2018 ANNUAL REPORT Canada Post Corporation

FINANCIAL SECTION

For the period ended December 31, 2018

Financial Performance

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Management's Discussion and Analysis

This Management's Discussion and Analysis (MD&A) provides a narrative discussion outlining the financial results and operational changes for the year ended December 31, 2018, for Canada Post Corporation (Corporation or Canada Post) and its subsidiaries – Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI or Logistics) and Innovapost Inc. (Innovapost). These companies are collectively referred to as the Canada Post Group of Companies or the Group of Companies. Segments are based on the legal entities, Canada Post, Purolator, SCI and Innovapost. This discussion should be read with the consolidated financial statements and accompanying notes for the year ended December 31, 2018, which were prepared in accordance with International Financial Reporting Standards (IFRS) and are presented in Canadian dollars. Financial results reported in the MD&A are rounded to the nearest million, while related percentages are based on numbers rounded to the nearest thousand. The information in this MD&A is current to March 21, 2019, unless otherwise noted.

Management is responsible for the information presented in the Annual Report. All references to "our" or "we" mean, as the context may require, either Canada Post or, collectively, Canada Post and its subsidiaries. The Board of Directors, on the recommendation of its Audit Committee, approved the content of this MD&A and the audited consolidated financial statements.

Materiality

In assessing what information is to be provided in the MD&A, management applies the materiality principle as guidance for disclosure. Management considers information material if it is considered probable that its omission or misstatement would influence decisions that users make on the basis of the financial information.

Forward-looking statements

This Annual Report, including the MD&A, contains forward-looking statements that reflect management's expectations regarding the Group of Companies' objectives, plans, strategies, future growth, results of operations, performance, and business prospects and opportunities. Forward-looking statements are typically identified by words or phrases such as "plans," "anticipates," "expects," "believes," "estimates," "intends" and other similar expressions. These forward-looking statements are not facts, but only estimates regarding future results. These estimates are based on certain factors or assumptions regarding expected growth, results of operations, performance, business prospects and opportunities (assumptions). While management considers these assumptions to be reasonable based on available information, they may prove to be incorrect. These estimates of future results are subject to a number of risks, uncertainties and other factors that could cause actual results to differ materially from what the Group of Companies expects. These risks, uncertainties and other factors include, but are not limited to, those risks and uncertainties set forth in Section 5 – Risks and Risk Management page 22 of this MD&A (risks).

To the extent the Group of Companies provides future-oriented financial information or a financial outlook, such as future growth and financial performance, the Group of Companies is providing this information for the purposes of describing its future expectations. Therefore, readers are cautioned that this information may not be appropriate for any other purpose. Furthermore, future-oriented financial information and financial outlooks, as with forward-looking information generally, are based on the assumptions and subject to the risks.

Readers are urged to consider these factors carefully when evaluating these forward-looking statements. In light of these assumptions and risks, the events predicted in these forward-looking statements may not occur. The Group of Companies cannot assure that projected results or events will be achieved. Accordingly, readers are cautioned not to place undue reliance on the forward-looking statements.

The forward-looking statements included in this Annual Report are made only as of March 21, 2019, and the Canada Post Group of Companies does not undertake to publicly update these statements to reflect new information, future events or changes in circumstances or for any other reason after this date.

1 Executive Summary

An overview of the Canada Post Group of Companies and a summary of 2018 financial results

The Canada Post Group of Companies consists of Canada Post and its subsidiaries – Purolator Holdings Ltd., SCI Group Inc. and Innovapost Inc. The Group of Companies is one of Canada's largest employers with over 67,000 people. During 2018, employees delivered almost 8.1 billion pieces of mail, parcels and messages to 16.4 million addresses across Canada. The Canada Post segment operates the largest retail network in Canada with over 6,100 retail post offices in the country. A Crown corporation since 1981, Canada Post reports to Parliament through the Minister of Public Services and Procurement and Accessibility and has a single shareholder, the Government of Canada.

Pursuant to the *Canada Post Corporation Act*, Canada Post has a mandate to provide a standard of postal service that meets the needs of Canadians. The Corporation provides quality postal services to all Canadians – rural and urban, individuals and businesses – in a secure and financially self-sustaining manner. Canada Post's universal service obligation (USO) is set out in the *Canadian Postal Service Charter*, established by the Government of Canada in 2009, which states the following:

- Canada Post will maintain a postal system that allows individuals and businesses in Canada to send and receive mail within Canada and between Canada and elsewhere. Canada Post will provide a service for the collection, transmission and delivery of letters, parcels and publications.
- The provision of postal services to rural regions of the country is an integral part of Canada Post's universal service.
- Canada Post has an obligation to charge postage rates that are fair and reasonable and, together with other revenues, are sufficient to cover the costs incurred in its operations.

In addition to its core postal services and USO, the Corporation also delivers certain public-policy programs on behalf of the Government of Canada. Pursuant to the *Canada Post Corporation Act*, members of Parliament and certain senior government officials are allowed to send mail free of charge. The Act also provides for free mailing of materials for persons who are blind. Public and academic libraries can move books and other materials between libraries and library users at reduced postage rates.

Canada Post is part of the global postal industry comprising foreign postal administrations (posts). All posts have traditionally financed their USO through a legislated exclusive privilege, or monopoly over a portion of the postal market. However, the exclusive privilege does not hold much value in a digital world. With more people shifting to the internet and smart mobile devices to communicate and transact, posts continue to experience a structural decline in mail volumes as customers shift to digital alternatives.

Canada Post is also at a critical point in its history. As the trend toward online communication continues, Canadian households and businesses do not use our Lettermail™ services to the same extent, which has led to a significant drop in Transaction Mail, our largest line of business. In 2018, we delivered three billion pieces of mail, 2.4 billion pieces (or 44%) less than we did in the peak year of 2006. Transaction Mail is not expected to rebound.

Digital technology has disrupted many industries, including Canada Post's. However, Canada Post has reinvented itself to continue to play a key role in the lives of Canadians in the digital era. It continues to be the country's no. 1 parcel delivery company for online purchases. Since 2011, the year it chose to focus on growing its Parcels business, the Canada Post segment has more than doubled its annual Parcels revenue, which has increased by almost $1.3 billion, to $2.5 billion. Canada Post has achieved its market-leading position in e-commerce by pivoting its operations, innovating to gain competitive advantage, partnering with retailers and focusing on providing a superior customer experience. Though parcels and direct marketing represent opportunities for Canada Post, their growth alone is not expected to entirely offset the financial impact of the decline in the core Lettermail business.

Our strategy in 2018 was to remain focused on growing our Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and ensuring we meet our service commitments to provide a superior customer experience.

Financial and business highlights

For the first time in five years the Canada Post Group of Companies posted in 2018 a loss before tax of $110 million, compared to a profit before tax of $204 million[1] in 2017, a decrease of $314 million.[1]

The Canada Post segment had a challenging year in 2018. The segment reported a loss before tax of $270 million, compared to a profit before tax of $76 million[1] in 2017, a decrease of $346 million.[1] The non-recurring factors that contributed to the results include the estimated cost of $280 million related to prior years under the pay equity ruling for members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC). Another factor was the labour disruption in the fourth quarter that created an estimated revenue shortfall of $195 million and resulted in a net impact of $135 million to the loss before tax. This was partially offset by a third factor, the gain of $48 million recorded as a result of an update to the actuarial assumption used to calculate the administration costs of Canada Post's workers' compensation benefits plan. Had it not been for these non-recurring factors, the Canada Post segment would have recorded a profit before tax in 2018.

The Purolator segment recorded a profit before tax of $162 million in 2018, compared to a profit before tax of $123 million[1] in 2017, an increase of $39 million,[1] or 31.5%.[1]

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Financial results for 2018 were affected by the following factors, in the Canada Post segment.

Parcels growth

In 2018, we achieved another year of growth in our Parcels line of business, exceeding $2.5 billion in Parcels revenue and demonstrating the success of our strategy to be a leader in the business-to-consumer e-commerce delivery market. However, although revenue increased by $308 million[1] due to growth, the increase of 13.6%[1,2] was significantly lower than the 2017 growth rate of 26.8%.[1,2] In our fourth quarter, Parcels revenue decreased by 3.4%[1,2] compared to 2017, as a result of the labour disruption. Domestic Parcels revenue, the largest product category, increased by $254 million[1] or 15.3%,[1,2] and volumes increased by 20 million pieces or 10.9%[2] over 2017 as e-commerce continued to expand in 2018. Also, for Inbound Parcels there was some migration from Transaction Mail Inbound Letter-post due to changes in international requirements in 2018. Packets are now clearly identified, allowing Canada Post to record revenue and volumes in Inbound Parcels that were previously included in Transaction Mail.

Commitment to service

Our vast retail network of post offices and dealer outlets across the country provide convenient locations and service, with many of them offering evening and weekend hours to meet the changing needs of Canadians.

To enhance service, again in 2018, we installed approximately 1,000 additional parcel lockers in apartment buildings and condominiums across Canada. With a base that now exceeds 5,300 parcel lockers across the country, we are enabling safe and secure delivery to residents even when they are not at home to receive their parcels.

Ongoing decline in Transaction Mail volumes

Total 2018 Transaction Mail revenue decreased by $151 million[1] or 5.5%[1,2] compared to 2017, and volumes declined by 187 million pieces or 6.2%[2] compared to 2017, as consumers and mailers continued to migrate to digital alternatives. Canadian points of delivery have also increased over the last 12 years (by an average of 174,000 per year), contributing to higher costs due to the obligation to provide delivery service to more addresses. In 2018, the mail volume decline per address was 7.2%.

Labour matters

Labour negotiations

Canada Post has been negotiating throughout 2018 and is currently in arbitration to replace expired collective agreements with the Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC). On October 22, 2018, the members of CUPW-UPO and CUPW-RSMC initiated rotating strikes. Negotiations continued during the labour disruption, with the assistance of a special mediator appointed by the Minister of Labour. On November 26, Parliament adopted back-to-work legislation, which took effect November 27. Mediation in December was not successful and arbitration that started in January 2019 is ongoing. Although it is difficult to predict, there will likely be an ongoing impact from the labour disruption.

Pay equity settlement

In May 2018, an arbitrator issued a decision that members of CUPW-RSMC perform work of equal value to the work of urban letter carriers of CUPW-UPO. The parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap, by August 31, 2018. The parties were unable to resolve all the issues by the deadline and outstanding matters proceeded to binding arbitration. On September 20, 2018, the arbitrator released her final ruling.

The pay and benefit changes resulting from the ruling include wage adjustments, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. Under the agreed terms of the process, adjustments are retroactive to January 1, 2016. The cumulative costs associated with the ruling were approximately $550 million by the end of 2018, of which $420 million were recorded in the 2018 fiscal year. The annualized impact of the pay equity ruling in future years is an estimated cost increase of $140 million per year. Amounts have been estimated using information available as of the date of approval of this report.

Health and safety

In 2018, one of our major focuses was on creating a safe and healthy workplace for our employees. Compared to 2017, our total injury frequency rate improved by 6%; however, our lost time injury rate was 2% worse. Safety is important to our people and our business, and we will remain committed to making improvements in this area in 2019.

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2. Adjusted for trading days.

Size and volatility of pension, other post-employment and other long-term benefits

Significant obligations of the Canada Post Corporation Registered Pension Plan (RPP) and other post-employment and long-term benefits continued to be a concern for the Corporation. The large size and volatility of these obligations compared to our cash position and profit can put substantial pressure on cash flows and our ability to fund needed investments in modernization and growth. Volatility from one quarter to the next is caused by fluctuations in discount rates, investment returns and other actuarial assumptions, resulting in sizeable financial and long-term liquidity risks to the Corporation.

At the end of 2018, remeasurement gains of $408 million, net of tax, were recorded in other comprehensive income on the Group of Companies' defined benefit plans, improving the Group of Companies' equity balance to negative $62 million as at December 31, 2018. The gains were mostly the result of an increase in discount rates, offset by lower than expected investments returns. In addition, a gain of $48 million was recorded as a result of an update to the actuarial assumption used to calculate the administration costs of Canada Post's workers' compensation benefits plan.

The solvency deficit to be funded for the RPP improved during the year and was estimated at $5.7 billion (using the three-year average solvency ratio basis) as at December 31, 2018.

Under the *Canada Post Corporation Pension Plan Funding Regulations*, the Corporation was exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation reverted back to the regulations in the *Pension Benefits Standards Act, 1985*. As a result of these regulations, Canada Post did not have to make special payments in 2018 and is not expected to make special payments in 2019. Under the regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. Beyond this level, the Corporation will require incremental borrowing or additional pension relief. The CUPW-RSMC pay equity ruling will have an impact on solvency funding in future years, requiring additional pay equity-related payments, subject to regulatory approval.

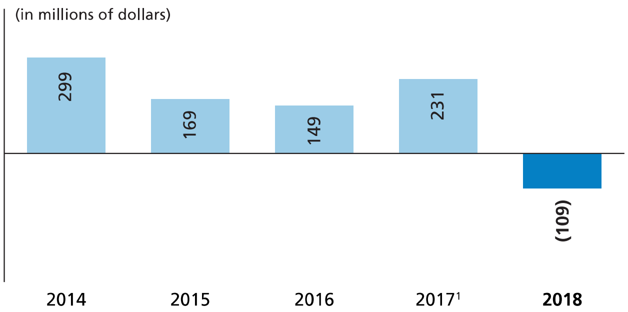
Government review of Canada Post

On January 24, 2018, the government announced its vision for Canada Post focused on serving Canadians. In implementing the Government of Canada's vision for renewing the postal service, we have incorporated the areas identified by the government into our strategic priorities and began working on them in the first quarter of 2018. We are committed to ensuring that all customers, including seniors and persons with disabilities, have access to their mail and parcels, and we have worked diligently to bring together our national Accessibility Advisory Panel. We have made it a priority to improve our relationships with our employees and our unions. We are working on improving product offerings for our remittance services, including the removal of a rural surcharge.

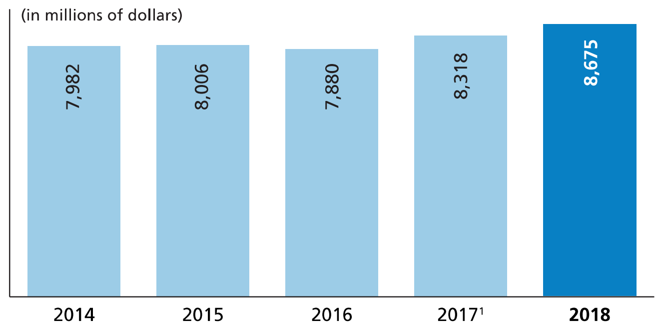
The Canada Post Group of Companies – 2018

The 2018 consolidated financial statements of Canada Post Corporation include the accounts of the Corporation and its subsidiaries, Purolator, SCI and Innovapost.

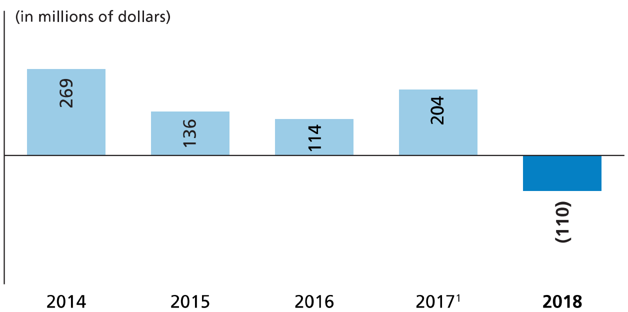
Consolidated profit (loss) from operations



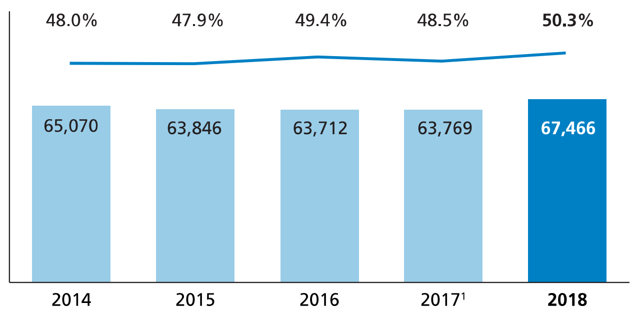
Consolidated revenue from operations



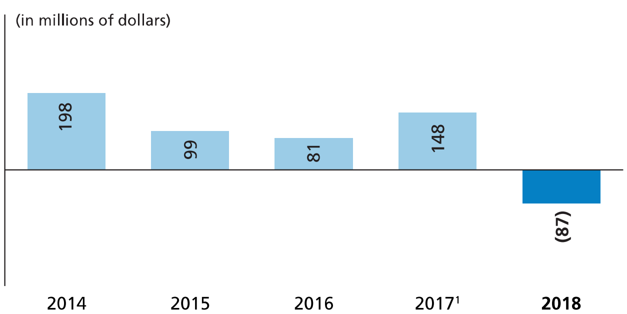
Consolidated profit (loss) before tax



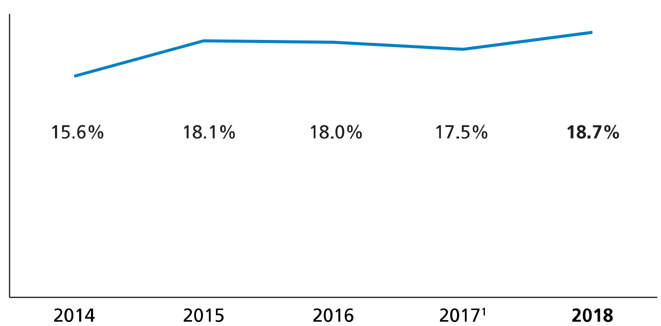
Labour as a percentage of revenue from operations combined with number of employees[2]



Consolidated net profit (loss)



Employee benefits as a percentage of revenue from operations



1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements. Amounts for years prior to 2017 were not restated and, therefore, may not be comparable to amounts for 2017 and 2018.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees. Labour as a percentage of revenue from operations excludes employee benefits.

