFI and therefore management decided not to file.