The following table presents the Corporation's consolidated performance for the 2018 fiscal year compared to 2017.

(in millions of dollars)

Year ended December 31	2018	2017[1]	Change[1]	%[1]	Explanation of change
Consolidated statement of comprehensive income					Highlights, as discussed in Section 8 – Discussion of Operations page 35.
Revenue from operations	8,675	8,318	357	3.9[2]	Increase in Parcels growth in the Canada Post and Purolator segments, partially offset by the labour disruption and ongoing Transaction Mail volume erosion in the Canada Post segment.
Cost of operations	8,784	8,087	697	8.2[2]	Increase mainly due to the 2018 ruling on pay equity for members of CUPW-RSMC and Parcels growth in the Canada Post segment, and inflationary pressures.
Profit (loss) from operations	(109)	231	(340)	–	Decrease due to the 2018 ruling on pay equity for members of CUPW-RSMC and the labour disruption, partially offset by Parcels growth.
Profit (loss) before tax	(110)	204	(314)	–	
Tax expense (recovery)	(23)	56	(79)	–	
Net profit (loss)	(87)	148	(235)	–	
Consolidated statement of cash flows					Highlights, as discussed in Section 6 – Liquidity and Capital Resources page 28.
Cash and cash equivalents	1,421	1,503	(82)	(5.4)	Decrease mainly due to net acquisitions of securities, partially offset by cash provided by operating activities.
Cash provided by operating activities	973	748	225	30.1	Increase mainly due to non-cash timing of employee future benefits and changes in non-cash working capital in the Canada Post segment.
Cash used in investing activities	(1,045)	(68)	(977)	–	Decrease primarily due to lower proceeds from disposal of investments and higher acquisitions of capital assets in the Canada Post segment.
Cash used in financing activities	(14)	(24)	10	39.2	Increase mainly due to lower payments on finance lease obligations in the Purolator segment.

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2. Adjusted for trading or paid days, where applicable.

2 Core Businesses and Strategy

A discussion of the business and strategy of our core businesses

2.1 Our business

The Canada Post Group of Companies is a leader in providing innovative e-commerce, marketing and logistics solutions. Its unrivalled networks and capabilities enable remote communications and commerce across Canada and between Canada and the world. Proud to serve individual Canadians and every address, it also works with Canadian businesses, large and small, to help them compete and succeed. Its activities strengthen Canadian enterprises, local communities and the economy.

The Canada Post Group of Companies provides a full range of delivery, logistics and fulfillment services to customers and, combined, has annual revenue of almost $8.7 billion. The Group of Companies has the largest retail network in Canada with almost 7,000 retail locations, operates a fleet of over 18,000 vehicles and employs over 67,000 people.

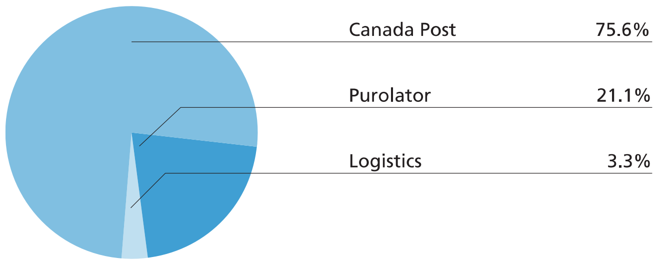
In 2018, our employees delivered almost 8.1 billion pieces of mail, parcels and messages to 16.4 million addresses in urban, rural and remote locations across Canada.

Canada Post is the largest segment of the Group of Companies with revenue of $6.6 billion in 2018. Canada Post is Canada's postal administration, and its core services include delivery of letters, bills, statements, invoices, parcels, direct marketing products and periodicals.

Purolator Holdings Ltd., 91% owned by Canada Post, is Canada's leading integrated freight and parcel solutions provider whose revenue exceeded $1.8 billion in 2018.

SCI Group Inc., 99% owned by the Group of Companies, is one of Canada's largest providers of supply chain solutions. Its 2018 revenue was $322 million.

Revenue by segment – 2018

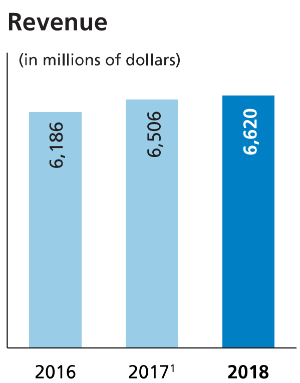


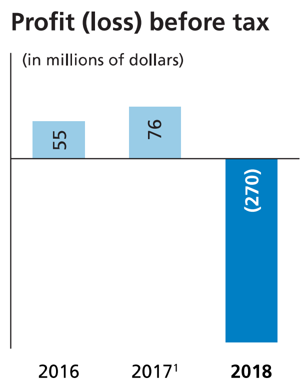
Revenue by segment	2016	2017[1]	2018
Canada Post	78.1%	77.7%	75.6%
Purolator	19.1%	19.4%	21.1%
Logistics	2.8%	2.9%	3.3%

Canada Post segment

Canada Post operates Canada's largest retail network with over 6,100 retail post offices and a fleet of almost 13,000 vehicles that delivered almost 8 billion pieces of mail and parcels in 2018. With almost 53,000 employees, Canada Post provides service to 16.4 million addresses.

The Canada Post segment generated revenue of $6.6 billion and, after excluding intersegment revenue, represented 75.6% of the Group of Companies' 2018 consolidated revenue of $8.7 billion.





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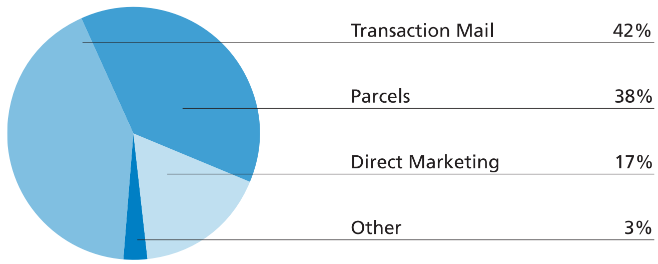
The following chart illustrates the distribution of Canada Post's revenue by line of business, as percentages of the segment's total.

Revenue by line of business – 2018



Revenue by line of business	2016	2017[1]	2018
Transaction Mail	49%	45%	42%
Parcels	28%	34%	38%
Direct Marketing	19%	17%	17%
Other	4%	4%	3%

Transaction Mail

Transaction Mail is our portfolio of services for the delivery and response to letters, bills, statements, invoices and other forms of communications. It is our line of business that generates the most revenue and includes three product categories, Domestic Lettermail, Outbound Letter-post and Inbound Letter-post.

Transaction Mail accounted for $2.8 billion or 42% of Canada Post's 2018 operating revenue of $6.6 billion. Most of the Transaction Mail revenue was derived from traditional physical mail delivery services, with Domestic Lettermail accounting for 93%. However, Domestic Lettermail volumes are declining rapidly (4.6%[2] in 2018) as Canadians are adopting digital alternatives. This decline is creating a profound effect on a business model founded on paper-based communications.

Customers include private consumers, but most are businesses in the financial, telecommunications, government and utilities sectors.

Parcels

The Parcels line of business offers Canadians a wide range of delivery services to every domestic address in Canada and international destinations through other posts and collaborative efforts with global integrators. Services are differentiated by the delivery destination and speed, ranging from urgent-next-day to non-urgent delivery, where transit time is determined by the transportation mode of ground, air or both.

Parcels accounted for $2.5 billion or 38% of Canada Post's 2018 operating revenue of $6.6 billion. This line of business has grown significantly and is an indicator of its successful strategy to win a leadership position in e-commerce. Leveraging its core strength in delivering to every Canadian address, as well as its processing, delivery and retail network, Canada Post continues to be no. 1 in Canada in the competitive e-commerce delivery market by partnering with retailers and innovating to create greater convenience for online shoppers.

Customers include private consumers, businesses, retailers, governments, posts and other delivery companies and consolidators.

Direct Marketing

The Direct Marketing, Advertising and Publishing (collectively called Direct Marketing) line of business includes three primary services. The Canada Post Personalized Mail™ service allows customers to personalize mailings and tailor promotional messages to specific consumers or prospects. With the Canada Post Neighbourhood Mail™ service, customers can reach specific neighbourhoods or regions across Canada. Together, Personalized Mail™ and Neighbourhood Mail™ make up the Canada Post Smartmail Marketing™ solution, a more intelligent approach to direct mail. The Publications Mail™ service includes the distribution of periodicals, such as newspapers, magazines and newsletters.

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2. Adjusted for trading days.

Direct Marketing accounted for $1.1 billion or 17% of Canada Post's 2018 operating revenue of $6.6 billion. Canada Post has experienced challenges in trying to achieve growth in this competitive sector. There has been a lot of experimentation in the marketing industry as businesses have allocated more of their marketing spending to less costly digital alternatives in order to maximize returns of their advertising campaigns.

Customers include businesses of all sizes and governments. Canada Post also works with marketers, influencers and partners to provide Direct Marketing products and services.

Other

The Other line of business consists of a broad array of products and services, including mail redirection, data products, commemorative stamps, gifts and coins, and the epost™ service that allows users to receive, pay and manage bills in one place online.

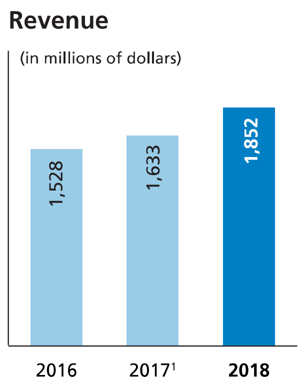
The Other category accounted for $236 million or 3% of Canada Post's 2018 operating revenue of $6.6 billion.

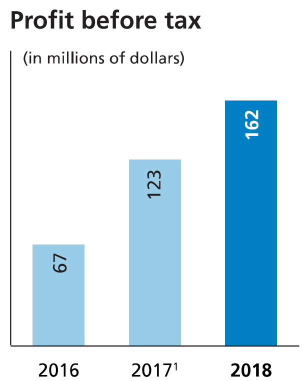
Customers include businesses, governments and private consumers.

Purolator segment

Purolator is a leading Canadian transportation, delivery and logistics solutions provider. Benefiting from its industry-leading premium services and reliability, Purolator focuses on satisfying the needs of the traditional business-to-business customers and the growing e-commerce market, through a broad array of services within, to and from Canada. This focus complements the Canada Post Group of Companies' service offerings and contributes to synergies within the Group of Companies. Purolator brings logistics know-how, premium service capabilities and business-to-business expertise to its customers in the highly competitive and rapidly changing Canadian distribution landscape. Purolator's presence in the U.S. market also provides inbound transportation and logistics capabilities in an expanding cross-border market. Purolator has an extensive service network in Canada that includes its own ground fleet of more than 4,000 vehicles, 172 operations facilities, more than 110 shipping centres, approximately 600 authorized shipping agents as well as customer contact centres.

In 2018, Purolator generated revenue of over $1.8 billion, which after excluding intersegment revenue, represented 21.1% of the 2018 Group of Companies' consolidated revenue of $8.7 billion.





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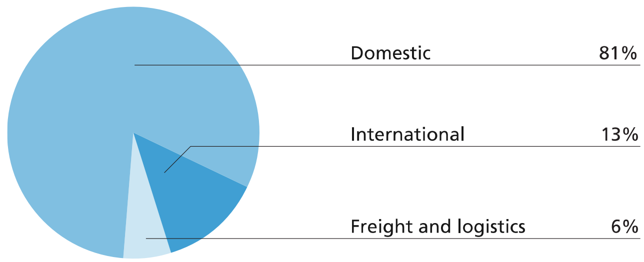
The following chart illustrates the distribution of Purolator's revenue by line of business, as percentages of the segment's total.

Revenue by market – 2018



Revenue by market	2016	2017[1]	2018
Domestic	81%	80%	81%
International	13%	14%	13%
Freight and logistics	6%	6%	6%

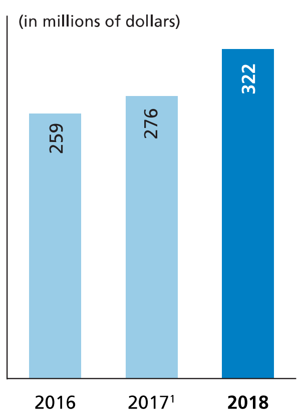
Logistics segment

Through its operating entities SCI Logistics, Progistix and First Team Transport (operating as SCI-White Glove Services), SCI helps companies reduce costs and improve services with the design, implementation and operation of efficient supply chain solutions, and allows the Group of Companies to offer end-to-end supply chain services to Canadian businesses.

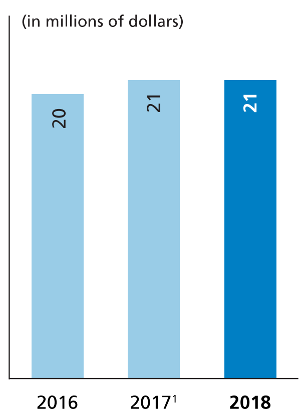
SCI offers its clients expertise in business-to-consumer, business-to-business and field service logistics, while delivering innovation, intelligence and integration to supply chains across Canada.

In 2018, SCI generated revenue of $322 million, which, after excluding intersegment revenue, represented 3.3% of the 2018 Group of Companies' consolidated revenue of $8.7 billion.

Revenue



Profit before tax



2.2 Our business environment

Global trends

Steady global economic growth under way since mid-2016 continued in 2018. Major factors contributing to growth included increases in investment and industrial production with continued increases in consumer and business confidence. However, global economic expansion lost some momentum in the second half of 2018, has become less balanced and may have peaked in some major economies. The Canadian economy was resilient in 2018, posting 2.1% growth primarily due to household spending, low unemployment and strong job growth. However, troubling times may lie ahead due to the combination of high household debt, potential rising interest rates and slowing wage growth.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements. Amounts for 2016 were not restated and, therefore, may not be comparable to amounts for 2017 and 2018.

Elevated policy uncertainty and trade tensions pose a risk to economic growth. While the Canada-United States-Mexico Agreement has been signed and could be beneficial for investment and exports, the agreement has yet to be ratified. As a result, uncertainty remains and a focus on greater protectionism could directly affect cross-border trade and investments between Canada and its largest trading partner. Similarly, potential emerging trade risks between the U.S. and other countries, including China, could have significant impacts on the global economy. Canadian economic growth in 2019 is expected to be 1.9%. Economic growth may be tempered by a cooling housing market, lower oil prices and reduced household spending.

The strong link between mail volumes and economic performance began to diminish in the late 1990s. Increasing internet penetration and the emergence of the smartphone have encouraged governments and businesses to push more and more services to simpler, more convenient online platforms. This trend has grown increasingly acute with the advent of more accessible and mobile digital applications that facilitate everything from communications to bill payment to news and media consumption. The move to digital communications has had a significant impact on traditional postal business; the International Post Corporation reported that mail volume has more than halved for many posts since 2005 and that a further volume reduction of more than 50% over the next 10 years is likely. As delivery networks continue to expand in an environment of decreasing mail volumes, posts have been obliged to pursue creative solutions to manage costs, while attempting to slow the decline by increasing the value of mail.

The parcels business is an important driver of future growth for the postal industry. E-commerce has experienced double-digit growth, globally and in Canada, for several years and is expected to continue to grow rapidly in the future. While posts are well suited to servicing this market, competition is evolving. Traditional global integrators, such as UPS and FedEx, are investing to compete for residential deliveries in urban areas. Major e-retailers like Amazon are expanding their size, influence and reach, and are attempting to improve and control the delivery experience, as well as manage costs, through in-house final-mile delivery and expansion of parcel lockers. As consumer expectations for faster delivery continue to rapidly evolve, technology-focused delivery companies are developing fast, flexible on-demand delivery models for local deliveries. Retailers are increasingly adopting innovative delivery solutions as they compete for market share. To compete in the growing e-commerce delivery market, posts are introducing solutions aimed at improving the customer experience, including real-time tracking, evening, weekend and same-day deliveries, 24-hour pickup at secure centralized parcel lockers and enhanced e-commerce returns solutions. To ensure continued relevance and long-term viability, posts are continuing to develop innovative solutions that include technological diversification, greater automation, and partnerships and acquisitions.

Canada

Canada Post has been successful at growing its Parcels business, which has helped to offset declining mail volumes and a reduction in the annual number of pieces of mail delivered per address. However, despite significant growth in the Parcels business, Canada Post's leadership in e-commerce delivery faces increased competition from traditional competitors as well as emerging low-cost innovative delivery solutions. In addition, the Corporation's inflexible and high-cost structure threatens long-term profitability in a growing e-commerce market, and the defined benefit pension continues to put pressure on liquidity. These structural challenges can be solved, however, the Corporation cannot solve them unilaterally. Canada Post must continue to work on solutions in partnership with key stakeholders to adapt, meet challenges and take advantage of opportunities created by new technologies and the evolving expectations of customers and Canadians.

Since 2006, declining mail volumes have resulted in a reduction of 52% in the annual number of pieces of mail delivered per address**.** It is impossible to predict when the steady rate of decline in mail volumes might suddenly accelerate, which has occurred in other developed economies.

Transaction Mail (excluding outbound)	2007	2008	2009[1]	2010	2011	2012	2013	2014	2015	2016	2017	2018
Delivered volume percentage change	(1.3)%	(1.6)%	(5.5)%	(3.9)%	(3.7)%	(6.1)%	(4.9)%	(5.0)%	(5.9)%	(7.7)%	(5.4)%[2]	(6.1)%[2]
Delivery addresses percentage change	1.4%	1.4%	1.2%	1.0%	1.0%	1.0%	1.0%	1.2%	0.9%	1.2%	1.1%	1.2%
Mail volume percentage decline per address	(2.6)%	(2.9)%	(6.7)%	(4.9)%	(4.6)%	(7.0)%	(5.9)%	(6.1)%	(6.8)%	(8.8)%	(6.5)%[2]	(7.2)%[2]

1. Amounts for 2009 were restated for comparability as a result of a methodology change in 2010. Amounts for years prior to 2009 were not restated and, therefore, may not be comparable.
2. Adjusted for trading days.

2.3 Our strategy and strategic priorities

Canada Post segment

Even as Canadians continue to change the way they use postal services, the Canadian postal system remains a connection for rural, remote and urban communities, it supports the success of Canadian businesses of all sizes and it helps charities raise funds. However, in the face of the relentless decline of Lettermail volumes and the rising dominance of digital advertising, the postal system must evolve.

In addition to our commitment to, and investments in, the pillars of the government's new vision for Canada Post announced in 2018, we remain focused on growing our Parcels business, providing a superior customer experience and meeting our service commitments, through the five strategic priorities**.**

Adapting our network

Canada Post looks to provide the best delivery service to customers. Consolidation of our delivery network processes to be more efficient and effective has been achieved through investments and enhancements of plant equipment and delivery systems, improved service performance and customer experience. However, as growth in parcels continues, we must continue to improve our network to drive further growth.

Achieving leadership in e-commerce through delivery excellence and innovation

Parcels growth is key to our future, however, it does not make up for Lettermail erosion. In 2019, we expect to continue to invest in infrastructure capacity, through upgrades to facilities and information system technology systems, to meet the challenges of continued e-commerce growth. We are well positioned to continue benefitting from this growth: we have unparalleled market coverage, with over 6,100 post offices across the country; and we are focused on innovation and convenience, such as the FlexDelivery™ service, and a superior customer experience, mainly through convenience and speed. By improving relationships with e-commerce shippers and foreign postal administrations to enhance the delivery experience, our goal is to solidify our position as the preferred provider for business-to-consumer deliveries in Canada. We will continue to differentiate ourselves from the competition in residential delivery. Our focus on e-commerce growth is benefitting Canada's retail sector, as well as our brand.

Developing winning marketing solutions

The rise of internet and mobile advertising has led to a loss of market share for print advertising, including direct marketing. However, it remains an important part of a multimedia mix for large and small businesses. Three powerful elements of direct marketing products – physical experience, data and connectivity – are proven to make their marketing mix more relevant. Campaigns can be targeted, allowing marketers to use data to personalize their messages and reach consumers at home.

Canada Post's direct mail products represent a small percentage of the Canadian advertising market. However, our Smartmail Marketing™ solution is a more intelligent approach to direct mail and it allows us to compete more effectively with other advertising alternatives, including digital options. Our direct mail products are also affordable and provide customers with an excellent return on their investment.

Creating a more engaged and commercially oriented workforce

In today's highly competitive environment, customers have choices that employees can influence, and engaged employees are a critical element for Canada Post to be successful. Even as we continue to adapt our business, our efforts remain focused on employee engagement and putting initiatives in place to create an environment where employees feel they can use their experience and judgment to create solutions, identify efficiencies and opportunities, and manage customer needs. We will continue to work with all our unions on new initiatives, programs and plans, and share ideas for continuous improvement. Collaboration with our unions is key to this journey.

Enhancing the brand through service performance and customer service

Canada Post is one of the few organizations that can call all Canadians its customers. However, we are in the midst of a significant transformation. Our objective is to maintain our strength associated with serving the needs of Canadians and contributing positively to Canadian society. We will focus on growing customer loyalty by managing digital and physical product life cycles and developing a data-based, customer-centric view with the help of online capabilities. We will continue to bring more services online to improve customer access to our products, better align our operations to meet customer needs and simplify our processes to make it easier for customers to do business with us.

Update on the government review

In 2016, the Government of Canada began a review of Canada Post to ensure Canadians receive quality postal services at a reasonable price. On January 24, 2018, the government announced its vision for Canada Post focused on serving Canadians. The vision contains five concrete actions and emphasizes service to Canadians, while acknowledging that Canada Post must be efficient and financially sustainable for the long term. Since this announcement, Canada Post has begun work in these five areas, as well as work on developing a comprehensive program for renewal. We will continue to report progress on the renewal program through future corporate plans, as well as annual and quarterly reports.

1. The Corporation's program to convert door-to-door delivery to community mailboxes is terminated. All households receiving door-to-door delivery will continue to receive it. New subdivisions will continue to have community mailboxes installed.

2. Canada Post will establish a national advisory panel, to develop, implement and promote an enhanced accessible delivery program for Canadians experiencing difficulty with community mailboxes, especially seniors and others with reduced mobility.
    - In 2018, Canada Post established a national advisory panel to provide ongoing input and a forum for dialogue to help make its delivery services more accessible to seniors and persons with disabilities. The Accessibility Advisory Panel includes experts in disability and seniors' issues, including individuals with lived experiences, from across the country. The Advisory Panel met for the first time November 5-6, 2018, in Ottawa.
3. Canada Post will be reclassified under the *Financial Administration Act* to remove the current requirement to submit an annual dividend proposal to its shareholder, permitting the Corporation to reinvest all its profits in service and innovation.
    - On September 24, 2018, through an order in council, Canada Post Corporation was reclassified under the *Financial Administration Act*. Pursuant to subsection 3.3 of the Act, Canada Post was moved from Part II of Schedule III to Part I of Schedule III.
4. The Corporation will promote affordable remittance services to Canadians who send money overseas to support family members in an effort to increase market share.
    - Canada Post has improved remittance services and will continue to do so. Remittance services are currently facilitated through a contract with MoneyGram, which provides the ability for Canadians to electronically send money to support family outside of Canada. In the short term, customer awareness was increased through MoneyGram's advertising and Canada Post's initiatives. In addition, MoneyGram and Canada Post improved product offerings in 2018 by removing the rural surcharge, which ensures equivalent pricing between rural and urban markets, and adding functionality for customers to start their transactions online and complete them in a post office.
5. The government is renewing leadership at Canada Post, including the Chair, the Board of Directors and the President and Chief Executive Officer. The new Chair and Board of Directors will help build more collaborative relationships with communities, employees, labour and other stakeholders.
    - With new leadership on the Corporation's Board of Directors, Board members are overseeing the implementation of the government's vision. At the same time, we continue to execute our current strategy of adapting our network so that we continue to be a leader in e-commerce, developing winning marketing solutions, enhancing our brand through service performance and superior customer service, and creating a more engaged workforce.

Purolator segment

Purolator remains focused on its core business and the needs of the markets it serves. In 2018, progress continued on its strategic plan to improve core business, as well as launch new services, technologies and processes to improve efficiencies. Purolator is reinforcing its position as a leading provider of integrated business-to-business transportation, delivery and logistics solutions within, to and from Canada.

Targeting attractive sectors by providing augmented and premium services specific to each industries' needs remains a focus. Purolator is also capitalizing on growth opportunities presented by domestic e-commerce growth and market potential for cross-border trade by streamlining transportation, distribution and information flow between Canada and the rest of world.

In 2018, Purolator continued to focus on corporate stewardship and sustainability, most notably through its corporate social responsibility program, Purolator Tackle Hunger™ and significant R&D activities focused on reducing its carbon footprint.

Logistics segment

SCI is building on its strategy to become Canada's leader of integrated forward and reverse supply chain solutions for high-value and high-growth segments in Canada. SCI is focused on profitable growth from targeted verticals such as retail, health care and technology and expanding on proven capabilities including omni-channel fulfillment, reverse logistics, product life cycle solutions and specialized transportation services. SCI continues to strengthen key foundational elements and build for the future through its key verticals, focusing on mid-market and new services that will enhance SCI's value to customers.

3 Key Performance Drivers

A discussion of our key achievements in 2018

As discussed in Section 2.3 – Our strategy and strategic priorities, the Canada Post segment's main strategic priorities in 2018 were focused on growing its Parcels and Direct Marketing lines of business by supporting Canadians' changing postal needs and providing superior customer experience through greater levels of convenience, speed and network optimization.

The Canada Post segment uses performance scorecards to monitor progress against strategic priorities and provide management with a comprehensive view of the segment's performance. Results are reported monthly to senior management.

™ Tackle Hunger is a trademark of Purolator Inc.

Here is a summary of Canada Post's key achievements in 2018.

Adapting our network

- To make our delivery depots more parcel-focused, we implemented our new operating model in eight more depots. Floor space previously used for mail was converted into more capacity for parcels.
- We put plans in place to significantly increase our sorting capabilities over the next four years with investments in key markets such as Vancouver, Calgary, Toronto and Montréal. Prior to Christmas, we successfully commissioned two new sorters for our international mail, which improved our performance during this important season. We signed a contract for a new packet sorter in our Montréal facility. When commissioned in 2020, this sorter will be the largest capacity sorter in our network.

Achieving leadership in e-commerce through delivery excellence and innovation

- Parcels revenue exceeded $2.5 billion in 2018 (an increase of 13.6%[1,2] over 2017), and Parcels revenue from our top 25 e-commerce customers grew by about 18%[1,2] over 2017. We achieved these results by attracting new business and increasing revenue and volumes from our existing customers.
- Revenue and volumes of international inbound tracked packet items totalled $97 million and 21.2 million pieces in 2018. These figures represent a growth of 26.2%[1,2] and 20.9%[2] respectively from the prior year. The significant increase was mainly due to the fast growing e-commerce market from Asia-Pacific countries, as Canadians are ordering items from abroad in record numbers, using Tracked Packet, which meets their evolving need for trackability and service.
- Delivery preference is now available in approximately 14 million points of call. This option allows customers to specify a location for our delivery agents to safely leave their package outside their home when they can't be there to receive it. Locations must be sheltered from weather and not visible to passers-by, and the package must not require a signature. Since its launch in July, consumers have shown high interest in this option, with over one million requests.
- Our global trade platform now has an improved customer integration process. Based on weight and delivery mode, the platform will produce a label for either Canada Post or Purolator, facilitating a single solution for customers.
- Our FlexDelivery™ service allows customers to request direct delivery to any post office, providing choice, flexibility and control over where, when and how they pick up their parcels. In 2018, over 100,000 additional customers registered for FlexDelivery, and shipments since the launch of the service have exceeded two million.
- On September 20, 2018, we hosted the seventh annual Canada Post E-commerce Innovation Awards™ in Toronto to honour leading retailers in Canada. Eight of them received awards in several categories, including omni-channel strategies, online innovation, customer engagement and community initiatives.
- Our Ship Online tool for consumers was launched with domestic, U.S. and international shipping capabilities. This tool's functionality includes shipping comparison and QR code generation. Further enhancements are planned for 2019.
- Our electronic shipping hardware program offers customers the choice of installations at their locations. In 2018, we installed 100 full shipping programs and 400 shipping peripherals.
- October was Small Business Month, and once again we offered Free Shipping Tuesdays for all five weeks to our Canada Post Solutions for Small Business™ customers, resulting in over 35,000 new registrations. Our Canada Post Snap Ship™ tool, which allows requests for on-demand pickups when preparing shipments, was enhanced in 2018 to include shipping capabilities for U.S. and international destinations, an address book, a shipping comparison tool and scanning capability.
- We have about 5,300 parcel lockers installed in over 4,800 apartment buildings and condominiums across Canada, serving over 1.5 million customers. The lockers provide secure delivery, even if residents are not home to receive their parcels.
- In preparation for the legalization of recreational cannabis on October 17, 2018, we implemented change strategies, working with Health Canada, provincial governments, licensed producers, as well as our subsidiaries, Purolator and Innovapost, to create a market solution for secure shipping. Packages must meet federal government guidelines and Canada Post requirements for security and tamper resistance, be anonymous and not identifiable as cannabis or have branding on the packaging, be odour proof, and meet the weight requirement. Our delivery agents require proof of age for every shipment they deliver, and if the receiver appears to be 25 years old or younger, government-issued identification is requested to verify age.
- In 2018, visits to canadapost.ca increased more than 15% over 2017, even as traffic continued to shift to mobile devices. Apple selected the Canada Post app as part of its Christmas promotions for the second year in a row. During 2018, the app reached third among the most popular free business apps, and it was consistently in the top 10 with a sustained rating of 4.6 stars out of five. There were over 300,000 downloads in 2018, bringing the total to about 3.3 million since the app's 2010 launch. New features for iOS and Android include functionality for delivery instructions, as well as Find a Post Office with display of pickup and drop-off availability. In addition, iOS users can now pre-pay duties and taxes, and for Android, display of duties and taxes is available.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Adjusted for trading days.

Developing winning marketing solutions

- In 2018, we continued to spread awareness and showcase our thought leadership as we hosted customer forum events across the country. Our 11th annual Think Inside the Box event provided content around topics such as artificial intelligence and generational marketing.
- We sponsored and participated in two student learning events, Canada's Next Top Ad Exec and the Ontario Colleges Marketing Competition. Students demonstrated and showcased their skills to industry professionals and potential employers.
- We launched a new version of Precision Targeter™, our interactive map-based digital tool that helps customers plan their Neighbourhood Mail campaigns, with a technical upgrade and a redesign of the user interface. This tool is used on a monthly basis by almost 40% of our Neighbourhood Mail customers.
- With the aim of increasing our share of the large flyer market, we improved Neighbourhood Mail™ service to increase the oversize specifications, making it more efficient for customers and reducing delivery time.

Creating a more engaged and commercially oriented workforce

- We delivered 950,000 hours of training to employees, many of these hours through digital learning, which provides greater access for employees in rural areas.
- Our LEAD program was expanded to more mid-level managers in 2018, enabling employees at this level to develop leadership skills.
- We continued our focus on health and safety. In 2018, total injury frequency improved by 6% over the previous year, which represents our best annual performance on record. However, our lost-time injury frequency measure fell short of our target for the year and was 2% worse relative to 2017.
- We developed and deployed a new Corporate Policy on Substance Use and provided more than 4,300 employees with Fit to Work training.
- We reinforced our commitment to creating a healthy workplace by delivering mental health training to over 1,400 team leaders.
- We deployed a new performance management system to another 35% of the management workforce and maintained a high level of support and a focus on coaching and employee development.
- We hired over 4,400 front-line employees in plant and delivery operations to meet customer expectations during the holiday period.

Enhancing the brand through service performance and customer experience

- We exceeded our on-time service performance targets in 2018 for Personalized Mail™. The target was also surpassed for international parcels, despite an increase in inbound volumes of 60%.
- Three emergency situations occurred across the country in 2018: flooding in New Brunswick, tornadoes in Ottawa-Gatineau and wildfires in British Columbia. To assist displaced residents, we restored delivery of mail by offering free Mail Forwarding service for up to 12 months.
- We introduced our proactive chat channel to consumers, allowing them to access support directly on their mobile devices. In 2018, over 250,000 live chats with customer service agents were answered.
- Continuous improvement initiatives in 2018 included the addition of secure screen sharing for help desk customers to receive direct assistance on their devices when using Canada Post's applications, and introducing call-back options to avoid long wait times. We also used interactive voice response, chat and market research to better quantify the experiences that irritate customers. This information allowed our customer service network team to prioritize improvement initiatives for the next three years.
- On May 1, 2018, we announced the winners of our 2017 Aboriginal Incentive Education Awards, recognizing Canadians of Aboriginal heritage who have chosen to continue school following an absence from formal education. Since 2004, more than 300 individuals have been recognized. Each year, winners from across the country are awarded a $1,000 prize.
- Our Canada Post Community Foundation for Children gave a total of $1.2 million to 112 groups from all provinces and territories in 2018. The Foundation's mission is to have a positive impact on the health and well-being of children and youth in the communities Canada Post serves, which is accomplished by supporting like-minded organizations. The Foundation raises funds through an annual in-store donation campaign, a special stamp release, local fundraisers, and a year-round employee payroll donation program. Since 2012, the Foundation has awarded over $7 million to more than 660 projects such as crisis lines, anti-bullying initiatives and breakfast and literacy programs.

4 Capabilities

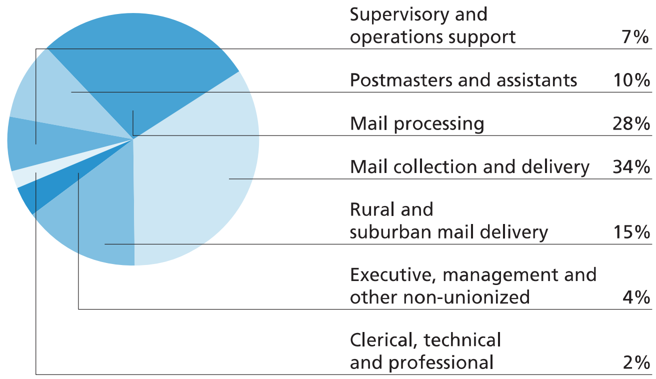
A discussion of the issues that affect our ability to execute strategies, manage key performance drivers and deliver results

4.1 Our employees

The Canada Post Group of Companies is one of Canada's largest workforces with over 67,000[1] people, the majority of them employed by Canada Post. Our workforce is diverse and is found in every urban, rural and remote community across Canada.

Canada Post segment

Workforce by type of work – 2018



Talent management, learning and development

Canada Post segment

Canada Post is dedicated to hiring a diverse workforce of talented individuals whose unique strengths are valued and can contribute to improved products and services for Canadians. The Corporation's recruitment strategy encompasses inclusivity and aims to foster a workplace that is representative of the Canadian Labour Market. In 2018, the number of women, Indigenous peoples, persons with disabilities and members of visible minorities employed by Canada Post continued to increase. Additionally, the overall representation rate for persons with disabilities and members of visible minorities increased in 2018. Focus will continue in 2019 to build on the diversity of our workforce.

Once hired, our talent management processes are focused on ensuring the right people are working in the right roles safely and productively. Canada Post is increasing its focus on talent development as a key differentiator to other employers in a tight labour market and believes in growing its people to grow the business.

Twice as many middle managers participated in our management leadership development program, LEAD, in 2018 compared to 2017. Senior management assigned projects to these upcoming leaders, who worked in teams to research and present results to senior management. The projects were related to business and cultural issues for Canada Post. In total, over 200 leaders participated in this intensive development program and the organization benefited from each team's research, analysis and recommendations. In 2019, the Corporation will invest in the development of 230 managers in the LEAD program.

In 2018, our employees received 950,000 hours of training. We continued to use digital learning as the benefits of this method include access to quality training regardless of an employee's location, as well as a tracking system to ensure training is deployed effectively and efficiently.

Focus on the delivery of health and safety training continued in 2018, with over 117,000 hours delivered on key programs such as Respect in the Workplace – Violence Prevention, Motorized Material Handling Equipment and First Aid. As part of the Make it safe, make it home program, we deployed over 75 training videos, guides and job aids on the centralized website to support all employees with key safety information, in particular team leaders. Other health and safety training was completed by 7,300 employees for conveyor safety and by 22,945 letter carriers for the Workplace Hazardous Materials Information System.

During the Next Generation Mobile Computer project, over 5,000 rural employees were trained in approximately 1,100 sites. This provided parcel visibility deeper into our network for an improved customer experience for rural Canadians. Another significant investment in learning in 2018 was in our Sales division. As we are focusing on growing the mid–market segment, three intensive training programs, reflecting market trends, customer expectations and operating processes, were designed and delivered in Vancouver, Toronto and Montréal.

1. Employment figures include full-time and part-time paid employees, and excludes temporary, casual and term employees.

In 2018, 47,000 employees and 2,400 retail dealers received cannabis related proof-of-age training to comply with the *Cannabis Act* that came into effect in October.

Finally, in 2018, we expanded the talent management and succession tool across the organization to capture in real time our talent skill set as well as employee career aspirations. Employees can now manage their careers, monitor progress against their development objectives and increasingly generate cross-functional growth opportunities. The new tool has already provided greater information on employees' aspirations, helping the organization to more effectively manage succession risks.

Purolator segment

A new three-year people strategy kicked off in 2018, focused on leadership development, lean culture and competency-based performance management, adding to existing programs designed to engage, recognize and retain employees.

Again in 2018, we held our annual MyVoice employee engagement survey and the results showed that our employees remain engaged and continue to take pride in the organization. Another survey will take place in 2019.

New senior leaders, from internal and external sources, were appointed in 2018 as we continue to build a high performance leadership team with a focus on a winning culture.

Health and safety

Canada Post segment

Canada Post continues to place a high priority on providing a safe and healthy workplace. We are committed to identifying, preventing and controlling hazards. We are also recognizing and rewarding safety leadership and making continuous improvements. A number of health and safety programs were deployed in 2018, including a national campaign (Make it safe, make it home), Safety Support and Tools, Safety Design in New Equipment and Facilities, Safety Audits, Snowflake Boot Campaign and First Winter Safety Orientation Training.

In 2018, total injury frequency improved by 6% over the previous year, which represents our best annual performance on record. However, our lost-time injury frequency measure fell short of our target for the year and was 2% worse relative to 2017.

Slips, trips and falls continue to be our main source of injury, followed by manual material handling injuries. These two injury types account for 80% of all injuries. We continue to raise awareness of these risks in the workplace through workplace hazard prevention programs, annual campaigns and injury prevention programs. Coaching on safe practices to avoid these injuries is a fundamental element of our ongoing plans and work habits.

Creating a safe and healthy workplace will continue to be a major focus in 2019. We recognize the importance of safety for our people and our business and are highly committed to making improvements in this area.

Labour relations

Canada Post segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
CUPW-UPO[2]	35,032	January 31, 2018
CUPW-RSMC[3]	8,181	December 31, 2017
CPAA[4]	5,250	December 31, 2018
APOC[5]	3,643	March 31, 2021
PSAC/UPCE[6]	1,224	August 31, 2020
Total	**53,330**	

1. All full-time and part-time employees including those on unpaid leave, as at December 31, 2018; excludes temporary, casual and term employees.
2. CUPW-UPO: Canadian Union of Postal Workers – Urban Postal Operations, which represents plant and retail employees as well as letter carriers and mail service couriers.
3. CUPW-RSMC: Canadian Union of Postal Workers – Rural and Suburban Mail Carriers, which represents mail delivery couriers in rural and suburban Canada.
4. CPAA: Canadian Postmasters and Assistants Association, which represents rural post office postmasters and assistants.
5. APOC: Association of Postal Officials of Canada, which represents supervisors as well as supervisory support groups, such as trainers, route measurement officers and sales employees.
6. PSAC/UPCE: Public Service Alliance of Canada / Union of Postal Communications Employees, which represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting, as well as technical employees in areas such as finance and engineering.

Canadian Union of Postal Workers – Urban Postal Operations (CUPW-UPO) and Rural and Suburban Mail Carriers (CUPW-RSMC)

The collective agreements for CUPW-UPO and CUPW-RSMC expired January 31, 2018, and December 31, 2017, respectively. CUPW provided notice to bargain on November 14, 2017, for both bargaining units and, the same day, advised that it had submitted a written request for mediation assistance to the Minister of Employment, Workforce Development and Labour. The Corporation agreed with the request for both bargaining processes. On November 28, 2017, the Minister appointed three mediators to the negotiations processes. The first meetings between the parties began in December 2017 and meetings occurred throughout the first six months of 2018. CUPW filed for conciliation on June 29, 2018, and on July 6, the Minister of Labour appointed two conciliators. On September 11, 2018, members of CUPW-UPO and CUPW-RSMC voted in favour of strike action and rotating strikes began on October 22, 2018.

The Government of Canada introduced back-to-work legislation (Bill C-89), for the resumption and continuation of postal services, which was passed on November 26 and came into effect on November 27. This legislation imposed a mediation-arbitration process to resolve matters remaining in dispute between the parties and it also empowered the mediator-arbitrator to impose an arbitration process to resolve matters that could not be resolved through mediation. On December 10, the mediator-arbitrator was appointed and the parties commenced seven days of mediation. This process was not successful in concluding collective agreements and, therefore, the arbitration process commenced on January 16, 2019. Additional meetings took place on February 12, 19, and 21. Under the legislation, the mediation-arbitration process should conclude within 90 days from December 10, 2018, or any longer period that the Minister may allow. The Corporation is committed to negotiating agreements that are fair to employees, while providing excellent service to Canadians, and maintaining financial self-sustainability.

As a part of the previous collective agreement, the Corporation and CUPW-UPO established a Labour-Management Relationship Committee with the objective of promoting more effective open and continuous involvement between the parties and enhancing communication – all to improve labour relations. The committee is composed of representatives from each party and the Federal Mediation and Conciliation Service, and considers initiatives on which the parties might work collaboratively.

The parties signed a memorandum of understanding on September 1, 2016, in which they agreed to enter into a joint pay equity study to assess whether a gender-based wage gap exists under *the Canadian Human Rights Act* for the RSMC occupational groups. The study was coordinated by a committee made up of representatives from both Canada Post and CUPW and their respective pay equity consultants. The parties began discussions in October 2017, however, the arbitrator appointed by the Minister of Labour in February 2017 was unable to mediate a settlement. Binding arbitration commenced in February 2018 and ended May 2, 2018. On May 31, the arbitrator rendered her decision that members of CUPW-RSMC perform work of equal value to that of urban letter carriers of CUPW-UPO. Further, her decision stated that the parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap, by August 31, 2018. As the parties were unable to resolve issues by the deadline, outstanding matters proceeded to further binding arbitration. Under the agreed terms of the process, adjustments are retroactive to January 1, 2016.

On September 20, the arbitrator released her final ruling on the question of pay equity for CUPW-RSMC employees. The pay and benefit changes include wage adjustments, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. In implementing the arbitrator’s decision, the parties have entered into a memorandum of agreement to work together and meet regularly. The increase to basic pay was implemented on January 1, 2019. The processing of the retroactive portion of basic pay to January 1, 2016, is expected to be completed during 2019. The balance of the implementation of the award is scheduled to be completed in the fourth quarter of 2019.

Canadian Postmasters and Assistants Association (CPAA)

The current collective agreement with the CPAA expired December 31, 2018, and notice to bargain can now be provided. This collective agreement provides for final offer selection. The CPAA represents rural post office postmasters and assistants.

Association of Postal Officials of Canada (APOC)

The current collective agreement with APOC expires March 31, 2021. APOC represents supervisors, superintendents and supervisory support groups, such as trainers, route measurement officers and sales employees.

Public Service Alliance of Canada / Union of Postal Communications Employees (PSAC/UPCE)

The current collective agreement with PSAC/UPCE expires August 31, 2020. PSAC/UPCE represents two groups of employees, those who perform administrative work, including call centres, administration, pay and production, control and reporting as well as technical employees in areas such as finance and engineering.

Purolator segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Teamsters[2]	9,041	December 31, 2021
Teamsters[3]	521	December 31, 2022
PSAC[4]	143	December 31, 2022
Unifor[5]	152	December 31, 2018
Total	**9,857**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2018; excludes temporary, casual and term employees.
2. Teamsters represent employees in operations.
3. Teamsters represent clerical and administrative employees.
4. Public Service Alliance of Canada, in British Columbia the Union of Postal Communication Employees, represents clerical and administrative employees.
5. Unifor represents clerical and administrative employees.

The collective agreement with the Union of Postal Communication Employees in British Columbia (PSAC) expired December 31, 2017. Subsequent to year-end, a new agreement was ratified by PSAC. This agreement remains in effect until December 31, 2022.

Our agreement with Unifor, representing clerical employees in Quebec, expired on December 31, 2018. Bargaining began in November of 2018 for a renewal of that agreement.

Logistics segment

Number of employees covered by collective agreements

Bargaining agent	Number of represented employees[1]	Expiry date of the collective agreement
Unifor – Toronto	334	December 31, 2019
Unifor – Laval	26	November 30, 2021
Total	**360**	

1. All full-time and part-time employees, including those on unpaid leave, as at December 31, 2018; excludes temporary, casual and term employees.

4.2 Our network and infrastructure

Canada Post segment

The Canada Post segment delivers to 16.4 million addresses and its vast operating network requires significant investment and coordination between collection activities, mail processing plants, transportation links and delivery agents. Canada Post has the largest delivery network in Canada and one of Canada's largest transportation networks. In 2018, almost 8 billion pieces of mail and parcels were processed in our plants, which represents on average 32 million items sorted and delivered daily. To process and deliver all the mail and parcels, our network included the following:

- 21 processing plants
- 6,137 post offices, corporately owned or managed by authorized dealers
- 480 letter carrier depots
- 13,085 letter carrier routes
- 1,222 mail service carrier routes
- 22,519 street letter boxes
- 205,500 community mailbox sites
- 1.7 million post office boxes (including general delivery)
- 7,638 rural and suburban mail carrier routes
- 5,300 parcel lockers

E-commerce in Canada continues to grow and merchants continue to seek ways to reach their customers faster and at a lower cost. As a result, new centres are being commissioned in major cities across the country as merchants look to start the delivery process for packages closer to the end consumer. Canada Post is responding to the changing marketplace by realigning the flow of packages within its vast network to minimize capacity bottlenecks. We are also adapting operations to enable access closer to the final delivery point.

With over 50 capacity projects already under way, plans are also in place to significantly increase our sorting capabilities over the next four years. Investments are planned for key markets such as Vancouver, Calgary, Toronto and Montréal as they are expected to remain core centres of our network, including the single largest sorter to be integrated into our existing Montréal facility in 2020. Investments are also planned for many other markets across the country to align our capabilities with future e-commerce requirements, such as increasing the capabilities of our Kitchener and Moncton processing facilities by 2020.

With the continued rapid pace of growth in e-commerce parcels, we have taken significant steps toward making our delivery depots more parcel focused. A new operating model to convert floor space previously used for mail into more capacity for parcels was implemented in eight more depots during 2018. We also increased our pace of investing in new depots to handle the combined impact of parcel and point-of-call growth that adds more delivery routes across our network. In 2018, we continued to design and test new solutions that better meet the needs of e-commerce shippers and our operations, including improved route management software, early morning induction of parcels and parcel handling equipment.

In 2018, we installed approximately 1,000 additional parcel lockers in apartment buildings and condominiums across Canada to bring the total installed base to more than 5,300, serving over 1.5 million customers. The lockers offer convenience to online shoppers, who no longer have to pick up their parcels from the nearest post office if they are not home at the time of delivery.

Canada Post continued to address the growing international inbound packet market. Following up on last years' successful migration of China Post inbound packets to a more sortable product, two new sorters were implemented in the fall of 2018 to handle these items. Situated in Burnaby, B.C. and Mississauga, Ont., these sorters are each capable of sorting upward of 300,000 packets per day and are designed to minimize handling across our network.

Canada Post and the Canada Border Services Agency continue to work together to improve inbound customs clearance of packages based on content data sent before they arrive.

Canada Post is a member of Kahala Posts Group (KPG), an international alliance of the postal administrations of Australia, Canada, China, France, Hong Kong, Japan, Korea, Spain, Thailand, the United Kingdom and the United States. Through collaboration with these postal administrations, KPG seeks to promote customer choice and improve service options for postal express and package services. In July of 2018, the chief executive officers of KPG members approved a Tracked Packet Business Plan, which will extend to that product suite similar levels of operational and service oversight beginning in 2019.

In July 2018, with the decline in traditional mail business and the increased emphasis on parcel services as a means for sustainable growth, Canada Post withdrew from the International Post Corporation, a cooperative association focused predominantly on Letter-post services.

Capital investments

Capital asset expenditures in the Canada Post segment reached $302 million in 2018 and focused on implementing solutions to address immediate capacity challenges, and on making modifications to the network required in order to meet long-term parcel growth projections. Capital investments were also made to support the replenishment of our aging vehicle fleet and street furniture, along with required investments to business improvement initiatives. The year-over-year increase of $52 million was driven by the additional capital expenditures required to address our infrastructure capacity challenges due to parcel growth.

In 2019, we will take steps to implement solutions that address the new direction set for us by our single shareholder, the Government of Canada. We will make additional investments to overcome infrastructure capacity challenges and support the replenishment of our aging vehicle fleet and street furniture. We will continue to invest in initiatives that sustain e-commerce growth and that drive our service commitment to customers, and modernize our application landscape, infrastructure and platforms. We will enhance the efficiency of our fleet by exploring clean energy alternatives, expand the accessible delivery program, evolve to meet the new expectations of shippers and provide the best receiving experience for all Canadians. We will continue to invest in tools, equipment, processes and infrastructure to drive operational improvements.

Purolator segment

In 2018, Purolator continued to deliver on its network and infrastructure priorities focusing on the following areas:

- assessing and optimizing the facilities footprint in alignment with future distribution patterns,
- optimizing service offerings in Canada to better align with customer needs,
- enhancing the final mile courier delivery model.

Purolator will remain focused on improving operational efficiencies in 2019.

4.3 Sales channels

Canada Post segment

Retail network

To serve consumers and businesses across the country, Canada Post has an extensive retail network of over 6,100 post offices, of which almost 3,700 are corporately owned and over 2,400 are operated by private dealers. In addition, it sells products and services through thousands of private establishments known as stamp shops. To serve our rural clients across Canada, our retail network includes just over 3,400 locations in diverse and remote areas across Canada. When the operation of a post office in one of those communities is affected by an unforeseen event, Canada Post ensures that local mail delivery is maintained by using a community outreach process. This process includes open communication and consultation with the public, the municipality, elected officials and other relevant stakeholders. Decisions on how best to retain postal service are made on a case-by-case basis as we seek practical and sustainable solutions that satisfy the needs of the affected community.

As e-commerce continues to have an impact on the retail world, our retail business is evolving from one of traditional letters to an increased focus on parcel delivery. Dealer outlets are particularly convenient as Canadians change the way they shop. The outlets provide convenient access, parking and parcel pickup solutions with evening and weekend hours of operation. They offer a cost-effective way to reach and serve Canadians and are critical for our e-commerce strategy.

With a focus on serving Canadians and their evolving requirements, new post office models, beyond the traditional ones, have been developed in the last few years. Our three concept stores focus on customer convenience with self-serve technology, a 24/7 service area, a drive-thru for picking up parcels and a fitting room to try online purchases. At the end of 2018, six other self-serve locations offered devices to allow customers to do their own shipping. To handle the substantial increase in parcel volumes, new parcel pickup sites were first tested and opened in 2017. Prior to peak season in 2018, close to 100 new parcel pickup sites were added, with approximately half being permanent dealer-operated sites and half temporary locations operated by dealers and Canada Post. Also, backroom shelving was added or modified in 2018 in over 500 post office backrooms to conform to the new storage methodology implemented in 2017 in order to increase parcel holding capacity; we intend to implement the new methodology in additional locations every year for the next few years.

To further enhance the customer experience by providing busy Canadians with the cost-effective and convenient services they demand, different sizes of flat rate (prepaid) shipping boxes were made available in another 100 locations in 2018, bringing the total to 150. These flat rate boxes have surpassed sales expectations, as customers enjoy the convenience of buying the boxes and taking them home for future use. There are plans to continue to expand the number of post offices where these flat rate shipping boxes are sold to the majority of the network in 2019, increasing shipping services available to Canadians.

The number of post office sites with handheld devices, which reduce the time to process customers' parcels, increased before the holiday season to 400 by the end of 2018. There are plans to expand usage in 2019 and 2020 and provide this technology to the majority of post offices.

To ensure systems were operational for the busy 2018 holiday season and beyond, all retail point-of-sale system hard drives were replaced and operating systems were upgraded. In addition, debit and credit machines were upgraded in about 3,900 locations.

Online network

Customers should be able to reach Canada Post through their channel of choice, be it in person, by telephone, on paper or online. Customers can choose to use the digital channel, through our website or mobile app, to find information, conduct business transactions, manage orders and interact with us. Among the many conveniences available to customers are information tools (e.g. to find a postal code, a post office, a rate or track a package), order entry systems (e.g. Electronic Shipping Tools, Canada Post Snap Ship™, Express Order Entry), direct marketing tools (e.g. Precision Targeter™), and business solutions (e.g. pickup and return services, AddressComplete™, epost™).

We continue to improve and heighten the digital channel by simplifying the user experience online, developing and releasing improvements, reducing customer irritants and introducing new tools and services to ensure that our digital properties are a source of sustainable competitive advantage.

Commercial network

Our commercial customers are served by our highly skilled sales force, which is structured to maximize opportunities around web retailing, mail and our new and evolving digital suite of products. By selling our combined capabilities and business solutions – including direct marketing, courier and logistics, transportation management, fulfillment and inventory management – we are able to increase value to customers.

4.4 Internal controls and procedures

Disclosure controls and procedures

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported on a timely basis to senior management, including the Corporation's President and Chief Executive Officer (CEO) and Chief Financial Officer (CFO), so that appropriate decisions can be made regarding public disclosure for the Group of Companies.

The President and CEO and the CFO have evaluated the effectiveness of the Group of Companies' disclosure controls and procedures related to the preparation of the Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the design and operation of disclosure controls were effective as at December 31, 2018.

Internal control over financial reporting

Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with International Financial Reporting Standards (IFRS).

The President and CEO and the CFO have assessed the effectiveness of the Group of Companies' internal control over financial reporting as at December 31, 2018, in accordance with the Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, the President and CEO and the CFO have determined that the Group of Companies' internal control over financial reporting was effective as at December 31, 2018. This process follows the best-practices requirements of National Instrument 52-109 issued by the Canadian Securities Administrators (CSA). As a Crown corporation, Canada Post voluntarily complies with certain rules and regulations of the CSA.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting during the year ended December 31, 2018, that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

5 Risks and Risk Management

A discussion of the key risks and uncertainties inherent in our business and our approach to managing these risks

Canada Post has an enterprise risk management (ERM) framework that considers risks and opportunities at all levels of decision making. The ERM framework helps Canada Post understand and manage the most significant risks to the business and to the brand as domestic and global postal industries continue to experience fundamental structural changes. An enterprise risk and control assessment is conducted each year and is reported to senior management, the Audit Committee of the Board of Directors and the Board of Directors on a semi-annual basis. Significant changes to risks are also highlighted in the quarterly financial reports.

5.1 Definition of risk

Canada Post defines risk as any event or condition that could have an unplanned effect (positive or negative) on the Corporation's ability to achieve its key strategic, financial and operational goals. The following is a summary of the principal sources of strategic and operational risk and uncertainty facing the Corporation, along with associated mitigation strategies.

5.2 Strategic risks

Financial self-sustainability

Canada Post has a mandate from the Government of Canada to fund its operations with revenue from the sale of products and services, rather than with taxpayer funding, and to conduct its operations on a financially self-sustaining basis. Rapidly declining Lettermail™ volumes, financial commitments, which include funding the pension obligation, investing in our delivery network and replenishing aging infrastructure, and maintaining success in a highly competitive parcel industry have put the Corporation's long-term self-sustainability at risk.

Canada Post's financial position has improved in the short term as a result of strong, sustained growth in the Parcels business and operational efficiency initiatives undertaken in recent years.

Risk mitigation

Canada Post is investing to support innovation and grow its Parcels business, strengthen its Direct Marketing business and pursue improved efficiency, productivity and cost-competitiveness in its operations.

In January 2018, the Government announced its vision for renewal at Canada Post. The vision contains five concrete actions and emphasizes service to Canadians, while acknowledging that Canada Post must be efficient and financially sustainable for the long term. The Canada Post Board of Directors is overseeing the implementation of the government's vision. Canada Post is developing strategic plans to implement the actions identified in the vision and is working with stakeholders to determine the best path forward. Active collaboration and engagement with its shareholder will be imperative for success.

Significant core volume declines

Canada Post is experiencing significant competitive pressures across its mail lines of business – an experience shared by postal administrations around the world.

Lettermail – which largely comprises business-to-consumer household finance-related communications – experienced its 12th consecutive year of volume decline in 2018. This decline is a result of digital transformations, regulatory changes, and changing behaviour of mailers and consumers. Additionally, an increased focus on cost reduction has made low-cost alternatives, such as email, more attractive forms of communication for many businesses. Lettermail erosion is expected to continue, though less aggressively than after the peak in 2006 due to the acute digital adoption.

Canada Post Smartmail Marketing™ continues to face strong competitive pressure from digital advertising, as well as private companies that distribute flyers and other print material to households at a much lower cost.

Risk mitigation

Canada Post's primary focus for Lettermail is on strategically managing this product line by, for example, simplifying the customer experience.

Despite competitive pressures, marketing mail presents a growth opportunity for Canada Post as it remains a highly effective driver of marketing results for businesses of all sizes. We have implemented a growth strategy designed to reframe and communicate the value of our offering for greater relevance in today's advertising market. Additionally, optimizing channels and reducing barriers through product and process simplification will improve the customer experience. We're fostering an ongoing commitment to innovation and product set expansion. Postal Code Targeting, introduced in 2017, meets marketer demand for a more targeted customer acquisition solution. In 2018, changes to Neighbourhood Mail™ specifications and requirements helped us better meet the advertising needs of retailers and compete for a larger share of the flyer market. Last year, we also began a multi-year initiative to make improvements to our address-based data capabilities, which will enhance marketing mail's audience targeting capabilities.

Pension deficits

The Canada Post Corporation Registered Pension Plan (RPP) remains one of the largest single-employer sponsored pension plans in Canada with assets of approximately $25 billion in market value at December 31, 2018. The scale of the RPP – given its size relative to the Corporation's revenue and earnings, and its funding volatility – pose an ongoing financial risk to the Corporation. The RPP has two primary risk factors:

- low long-term interest rates, which increase the pension obligation;
- lower than expected returns or loss on a severe market correction on assets, which would create a shortfall in assets available to meet benefit payments.

These risk factors could lead to significant going-concern or solvency deficits, which could require special pension funding contributions, posing a risk to the Corporation's cash flow and its ability to fund needed investments in modernization and growth.

As of December 31, 2018, the going-concern surplus was estimated at $3.3 billion, and the solvency deficit to be funded was estimated at $5.7 billion. The final actuarial valuations for the RPP will be filed by the end of June 2019, and results may differ significantly. Canada Post, as the RPP sponsor, is responsible for funding shortfalls in the RPP. Further information is provided in Section 6.5 – Canada Post Corporation Registered Pension Plan page 29.

Risk mitigation

The Corporation continues to evaluate the pension solvency position and has implemented a pension risk management framework to identify and quantify risks. In addition, all investment decisions are made in accordance with the Canada Post Registered Pension Plan Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed annually by the Pension Committee of the Board of Directors. As a result of an asset-liability study, an investment strategy is in place to lower investment volatility.

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2018 and does not expect to make special payments in 2019. Beyond the level of 15%, the Corporation will require incremental borrowing or additional pension relief. The CUPW-RSMC pay equity ruling will have an impact on solvency funding in future years, requiring additional pay equity-related payments, subject to regulatory approval.

Revenue growth and diversification strategy

To offset declining volumes in the core Lettermail business, Canada Post is focused on growing in the e-commerce market. This sector presents challenges as rising parcel volumes could exceed Canada Post's sorting and delivery capacity, hindering its ability to fully capitalize on the growth opportunity. From a delivery perspective, traditional global competitors, which offer seamless cross-border capabilities and benefit from much lower labour costs, are intensifying the deployment of new cost-effective residential delivery models and integration along the entire logistics supply chain. These global competitors may be further advantaged given the expected increase in the duty-exempt level (*de minimis)* for imported goods as a result of the Canada-United States-Mexico Agreement. New parcel and courier market entrants may deploy asset-light delivery platforms for rapid delivery and do not have to contend with legacy networks, pension obligations or significant capital investments. Retailers are increasingly focusing on fulfillment strategies that use existing assets to minimize delivery costs and bypass traditional delivery carriers. For instance, stores are now being used as pickup centres for click-and-collect services. Margin and revenue compression may also become a factor as a greater proportion of shipments are made locally, as retailers look to reduce shipping time and improve customer experience by locating inventory in advance or building their own delivery force. Internally, the design of Canada Post's operational network has traditionally been focused on Lettermail rather than parcels, which places its operations at a disadvantage to parcel-centric competitors.

Risk mitigation

Canada Post has undertaken significant planning activities, including scenario planning, to enhance decision making and remain competitive in the marketplace. The Corporation continues to strengthen its value proposition for the e-commerce sector through initiatives such as Canada Post Solutions for Small Business™, the FlexDelivery™ service, delivery instructions, apartment parcel lockers, and other efforts to provide industry leading responsiveness and convenience for online shoppers. To support parcel volume growth, Canada Post is shifting its network design strategy to become more parcel-centric and increasing parcel capacity in physical delivery. The Corporation has strengthened its pickup offering to better serve small and medium-sized businesses, invested in a robust performance reporting tool with larger commercial customers, and continues to invest in consumer delivery preferences and parcel returns enhancements to maintain the delivery experience. Canada Post is also undertaking market development, as well as enhancing customer and sales support.

Labour agreements

Roughly 95% of Canada Post employees are represented by four bargaining agents and five collective agreements. Complex collective agreements continue to constrain Canada Post's ability to compete in the marketplace and implement changes to its business model, including employee benefit plans, wages and leaves that are above what our competitors offer. With collective agreements expiring almost every year, Canada Post finds itself continuously in negotiation with one or more of its unions.

The issues facing the Corporation, with declining mail volumes, a growing pension obligation, and a significant increase in parcel volumes, are complex. The impact or threat of labour disruption or arbitration (in the event that collective agreements are not reached) could accelerate Lettermail erosion from customers and lead to loss of revenue from businesses that switch to competitors for their mail and parcel delivery needs.

Risk mitigation

Canada Post's objective during any collective bargaining process is to build a framework for growth, while protecting its financial self-sustainability, in a manner that provides fair and reasonable working conditions to our employees and service to Canadians. Proactive relationship management and communication with our bargaining agents and our employees is an imperative control to reaching collective agreements and avoiding any labour disruption. Our approach with all our bargaining agents is to work with them and ensure a shared understanding of the structural challenges and opportunities we face as a corporation.

Our collective agreements with the Canadian Postmasters and Assistants Association and the Association of Postal Officials of Canada have binding arbitration in the form of a final offer selection process instead of a strike or lockout. This process has helped to mitigate our risk.

Information systems and information technology

Canada Post's information systems and information technology (IS/IT) continue to face emerging internal and external risks. As Canada becomes more digitally connected, Canada Post requires even greater technological agility and responsiveness to meet customer needs and remain competitive. Technology is a strong enabler of operations and a key success factor in service delivery quality. The performance and scalability of infrastructure and applications that support the business, such as shipping systems and tracking, can have an impact on company financials, customer loyalty and company reputation. There is risk of technology obsolescence, in terms of capability and scalability. Externally, the threat of cyber-attacks and occurrences of data breaches due to malicious acts being reported worldwide are taken very seriously by the Corporation. A significant cyber-attack or data breach could expose the Corporation to financial and reputation risks, including the inability to maintain and secure customer relationships. It may also expose the Corporation to legal action in the event of a data breach.

Risk mitigation

The corporate governance structure helps align the IS/IT objectives with existing and future requirements of the Group of Companies. Canada Post is investing in critical systems supporting parcels to ensure information systems performance is aligned with business and customer needs. Operating model changes and organizational restructuring better aligns IT's work with the priorities of the business, improving management and resource utilization. Infrastructure stability has improved and incidents that impact critical business services have decreased since last year. To keep our information technology current, investments are under way in key areas including addressing and retail systems. Industry standard controls are in place to defend against known attacks. Business continuity plans are in place in the event of a critical systems failure or disruptive event. Evaluation of disaster recovery procedures is ongoing to identify opportunities and investments to improve recovery times. Detection, prevention and remediation measures are implemented as part of the information security framework to reduce the threat of cyber-attacks and maintain business continuity. Investments are also being made in the area of information security, including a new artificial intelligence (AI) solution to identify potential malicious activity and an upgrade to the email security gateway to defend against malicious emails. Canada Post continues to work closely with the Government of Canada to address these risks.

Procurement risks related to major suppliers' transition

Failure to effectively execute the procurement process and successfully make the transition when a new provider is selected could have significant impacts on Canada Post's finances, reputation and operations. A supplier's ability to fulfil its contractual obligations will also have a significant impact on Canada Post's ability to serve its customers.

Risk mitigation

The Corporation is addressing this risk through robust procurement methodologies including, as required, guidance from a fairness commissioner, the hiring of third-party and industry experts, requirements for and the assessment of transition and contingency plans in bid evaluation, overlapping of contracts during ramp-up periods, and extended windows for transition periods, when appropriate. Special attention is paid to where a supplier's execution or failure of contractual obligations presents a material impact to the Corporation's ability to serve its customers at a national level. As well, a procurement strategy is prepared for each major initiative and approved by the Board of Directors. Each procurement strategy includes a contract management and risk mitigation strategy to support active oversight for the duration of the contract.

Brand

Canada Post is recognized as the country's no. 1 parcel delivery company for online purchases and an e-commerce enabler in Canada. In order to maintain this position, continued business evolution, innovation and agility are fundamental to allow Canada Post to better meet the needs of Canadians and remain competitive in a rapidly evolving marketplace. These actions will ensure that Canada Post remains a trusted, relevant and accessible intermediary enabling critical communication and commerce for all Canadians. The Corporation is continuing to evolve its value proposition in the marketing space by testing and implementing new solutions that maximize returns on advertising dollars.

Canada Post's brand equity has been negatively affected by the recent rotating labour disruption that occurred during the busiest delivery season of the year. The failure to provide a consistent and reliable service to Canadians directly contributed to a decrease in customer loyalty and created uncertainty among employees and business partners. Such brand erosion has diminished our competiveness in the marketplace and now requires efforts to regain consumer and business confidence. Maintaining strong brand equity is essential to ensuring business viability and growth.

Risk mitigation

Canada Post is adapting its business operations to rebuild customers' trust and meet the growing expectations of the marketplace. The Corporation is continuing investment in flexible solutions that improve the consumer receiving experience by launching new delivery preference services and products, improving customer communications and adapting its retail network. Canada Post is also dedicated to engaging employees within the organization in providing a consistent brand experience across the company. Brand equity is monitored on an annual basis to measure company performance against its corporate strategies. These actions will ensure that the Corporation maintains its role of delivery leader and facilitator of connections for all Canadians.

5.3 Operational risks

Attrition

Canada Post continues to face a high rate of employee departures, with around 11,000 employees expected to retire or leave the Corporation over the next five years. There are three major risks associated with attrition and overall talent management:

- a failure to attract, engage, train and retain high-caliber talent;
- a loss of specialized knowledge for key roles or poor knowledge transfer within critical areas of the business;
- ineffective management of key and vulnerable roles that could have an impact on business continuity.

Risk mitigation

The Corporation is managing attrition risks and opportunities. Canada Post is recruiting, developing and retaining the talent needed to meet long-term objectives; leveraging online platforms and SAP tools to diversify recruiting efforts, identify critical talent requirements and track employee development; implementing compensation and benefit programs; developing training programs to reduce risks associated with the outflow of knowledge, skill and experience. The succession planning process has also been strengthened by linking key and vulnerable positions to ongoing succession planning; examining and updating hiring and training practices to reflect business needs, market realities and competitive pressures and closely monitoring short- and long-term operational requirements to ensure ongoing alignment with resource planning.

Specific initiatives include the following:

- a performance management framework anchored on coaching and employee development to evolve the culture toward a more agile and development-oriented framework;
- a leadership development program expanded to all managers;
- consistent engagement and contacts with new employees to identify issues and maximize retention;
- a workforce planning framework to manage and monitor risks.

Canada Post will continue to seek opportunities to streamline and improve the efficiency of its operations to take advantage of voluntary attrition.

Security and privacy

Canada Post is responsible for ensuring the security of Canadians' physical mail. It is also responsible for protecting the privacy of customer and employee data or physical information in its custody. Data breaches could result in negative impacts for customers and employees and cause serious damage to the Corporation's financial position and brand. Fraudulent use of the Corporation's products and services could cause financial harm to Canadians.

Risk mitigation

Canada Post has invested heavily in physical and electronic security, the protection of employee and customer data and the avoidance of fraudulent use of its products and services. The Corporation adheres to multiple acts, policies and practices to ensure protection of the mail. Canada Post has also established an incident management process to manage breaches of personal information. It has incorporated security and privacy language with third-party contractors to ensure that adequate protection and controls are in place where information under Canada Post's control is accessed and/or handled by third parties. Canada Post has also deployed records management for stronger access and security controls. Regular monitoring and reporting of authorized access is conducted, and oversight is provided by an internal audit team. In addition to established privacy and security policies and guidelines, security clearance is required for all employees and contractors. Canada Post is targeting role-based awareness and education to manage personal information of customers and employees. The Corporation regularly conducts threat-risk assessments to ensure that its security and privacy interests, customers and employees are protected. Privacy impact assessments are conducted to ensure that new or modified technologies, information systems and initiatives adequately protect privacy. Physical and electronic security measures, including high-security locks, cameras and electronic access controls, are also in place to protect mail, postal facilities and information.

Business continuity

Canada Post and its customers rely on physical and electronic delivery networks that are vulnerable to disruptions of natural or human origin. The Corporation's extensive physical network is also increasingly dependent on key operating systems, equipment, a transportation network and an IT infrastructure.

Risk mitigation

The Corporation has a business continuity management program in place which provides oversight, co-ordination and management of the various business continuity plans. The purpose of these plans is to provide the necessary tools to respond to incidents that could potentially disrupt our operations, to minimize the impact and recover the products and services delivered through the physical and digital delivery networks. Business continuity plans are regularly exercised and updated, taking into account changes and threats to the business environment.

Health and safety

Canada Post is committed to creating and maintaining a healthy and safe environment for all employees, visitors and contractors. Canada Post is committed to the highest safety standards and believes that all occupational injuries, illnesses and incidents are preventable. As the Corporation evolves its operations to address the changing nature of the business, there is a risk that recent safety performance improvements will not be sustained as attention is focused on other initiatives and as parcel volumes continue to grow.

Risk mitigation

The health and safety team works with management teams in priority areas through a safety partnering program to establish safety action plans. On-site occupational health and safety officers support the plans with coaching and monitoring of safe practices for employees and supervisors. Training is also delivered to employees to ensure awareness and knowledge of health and safety rules and standards. Similarly, programs and initiatives have been developed to improve psychological safety and prevent violence in the workplace. To mitigate specific risks, safety tools, such as root-cause analysis and facility inspection tools, have been introduced. Compliance audits are conducted throughout the year to identify gaps and establish remediation plans.

The operations leadership team and the senior management team launched a national campaign, Make it safe, make it home, to enhance safety awareness and promote basic safety, life safety and safety leadership. The goal of the campaign is to shift from incident management to incident prevention and to reduce our total injury frequency and lost-time injury frequency. Similarly, safety support programs to mitigate increased risk of injury during peak volume periods have been implemented.

For further information, see Health and safety in Section 4.1 page 17.

Service quality

As the Corporation shifts focus toward serving the competitive parcel market, maintaining a high level of service quality remains a priority to ensure effective cost management and customer attraction, retention and satisfaction. Increasing inbound international volumes and associated border security activities may also have an impact on service.

Risk mitigation

Canada Post uses business intelligence and analytics to actively monitor operational performance to identify issues and root causes, and to resolve service problems. Parcel growth strategies, capacity planning and development initiatives will improve processes and mitigate capacity risk, ensuring service quality. In addition, evolution of the retail network is under way to ensure quality of service for customers.

Continuous improvement in our exchange offices and procurement of new resources and technology will facilitate product flow through the inbound postal channel. Where there's a need to grow inbound commercial market share, the Corporation is securing access to inbound alternative (non-postal) networks.

Environmental sustainability

The possibility that customers and consumers perceive Canada Post as not acting in an environmentally responsible manner could have negative consequences on its brand reputation and customer loyalty. Customers may turn to other suppliers that offer more sustainable solutions as they begin assessing their own environmental footprint.

Risk mitigation

Canada Post is committed to minimizing the environmental impacts of its operations and network. To date, 29 new major building projects have achieved LEED® (Leadership in Energy and Environmental Design) certification. We also continue to improve the operating efficiency of our existing buildings by investing in more energy-efficient lighting and mechanical systems. For our fleet, we are actively exploring and testing low-carbon alternatives that could potentially replace existing delivery vehicles. Canada Post recognizes that the transition to a low-carbon economy requires a significant share of vehicles to be fueled by electric and renewable energy sources.

In 2018, we initiated a process to establish an ambitious environmental vision, strategy and targets to guide our future decisions and activities in line with emerging expectations of the Government of Canada and other stakeholders, including our unions, employees and customers. Executive leadership and a newly formed team has been assigned to prioritize the development and implementation of this cross-country strategy and report progress in meeting these targets.

Canada Post continues to disclose its environmental performance through the annual Social Responsibility Report.

Legal risk

Management considers risks and opportunities at all levels of decision making and has implemented a rigorous approach to enterprise risk management (ERM). Where appropriate, Canada Post has recorded provisions for some of the following claims. Should the ultimate resolution of these actions differ from management's assessments and assumptions, this could result in a material future adjustment to the Corporation's financial position and results of operations.

CPAA pay equity complaint

The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However, in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained in issue and should be referred to the Canadian Human Rights Tribunal (Tribunal). In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability. The hearing will be held June 14 and 25-28, 2019.

Health and safety obligation under the Canada Labour Code – Burlington points of call

The Federal Court of Appeal reinstated the original direction of a Health and Safety Officer from Employment and Social Development Canada, which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. Although the order in question is limited to all points of call in Burlington, Ontario, the rationale is applicable to all points of call in Canada. The appeal of the decision of the Court of Appeal of Ontario was heard by the Supreme Court of Canada on December 10, 2018. The decision of the Supreme Court is expected sometime in 2019.

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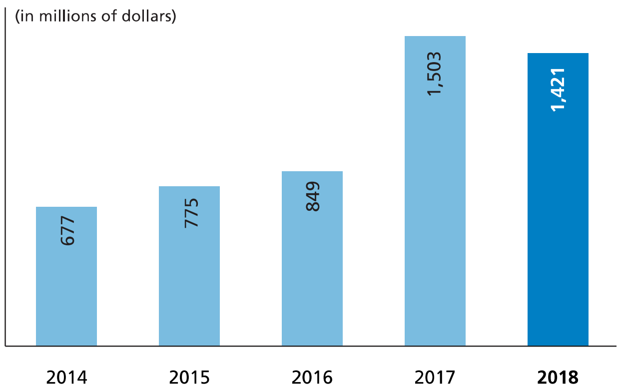
Class action lawsuit regarding drug plan benefits for Canada Post employees and retirees in Quebec

In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in the province of Quebec may have made, between July 1, 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation regulating the Régie de l'assurance maladie du Québec. The outcome of this class action is currently not determinable.

6 Liquidity and Capital Resources

A discussion of our cash flow, liquidity and capital resources

6.1 Cash and cash equivalents



The Group of Companies held cash and cash equivalents of $1,421 million as at December 31, 2018 – a decrease of $82 million compared to December 31, 2017. The decrease in 2018 was mainly due to net acquisitions of securities, partially offset by cash provided by operating activities. It was also supported by the special payment relief afforded to the Canada Post Corporation Registered Pension Plan under the *Pension Benefits Standards Act, 1985*.

6.2 Operating activities

(in millions of dollars)	2018	2017	Change
Cash provided by operating activities	973	748	225

Cash generated from operating activities was $973 million in 2018, an increase of $225 million when compared to 2017, primarily due to changes in non-cash working capital and timing of employee future benefits in the Canada Post segment.

6.3 Investing activities

(in millions of dollars)	2018	2017	Change
Cash used in investing activities	(1,045)	(68)	(977)

Cash used in investing activities decreased by $977 million in 2018 compared to 2017, primarily due to lower proceeds from the sale of securities, partially offset by higher acquisitions of capital assets.

Capital expenditures

(in millions of dollars)	2018	2017	Change
Canada Post	288	249	39
Purolator	45	46	(1)
Logistics	35	10	25
Innovapost and intersegment	5	(6)	11
Canada Post Group of Companies	**373**	**299**	**74**

Capital expenditures for the Group of Companies increased by $74 million in 2018, when compared to 2017. The increase was mainly due to increased spending in the Canada Post and Logistics segments.

6.4 Financing activities

(in millions of dollars)	2018	2017	Change
Cash used in financing activities	(14)	(24)	10

Cash used in financing activities was $14 million in 2018, an improvement of $10 million over 2017 mainly due to the lower payments on finance lease obligations in the Purolator segment.

6.5 Canada Post Corporation Registered Pension Plan

The Canada Post Corporation Registered Pension Plan (RPP) has assets with a market value of approximately $25 billion as at December 31, 2018, making it one of the largest single-employer sponsored pension plans in Canada. It is required to file annual actuarial valuations with the Office of the Superintendent of Financial Institutions (OSFI) to establish its funded status on a going-concern basis and a solvency basis. If the actuarial valuation reveals a shortfall of assets to liabilities on a going-concern basis, the *Pension Benefits Standards Act*, *1985,* (Act) requires Canada Post, as plan sponsor, to make special payments to the RPP to eliminate this shortfall over 15 years. Where the actuarial valuation reveals a shortfall of assets to liabilities on a solvency basis, the Act requires Canada Post to make special payments to the RPP to eliminate this shortfall over five years. Significant going-concern or solvency deficits requiring special payments could pose a risk to the Corporation's cash flow.

On May 31, 2018, the arbitrator for the pay equity study issued her decision that rural and suburban mail carriers (members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers) perform work of equal value to the work of urban letter carriers (members of the Canadian Union of Postal Workers – Urban Postal Operations) and that the parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. As the parties were unable to reach an agreement by the August 31, 2018, deadline, outstanding matters proceeded to binding arbitration. On September 20, the arbitrator released her final ruling, and as a result the Corporation recorded plan amendment losses for the RPP in net profit during the year.

Under the *Canada Post Corporation Pension Plan Funding Regulations*, the Corporation was exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation reverted back to the regulations in the *Pension Benefits Standards Act, 1985*. Under these regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities; after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. As a result of these regulations, Canada Post did not have to make special payments in 2018 and does not expect to make special payments in 2019. Beyond the level of 15%, the Corporation will require incremental borrowing or additional pension relief. Canada Post has notified and received no objections from the Minister of Finance and the Minister of Public Services and Procurement and Accessibility of its intent to reduce special solvency contributions for 2019. The CUPW-RSMC pay equity ruling will have an impact on solvency funding in future years, requiring additional pay equity-related payments, subject to regulatory approval.

The actuarial valuation for the RPP as at December 31, 2017, filed in June 2018, disclosed a going-concern surplus of $3 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of $6.4 billion[1] (using the three-year average solvency ratio basis).

The current estimate of the financial position of the RPP as at December 31, 2018, is a going-concern surplus of approximately $3.3 billion (using the smoothed value of RPP assets) and a solvency deficit to be funded of approximately $5.7 billion[2] (using the three-year average solvency ratio basis). These preliminary estimates are subject to change as actuarial assumptions are being finalized. Final actuarial valuations as at December 31, 2018, will be filed by the end of June 2019 and results may differ significantly from these estimates.

The going-concern funded status improved during the year, mainly due to the recognition of investment gains from previous years in the smoothed value of assets, partially offset by lower than expected 2018 return on investments of 0.9% (gross of administrative and management fees). The solvency deficit, measured using both the market value of plan assets and the three-year average solvency ratio basis, improved during the year. This result was mainly due to an increase in the discount rate, partially offset by lower than expected investment returns.

In 2018, the employer's current service contributions to the defined benefit pension plan amounted to $248 million, compared to $259 million in 2017. The employer's current service contributions for 2019 are estimated at $264 million. Additional contributions in excess of current service contributions include Canada Post's estimated employer contributions relating to the RSMC pay equity decision for the period January 2016 to December 2019 as well as transfer deficiency payments.

Canada Post, the RPP sponsor, records remeasurement adjustments, net of tax, in other comprehensive income. In 2018, remeasurement gains, net of tax, for the RPP amounted to $141 million. The RPP is subject to significant volatility due to fluctuations in discount rates, investment returns and other changes in actuarial assumptions.

1. The solvency deficit when using market value of plan assets, as at December 31, 2017, was $5.9 billion.

2. The solvency deficit when using market value of plan assets, as at December 31, 2018, was estimated at $5.0 billion.

6.6 Liquidity and capital resources

The Canada Post Group of Companies manages capital, which it defines as loans and borrowings, other liabilities (non-current) and equity of Canada. This view of capital is used by management and may not be comparable to definitions used by other postal organizations or public companies. The Corporation's objectives in managing capital include maintaining sufficient liquidity to support financial obligations as well as operating and strategic plans, and maintaining financial capacity and access to credit facilities to support future development of the business.

The *Canada Post Corporation Act* and the *Financial Administration Act* (Acts) and directives issued pursuant to the Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, as it maintains basic postal service and carries out objectives, the Corporation must have regard for the need to conduct operations on a self-sustaining financial basis, while providing a standard of service that meets the needs of the people of Canada.

Liquidity

As at December 31, 2018, and during 2018, the liquidity required by the Canada Post Group of Companies to support financial obligations, fund capital and strategic requirements was provided by accumulated funds and immediately accessible lines of credit. The Canada Post segment had $2,422 million of unrestricted liquid investments on hand as at December 31, 2018, and $100 million in lines of credit established under a short-term borrowing authority approved by the Minister of Finance.

Under regulations of the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2018 and does not expect to make special payments in 2019 and believes it has sufficient liquidity and authorized borrowing capacity to support operations for at least the next 12 months.

The Corporation's subsidiaries had a total of $337 million of unrestricted cash on hand and undrawn credit facilities of $107 million as at December 31, 2018, ensuring sufficient liquidity to support operations for at least the next 12 months.

Access to capital markets

Pursuant to *Appropriation Act No. 4, 2009-10*, which received royal assent on December 15, 2009, borrowing from other than the Government of Canada's Consolidated Revenue Fund is limited to $2.5 billion. Included in this total authorized borrowing limit is a maximum of $100 million for cash management purposes in the form of short-term borrowings. In addition, pursuant to the *Canada Post Corporation Act*, the Canada Post segment may also borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Any additional borrowings must be within the limits of the approved borrowing plan, and their terms and conditions require approval from the Minister of Finance. The Corporation believes that these arrangements provide it with sufficient and timely access to capital markets.

With $997 million of borrowings as at December 31, 2018, the Canada Post segment had $1,503 million of its $2.5 billion external borrowing limit that had not been used. The borrowings of the Corporation's subsidiaries as at December 31, 2018, amounted to $28 million, resulting in consolidated borrowings of $1,025 million as at December 31, 2018. This represents a decrease of $13 million over the 2017 year-end level of $1,038 million. The Corporation funded itself primarily through the use of cash on hand, funds generated from operations during 2018 and the pension plan funding relief permitted by legislation.

In 2019, changes to International Financial Reporting Standards (IFRS) for leases will take effect under IFRS 16 "Leases." These changes will result in the recognition of lease transactions that represent a material and long-term financial commitment with a payment stream that mimics long-term debt liability, and are considered to be borrowing transactions. The Corporation's total authorized borrowing limit of $2.5 billion under the *Appropriation Act No. 4, 2009-10* has remained unchanged and will not be affected by the transition to IFRS 16.

Dividend

On September 24, 2018, through an order in council, Canada Post Corporation was reclassified under the *Financial Administration Act*. Pursuant to subsection 3.3 of the Act, Canada Post was moved from Part II of Schedule III to Part I of Schedule III, removing the requirement to submit an annual dividend proposal to its shareholder. The Corporation has not paid a dividend to its shareholder since 2008.

6.7 Risks associated with financial instruments

The Canada Post Group of Companies uses a variety of financial instruments to carry out the activities of the business, as summarized in the following table.

(in millions of dollars)

As at December 31, 2018	Fair value through OCI	Fair value through profit or loss	Measured at amortized cost[1]	Total
Financial assets				
Cash and cash equivalents	169	–	1,252	1,421
Marketable securities	1,470	–	–	1,470
Trade and other receivables	–	–	979	979
Segregated securities	495	–	–	495
Total financial assets	**2,134**	**–**	**2,231**	**4,365**
Financial liabilities				
Risk management financial liabilities	–	2	–	2
Non-interest bearing[2]	–	–	950	950
Bonds	–	–	997	997
Other loans and borrowings	–	–	28	28
Total financial liabilities	**–**	**2**	**1,975**	**1,977**

1. The effective interest method is used to determine the amortized cost of these financial assets and liabilities.
2. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Financial assets are held for liquidity purposes or for longer terms in accordance with the investment policies of the Group of Companies. Financial liabilities consist mostly of trade payables (non-interest bearing) and bonds.

Market risk

Interest rate risk

The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities, and are classified as fair value through other comprehensive income (OCI).

Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value due to changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment obligations to which they are externally restricted. The average duration of the segregated security portfolio was 12 years as at December 31, 2018, (2017 – 13 years).

Based on a sensitivity analysis of interest rate risk, it is expected that an increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities by $63 million (2017– $68 million), which would represent a significant impact on the fair value of the Group of Companies' investments at December 31, 2018, and on other comprehensive income or loss.

Loans and borrowings of $1,025 million (2017 – $1,038 million) include fixed-rate debt with prepayment options and finance lease obligations.

Foreign currency risk

Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro, British pound, Japanese yen and Chinese renminbi, whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the five currencies that underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures where cash flows are highly probable. These forward contracts are not designated as hedges for accounting purposes. The total foreign exchange and foreign exchange derivative gains/losses included in revenue from operations amounted to $7 million in net gains in 2018 (2017 – $6 million net losses). The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2018, all other variables held constant, would have been an increase or decrease in net profit for the year by $10 million (2017 – $13 million).

Commodity risk

The Group of Companies is inherently exposed to fuel-price increases but does not currently hold any financial instruments that change in value due to the prices of commodities. Using an industry-accepted practice, it partially mitigates this risk through the use of a fuel-price surcharge on some of its products.

Credit risk

Credit risk is the risk of financial loss due to a counterparty's inability to meet its contractual obligations. Credit risk arises from investments in corporations and financial institutions as well as credit exposures to wholesale and commercial customers, including outstanding receivables.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of expected credit losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe that it is subject to any significant concentration of credit risk.

The following table shows the credit risk concentration by credit risk rate grades of debt securities held as cash equivalents, marketable securities and segregated securities:

(in millions of dollars)

For the year ended December 31, 2018	R-1 (high)[1] / AAA[4]	R-1 (middle)[2] / AA[5]	R-1 (low)[3] / A[6]
Cash equivalents	89	80	–
Marketable securities	924	411	135
Segregated securities	154	85	256
12 month expected credit loss rate	**0.00%**	**0.08%**	**0.08%**

The DBRS credit risk rate grades applicable to *cash equivalents and marketable securities* are considered investment grade and are defined as follows:

1. R-1 (high): Highest credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is exceptionally high. Unlikely to be adversely affected by future events.
2. R-1 (middle): Superior credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is very high. Differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.
3. R-1 (low): Good credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

The DBRS credit risk rate grades applicable to *segregated securities* are considered investment grade and are defined as follows:

4. AAA: The loan portfolio (of debt securities) is considered to be of highest credit quality.
5. AA: The loan portfolio (of debt securities) is considered to be of a superior credit quality.
6. A: The loan portfolio (of debt securities) is considered to be of a good credit quality.

There was no impairment loss on investments recognized during the year (2017 – nil), and impairment losses on trade and other receivables were $2 million (2017 – $1 million). The gross carrying amount of the debt securities approximates their net carrying amount due to the low expected credit loss rate.

Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve borrowing facilities by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high credit quality government or corporate securities in accordance with policies approved by the Board of Directors. Liquidity is discussed further in Section 6.6 – Liquidity and capital resources page 30.

For further details on risk associated with financial instruments, see Note 19 to the consolidated financial statements page 98 and Section 6.6 – Liquidity and capital resources page 30.

6.8 Contractual obligations and commitments

A summary of the Group of Companies' total contractual obligations and commitments to make future payments, excluding non-interest-bearing current liabilities, is presented below. For further details, see notes 19 (c) and 20 to the consolidated financial statements pages 101 and 102, respectively.

(in millions of dollars)	Total	Less than 1 year	1-5 years	More than 5 years
Bonds[1]	1,000	–	–	1,000
Interest on bonds	623	42	169	412
Finance lease obligations	29	13	16	–
Operating leases[2]	854	149	405	300
Total	**2,506**	**204**	**590**	**1,712**

1. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada. Bonds include two series issued in July 2010, with a nominal value of $500 million each, maturing in July 2040 and July 2025, respectively. Interest is paid semi-annually with a coupon rate ranging from 4.08% to 4.36%.
2. Operating leases include the future minimum payment obligations associated with facilities, transportation equipment and other operating leases.

In addition, the Group of Companies has contractual arrangements with third-party suppliers approximating $451 million. These contractual arrangements extend to 2022 and allow for termination with penalties.

The Canada Post Corporation Registered Pension Plan special going-concern and solvency contributions are discussed in Section 6.5 – Canada Post Corporation Registered Pension Plan page 29.

6.9 Related party transactions

Government of Canada

The Corporation has a variety of transactions with related parties in the normal course of business and in support of the Government of Canada's public policies. Revenue earned from related parties for the year was $249 million (2017 – $272 million), the majority of which was from commercial contracts relating to postal services provided to the Government of Canada. Included in this amount was compensation from the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage, which amounted to $22 million (2017 – $22 million).

Key management personnel

Key management personnel have authority for planning, controlling and directing the activities of the Group of Companies. Total compensation expenses for key management personnel were $12 million for the year ended December 31, 2018 (2017 – $10 million), which included compensation related to short-term benefits and post-employment benefits. See Note 25 (b) to the consolidated financial statements page 105 for additional details.

6.10 Contingent liabilities

In the normal course of business, the Group of Companies has entered into agreements that include indemnities in favour of third parties. In addition, the Group of Companies has entered into indemnity agreements with each of its directors, officers and certain employees. These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities. Refer to Note 16 to the consolidated financial statements page 95 for additional details on other contingent liabilities.

7 Changes in Financial Position

A discussion of significant changes in our assets and liabilities between December 31, 2018, and December 31, 2017

(in millions of dollars)

ASSETS	2018	2017	Change	%	Explanation of change
Cash and cash equivalents	1,421	1,503	(82)	(5.4)	Refer to Section 6 – Liquidity and Capital Resources page 28.
Marketable securities	1,338	821	517	62.9	Mainly due to the investment of cash in short-term investments to achieve higher returns.
Trade and other receivables	979	946	33	3.5	Due to increased receivables in the Purolator and Logistics segments, partially offset by lower receivables in the Canada Post segment.
Other assets	102	126	(24)	(19.2)	Mainly due to a decrease in prepaid expenses in the Canada Post segment.
Total current assets	**3,840**	**3,396**	**444**	**13.1**	
Marketable securities	132	–	132	–	Due to the purchase of corporate bonds with maturities exceeding 12 months to achieve higher returns.
Property, plant and equipment	2,709	2,627	82	3.1	Mainly due to acquisitions exceeding depreciation in the Canada Post segment.
Intangible assets	106	119	(13)	(11.5)	Mainly due to amortization of software.
Segregated securities	495	526	(31)	(6.0)	Mainly due to unrealized losses in the Canada Post segment recorded in other comprehensive income.
Pension benefit assets	95	116	(21)	(18.1)	Mainly due to lower than expected investment returns, partially offset by remeasurement gains attributable to an increase in discount rates.
Deferred tax assets	1,641	1,568	73	4.7	Mainly due to the increase of temporary differences for salaries and benefits payable and related provisions in the Canada Post segment.
Goodwill	130	130	–	–	No change.
Other assets	49	7	42	–	Mainly due to a long-term receivable related to a change in the timing of pay days for employees who are members of the Canadian Union of Postal Workers – Urban Postal Operations.
Total non-current assets	**5,357**	**5,093**	**264**	**5.2**	
Total assets	**9,197**	**8,489**	**708**	**8.3**	

(in millions of dollars)

LIABILITIES	2018	2017	Change	%	Explanation of change
Trade and other payables	653	583	70	12.0	Mainly due to higher expenses and timing.
Salaries and benefits payable and related provisions	988	600	388	64.6	Primarily due to increased accrued salaries and benefits in the Canada Post segment related to the arbitrator's pay equity ruling for employees who are members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers.
Provisions	61	77	(16)	(21.5)	Mainly attributable to a decrease in grievance provisions in the Canada Post segment.
Income tax payable	8	38	(30)	(80.2)	Mainly due to the payment of a tax liability for the Canada Post segment.
Deferred revenue	154	138	16	11.9	Mainly related to higher deferred stamp revenue in the Canada Post segment.
Loans and borrowings	12	13	(1)	(7.9)	No material change.
Other long-term benefit liabilities	68	63	5	9.2	No material change.
Total current liabilities	**1,944**	**1,512**	**432**	**28.6**	
Loans and borrowings	1,013	1,025	(12)	(1.1)	Mainly due to the repayment of finance lease obligations in the Purolator segment.
Pension, other post-employment and other long-term benefit liabilities	6,277	6,297	(20)	(0.3)	No material change.
Other liabilities	25	25	–	(3.9)	No material change.
Total non-current liabilities	**7,315**	**7,347**	**32**	**(0.4)**	
Total liabilities	**9,259**	**8,859**	**400**	**4.5**	

(in millions of dollars)

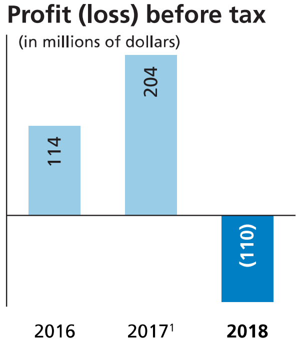
EQUITY	2018	2017	Change	%	Explanation of change
Contributed capital	1,155	1,155	–	–	No change.
Accumulated other comprehensive income	43	54	(11)	(21.9)	No material change.
Accumulated deficit	(1,300)	(1,611)	311	19.4	Mainly due to remeasurement gains on pension and other post-employment plans, partially offset by the consolidated net loss.
Equity of Canada	**(102)**	**(402)**	**300**	**74.8**	
Non-controlling interests	40	32	8	24.7	
Total equity	**(62)**	**(370)**	**308**	**83.5**	
Total liabilities and equity	**9,197**	**8,489**	**708**	**8.3**	

8 Discussion of Operations

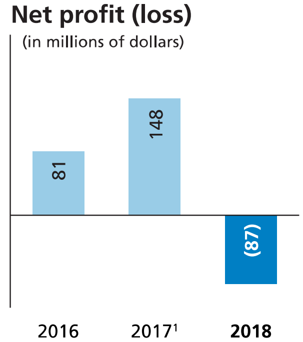
A detailed discussion of our financial performance in 2018

8.1 Consolidated trends

Profit (loss) before tax



Net profit (loss)



1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements. Amounts for 2016 were not restated and, therefore, may not be comparable to amounts for 2017 and 2018.

8.2 Consolidated results from operations

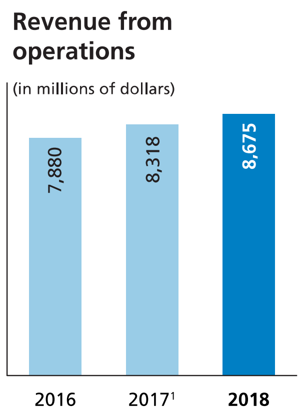
Consolidated results

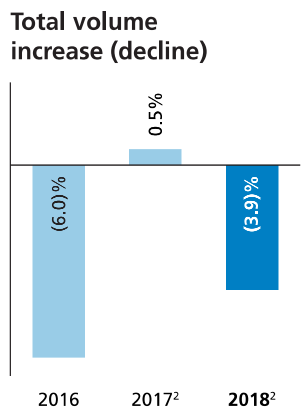
(in millions of dollars)	2018	2017[1]	Change[1]	%[1]
Revenue from operations	8,675	8,318	357	3.9[2]
Cost of operations	8,784	8,087	697	8.2[2]
Profit (loss) from operations	**(109)**	**231**	**(340)**	**–**
Investing and financing income (expense), net	(1)	(27)	26	94.1
Profit (loss) before tax	**(110)**	**204**	**(314)**	**–**
Tax expense (recovery)	(23)	56	(79)	–
Net profit (loss)	**(87)**	**148**	**(235)**	**–**
Other comprehensive income (loss)	397	(193)	590	–
Comprehensive income	**310**	**(45)**	**355**	**–**

The Canada Post Group of Companies had a loss before tax of $110 million in 2018, a decrease of $314 million[1] when compared to 2017. The decrease in profit before tax in 2018 was mainly attributable to the 2018 ruling on pay equity for members of the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) and the labour disruption in the Canada Post segment. A detailed discussion by segment is provided in sections 8.4 to 8.6.

Additional business days result in increased revenue, while additional paid days result in increased cost of operations. In 2018, there was one additional business day and one additional paid day compared to 2017.

Consolidated revenue from operations





Revenue from operations totalled $8,675 million in 2018, an increase year over year of $357 million[1] or 3.9%[1,2] compared to 2017. The increase was due to growth in Parcels revenue in the Canada Post and Purolator segments, partially offset by ongoing Transaction Mail volume erosion and the labour disruption in the Canada Post segment.

Consolidated cost of operations

Cost of operations increased by $697 million[1] or 8.2%[1,2] in 2018 compared to 2017, primarily from the 2018 ruling on pay equity for members of CUPW-RSMC in the Canada Post segment, as well as increased labour and transportation costs in the Canada Post and Purolator segments.

Consolidated investing and financing income (expense), net

Net investing and financing expenses decreased by $26 million in 2018. The change was primarily due to increased interest income and insurance proceeds, partially offset by letter of credit fees related to Canada Post's RPP.

Consolidated tax expense (recovery)

The consolidated tax recovery for 2018 increased by $79 million[1] compared to 2017, primarily driven by lower profits in the Group of Companies.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements. Amounts for 2016 were not restated and, therefore, may not be comparable to amounts for 2017 and 2018.
2. Adjusted for trading or paid days, where applicable.

Consolidated other comprehensive income

The consolidated other comprehensive income amounted to $397 million in 2018, mainly due to remeasurement gains on pension and other post-employment plans, primarily due to an increase in discount rates. Volatility, caused by fluctuations in the various factors and assumptions used to remeasure these plans, continued to have a significant impact on the Group of Companies' other comprehensive income throughout 2018.

8.3 Operating results by segment

Segmented results – Profit (loss) from operations

(in millions of dollars)	2014	2015	2016	2017[1]	2018
Canada Post	204	92	63	84	(292)
Purolator	80	57	69	127	163
Logistics	14	20	20	21	20
Other	1	–	(3)	(1)	–
Canada Post Group of Companies	**299**	**169**	**149**	**231**	**(109)**

Segmented results – Profit (loss) before tax

(in millions of dollars)	2014	2015	2016	2017[1]	2018
Canada Post	194	63	55	76	(270)
Purolator	74	56	67	123	162
Logistics	14	20	20	21	21
Other	(13)	(3)	(28)	(16)	(23)
Canada Post Group of Companies	**269**	**136**	**114**	**204**	**(110)**

8.4 Canada Post segment

The Canada Post segment recorded a loss before tax of $270 million in 2018, a decline of $346 million[1] when compared to 2017. The result was mainly attributable to the 2018 ruling on pay equity for members of the CUPW-RSMC. The cumulative costs associated with the pay equity ruling were approximately $550 million by the end of 2018, of which $420 million were recorded in the 2018 fiscal year. The annualized impact for future years was estimated to be $140 million of cost increase per year. Results were also negatively affected by the labour disruption, which created an estimated revenue shortfall of $195 million and contributed an estimated $135 million to the 2018 loss before tax. Partly offsetting these impacts was the growth in our Parcels business, as well as a gain of $48 million recorded as a result of an update to the actuarial assumption used to calculate the administration costs of Canada Post's workers' compensation benefits plan. Had it not been for non-recurring factors, the Corporation would have reported a profit before tax for 2018.

Summary of results

(in millions of dollars)	2018	2017[1]	Change[1]	%[1]
Revenue from operations	6,620	6,506	114	1.3[2]
Cost of operations	6,912	6,422	490	7.2[2]
Profit (loss) from operations	**(292)**	**84**	**(376)**	**–**
Investing and financing income (expense), net	22	(8)	30	–
Profit (loss) before tax	**(270)**	**76**	**(346)**	**–**

Revenue from operations

Canada Post generated revenue from operations of $6,620 million in 2018, an increase of $114 million[1] or 1.3%[1,2] when compared to 2017. The prolonged negotiations with the Canadian Union of Postal Workers and subsequent labour disruption in the last quarter of 2018 negatively affected all lines of businesses, including a decline of 3.4%[1,2] in Parcels revenue in the fourth quarter compared to 2017. Despite the labour uncertainty, total revenue in 2018 was higher than in 2017 due to Parcels growth that offset ongoing volume erosion in Transaction Mail and decline in Direct Marketing volumes.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements. Amounts for years prior to 2017 were not restated and, therefore, may not be comparable to amounts for 2017 and 2018.
2. Adjusted for trading or paid days, where applicable.

Revenue and volumes by line of business

	Revenue (in millions of dollars)				Volume (in millions of pieces)			
	2018	**2017[1]**	**Change[1]**	**%[1,2]**	**2018**	**2017**	**Change**	**%[2]**
Transaction Mail								
Domestic Lettermail	2,601	2,663	(62)	(2.7)	2,863	2,988	(125)	(4.6)
Outbound Letter-post	99	116	(17)	(14.5)	49	56	(7)	(12.1)
Inbound Letter-post	83	155	(72)	(46.7)	106	161	(55)	(34.8)
Total Transaction Mail	**2,783**	**2,934**	**(151)**	**(5.5)**	**3,018**	**3,205**	**(187)**	**(6.2)**
Parcels								
Domestic Parcels	1,864	1,610	254	15.3	196	176	20	10.9
Outbound Parcels	242	246	(4)	(1.9)	10	10	–	(3.5)
Inbound Parcels	367	309	58	18.6	90	56	34	60.8
Other	30	30	–	(2.2)	–	–	–	–
Total Parcels	**2,503**	**2,195**	**308**	**13.6**	**296**	**242**	**54**	**21.7**
Direct Marketing								
Personalized Mail™	501	508	(7)	(1.8)	918	954	(36)	(4.2)
Neighbourhood Mail™	408	415	(7)	(2.2)	3,486	3,600	(114)	(3.5)
Total Smartmail Marketing™	**909**	**923**	**(14)**	**(2.0)**	**4,404**	**4,554**	**(150)**	**(3.7)**
Publications Mail™	153	162	(9)	(5.8)	231	250	(19)	(8.3)
Business Reply Mail™ and Other Mail	22	22	–	(1.8)	18	18	–	(1.5)
Other	14	14	–	0.4	–	–	–	–
Total Direct Marketing	**1,098**	**1,121**	**(23)**	**(2.4)**	**4,653**	**4,822**	**(169)**	**(3.9)**
Other Revenue	236	256	(20)	(8.7)	–	–	–	–
Total	**6,620**	**6,506**	**114**	**1.3**	**7,967**	**8,269**	**(302)**	**(4.0)**

Transaction Mail

Total Transaction Mail revenue amounted to $2,783 million in 2018 and was made up of the following three product categories: Domestic Lettermail ($2,601 million), Outbound Letter-post ($99 million) and Inbound Letter-post ($83 million).

Total 2018 Transaction Mail revenue decreased by $151 million[1] or 5.5%[1,2] compared to 2017 and volumes declined by 187 million pieces or 6.2%[2] compared to 2017, primarily due to ongoing volume erosion and the CUPW labour disruption in the last quarter of 2018 that reduced revenue by approximately $12 million. Year-over-year changes by product category are as follows:

- Domestic Lettermail revenue decreased by $62 million[1] or 2.7%,[1,2] while volumes declined by 125 million pieces or 4.6%[2] compared to 2017. Households and businesses increasingly choose digital methods over Lettermail. Added to this impact was the implementation of pay-for-paper initiatives by some of our largest customers.
- Outbound Letter-post revenue (postage revenue collected from domestic customers for mail destined to other postal administrations) decreased by $17 million[1] or 14.5%,[1,2] while volumes decreased by seven million pieces or 12.1%[2] compared to the previous year. These declines were mostly in commercial and retail channels, and are also attributable to increased use of digital alternatives.
- Inbound Letter-post revenue (postage revenue collected by other postal administrations and shared with Canada Post for delivering mail in Canada) decreased by $72 million[1] or 46.7%[1,2] compared to 2017, while volumes were lower by 55 million pieces or 34.8%.[2] This decline was largely a result of packets previously included in Transaction Mail now reported in Parcels as per a change in 2018 reporting requirements of the Universal Postal Union.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

2. Adjusted for trading days.

Parcels

Total Parcels revenue was $2,503 million in 2018 and was made up of the following four product categories: Domestic Parcels ($1,864 million), Outbound Parcels ($242 million), Inbound Parcels ($367 million), and Other ($30 million).

Despite the labour disruption in the last quarter of 2018, total 2018 Parcels revenue increased by $308 million[1] or 13.6%[1,2] and volumes increased by 54 million pieces or 21.7%[2] compared to 2017. Year-over-year changes by product category are summarized as follows:

- Domestic Parcels revenue, the largest product category, increased by $254 million[1] or 15.3%,[1,2] and volumes increased by 20 million pieces or 10.9%[2] over 2017. The driver of growth in the Canadian delivery market continued to be e-commerce and we played a leading role again in 2018, despite the labour issues we faced during the peak season. To maintain our leadership position in this tremendously competitive market, we continued to collaborate with our major customers by using our market-leading network, delivery assets and e-commerce solutions for them to successfully compete and build their online business. In 2019, we will continue our close collaboration with our customers as we invest in the infrastructure and technology we need to meet their growing needs.
- Outbound Parcels revenue (postage revenue collected from domestic customers for parcels destined to other postal administrations) decreased by $4 million[1] or 1.9%[1,2] compared to 2017, while volumes declined 3.5%[2] mainly due to a change in product and customer mix.
- Inbound Parcels revenue (fees paid to Canada Post by other postal administrations for delivering mail originating outside of Canada) increased by $58 million[1] or 18.6%,[1,2] while volumes increased by 34 million or 60.8%[2] compared to 2017. This was due to strong growth of tracked packets from Asia-Pacific countries in particular and the rest of the world in general, as well as a change in 2018 to reporting requirements from the Universal Postal Union. Packets are now clearly identified, allowing Canada Post to record revenue and volumes in Inbound Parcels that were previously included in Transaction Mail.
- Other Parcels revenue was flat compared to 2017.

Direct Marketing

Total Direct Marketing revenue amounted to $1,098 million in 2018. Direct Marketing revenue was made up of the following four product categories: Personalized Mail ($501 million) and Neighbourhood Mail ($408 million), which together made up the Canada Post Smartmail Marketing solution, as well as Publications Mail ($153 million) and Business Reply Mail and Other Mail, and Other ($36 million).

Total 2018 Direct Marketing revenue decreased by $23 million[1] or 2.4%,[1,2] and volumes decreased by 169 million pieces or 3.9%[2] compared to 2017 primarily due to the CUPW labour disruption in the last quarter of 2018. Year-over-year changes by product category are summarized as follows:

- Personalized Mail revenue declined by $7 million[1] or 1.8%[1,2] and volumes decreased by 36 million pieces or 4.2%[2] compared to 2017. Declining revenue resulted from erosion in our commercial market as customers reduced their spending or chose alternative media channels, particularly in the financial, retail and telecommunications segments.
- Neighbourhood Mail revenue decreased by $7 million[1] or 2.2%[1,2] compared to the previous year, and volumes similarly decreased by 114 million pieces or 3.5%.[2]
- Publications Mail revenue declined by $9 million[1] or 5.8%[1,2] and volumes declined by 19 million pieces or 8.3%[2] compared to 2017. This segment continues to see erosion from decreasing mail publication subscriptions.
- Business Reply Mail and Other Mail and Other remained flat when compared to 2017.

Other Revenue

Other Revenue totalled $236 million in 2018 – a decrease of $20 million[1] or 8.7%[1,2] when compared to 2017. The revenue decrease was mainly due to a decrease in consumer products and services partially offset by a gain in foreign exchange.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.
2. Adjusted for trading days.

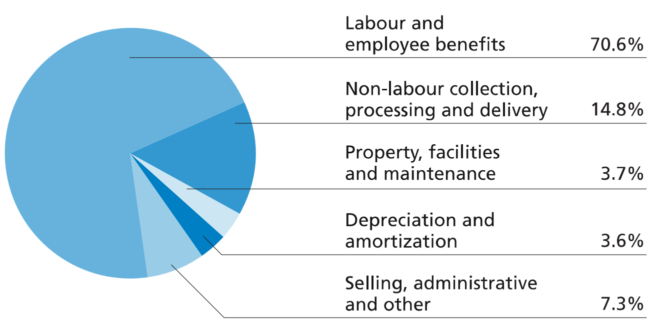
Cost of operations

In 2018, the Canada Post segment's cost of operations was $6,912 million, an increase of $490 million[1] or 7.2%[1,2] when compared to 2017.

(in millions of dollars)	2018	2017[1]	Change[1]	%[1,2]	Cost as % of revenue from operations 2018	2017[1]
Labour	3,462	3,222	240	7.1	52.3	49.5
Employee benefits	1,420	1,262	158	12.1	21.5	19.4
Total labour and employee benefits	**4,882**	**4,484**	**398**	**8.5**	**73.8**	**68.9**
Non-labour collection, processing and delivery	1,025	978	47	4.3	15.5	15.0
Property, facilities and maintenance	258	253	5	1.5	3.9	3.9
Selling, administrative and other	500	459	41	8.6	7.5	7.1
Total other operating costs	**1,783**	**1,690**	**93**	**5.1**	**26.9**	**26.0**
Depreciation and amortization	247	248	(1)	(0.8)	3.7	3.8
Total	**6,912**	**6,422**	**490**	**7.2**	**104.4**	**98.7**

The chart and table below show the breakdown of each cost category as a percentage of total cost of operations. Labour and benefit costs comprise 70.6% of the total cost of operations in 2018, demonstrating the labour-intensive nature of Canada Post's business.

Cost of operations – 2018



Cost of operations	2016	2017[1]	2018
Labour and employee benefits	70.6%	69.8%	70.6%
Non-labour collection, processing and delivery	13.5%	15.2%	14.8%
Property, facilities and maintenance	4.1%	3.9%	3.7%
Depreciation and amortization	4.0%	3.9%	3.6%
Selling, administrative and other	7.8%	7.2%	7.3%

Labour

Labour costs increased by $240 million or 7.1%[2] when compared to 2017. The increase was primarily due to the impact of the 2018 pay equity ruling for members of CUPW-RSMC, wage increases and parcels volume growth, partially offset by a reduction in costs due to the labour disruption.

1. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements. Amounts for 2016 were not restated and, therefore, may not be comparable to amounts for 2017 and 2018.
2. Adjusted for paid days.

Employee benefits

(in millions of dollars)	2018	2017	Change	%[1]
Pension expense	776	540	236	43.1
Post-employment health benefits	153	141	12	7.8
Other post-employment and other long-term benefits	80	117	(37)	(30.8)
Interest on segregated assets	(18)	(19)	1	3.8
Total post-employment and other long-term benefits	**991**	**779**	**212**	**26.8**
Active employee benefits and other	429	483	(54)	(11.6)
Employee benefits	**1,420**	**1,262**	**158**	**12.1**

Employee benefits increased by $158 million or 12.1%[1] when compared to 2017, as detailed below:

- The non-cash pension expense increased by $236 million or 43.1%[1] in 2018 mainly due to a net non-recurring loss for plan amendments and a decrease in the discount rate, partially offset by higher asset balances resulting from strong returns on plan assets experienced in 2017.
- The non-cash post-employment health benefits expense increased by $12 million or 7.8%,[1] mainly due to a net non-recurring loss for plan amendments and a decrease in the discount rate.
- The non-cash other post-employment and other long-term benefits expense decreased by $37 million or 30.8%[1] mainly due to an actuarial assumption update partially offset by non-recurring losses for plan amendments.
- The benefits expense for active employees and other decreased by $54 million or 11.6%,[1] mainly due to our cost of benefits related to CUPW-RSMC pay equity and a decrease in claim costs related to the submission and coverage cycle, partially offset by increased statutory deductions.

Non-labour collection, processing and delivery

Contracted collection, processing and delivery costs increased by $46 million[2] or 4.3%[1,2] in 2018 when compared to 2017, mainly due to higher transportation and fuel costs resulting from increased parcel volumes.

Property, facilities and maintenance

The cost of facilities increased by $5 million or 1.5%[1] for 2018 when compared to 2017, mainly due to an increase in building repair and maintenance costs.

Selling, administrative and other

Selling, administrative and other expenses increased by $42 million or 8.6%[1] for 2018 when compared to 2017, mainly due to increased information technology and program expenses.

Depreciation and amortization

The depreciation and amortization expense remained relatively unchanged for 2018 when compared to 2017.

8.5 Purolator segment

The Purolator segment contributed $162 million to the 2018 consolidated profit before tax, an increase of $39 million[2] when compared to 2017.

Summary of results

(in millions of dollars)	2018	2017[2]	Change[2]	%[2]
Revenue from operations	1,852	1,633	219	13.0[1]
Cost of operations	1,689	1,506	183	11.8[1]
Profit from operations	**163**	**127**	**36**	**27.3**
Investing and financing income (expense), net	(1)	(4)	3	92.8
Profit before tax	**162**	**123**	**39**	**31.5**

Revenue from operations

Revenue from operations increased by $219 million[2] or 13.0%[1,2] in 2018 compared to 2017. The increase was mainly due to increased volumes from new and existing business.

1. Adjusted for trading or paid days, where applicable.
2. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

Cost of operations

Total labour costs

Labour costs were $830 million in 2018, an increase of $64 million or 7.9%[1] compared to 2017. The increase was driven by business growth.

Total non-labour costs

Non-labour costs were $859 million in 2018, an increase of $119 million or 15.8%[1] compared to 2017. The increase was driven primarily by business growth and higher fuel costs.

8.6 Logistics segment

In 2018, SCI's financial performance was consistent with the prior year, with profit before tax of $21 million.

Summary of results

(in millions of dollars)	2018	2017[2]	Change[2]	%[2]
Revenue from operations	322	276	46	16.4[1]
Cost of operations	302	255	47	17.8[1]
Profit from operations	**20**	**21**	**(1)**	(0.6)
Investing and financing income (expense), net	1	–	1	–
Profit before tax	**21**	**21**	**–**	**0.6**

Revenue from operations

Revenue from operations increased by $46 million[2] or 16.4%[1,2] compared to 2017. The increases were primarily the result of growth in volumes and new business.

Cost of operations

Total labour costs

Labour costs were $163 million in 2018, $27 million or 19.3%[1] higher than 2017. Increases were primarily the result of growth in volumes and new business.

Total non-labour costs

Non-labour cost were $139 million, an increase of $20 million[2] or 16.0%[1,2] in 2018 when compared to 2017. Increases were primarily the result of growth from existing clients and new business.

8.7 Consolidated results to plan

(in millions of dollars)	2018 Results	2018 Plan	Change	%
Revenue from operations	8,675	8,251	424	5.1
Cost of operations	8,784	8,142	642	7.9
Profit (loss) from operations	**(109)**	**109**	**(218)**	**–**
Investing and financing income (expense), net	(1)	(15)	14	93.3
Profit (loss) before tax	**(110)**	**94**	**(204)**	**–**

The Canada Post Group of Companies' loss before tax of $110 million in 2018 was $204 million below plan. Revenue from operations of $8,675 million was 5.1% or $424 million more than expected mainly due to growth in Parcels revenue in the Canada Post and Purolator segments, partially offset by ongoing Transaction Mail volume erosion and the labour disruption in the Canada Post segment. Cost of operations of $8,784 million was 7.9% or $642 million higher than planned, mainly due to the 2018 ruling on pay equity for members of CUPW-RSMC in the Canada Post segment, as well as increased labour and transportation costs in the Canada Post and Purolator segments.

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1. Adjusted for trading or paid days, where applicable.
2. The amounts for 2017 were restated as a result of new or revised accounting standards. For more details, see Section 9.2 Accounting pronouncements in this MD&A and Note 5 – Application of New and Revised International Financial Reporting Standards in the accompanying financial statements.

9 Critical Accounting Estimates, Adoption of New Accounting Standards and Accounting Policy Developments

A review of critical accounting estimates and changes in accounting policies in 2018 and future years

9.1 Critical accounting estimates

Our significant accounting policies are described in Note 3 to the consolidated financial statements on page 66. The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from the estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require a considerable change in reported amounts and disclosures in the consolidated financial statements of future periods.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods. Refer to notes 3 and 4 to the consolidated financial statements pages 66 and 74, respectively, for additional detail on significant accounting policies and critical accounting estimates and judgments.

Capital assets

Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's estimates of the periods of service provided by the assets, and are provided in Note 3 to the consolidated financial statements page 69. The useful lives of capital assets are assessed annually for continued appropriateness. Due to the long lives of many of the assets, changes to the estimates of useful lives could result in a material impact to the consolidated financial statements.

At the end of each reporting period, capital assets with finite useful lives are assessed for any indication of impairment. If an indication of impairment exists, the Group of Companies determines the recoverable amount of the asset. An asset is impaired when its carrying amount exceeds its recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Intangible assets included in capital assets, which are not yet available for use, are tested annually for impairment, even if no indication of impairment exists.

When necessary, determining the asset's fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. If future conditions were to adversely differ from management's best estimate of key economic assumptions and associated cash flows were to materially decrease, the Group of Companies could potentially experience future material impairment charges in respect of capital assets.

Goodwill

Goodwill is not amortized but is tested for impairment annually, or more frequently, if events and circumstances indicate that there may be an impairment. Goodwill is tested by comparing the carrying value of a cash-generating unit to its estimated recoverable amount. The Purolator segment represents a significant portion of the goodwill balance in the consolidated statement of financial position. The estimated recoverable amount of this segment is based on its value in use, which is derived using a discounted cash flow analysis and requires making assumptions and estimates relating to future cash flows and discount rates.

The future cash flows of the Purolator segment are estimated using its approved plans. These plans reflect management's best estimates; however, they are subject to change as they involve inherent uncertainties that management may not be able to control. Growth and profitability levels are compared to other competitors in the industry and general economic conditions prevailing at the valuation date. The discount rate applied to the future cash flows of the Purolator segment is based on its estimated weighted average cost of capital at the valuation date. A change in future cash flows or discount rates could have a significant impact on the outcome of the goodwill impairment test. For assumptions related to goodwill impairment testing, refer to Note 12 to the consolidated financial statements page 93.

Provisions and contingent liabilities

A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Closely tied to the concept of a provision is a contingent liability, which is a possible legal or constructive obligation that arises from a past event, or a present legal or constructive obligation that arises from a past event but is not recognized because it is either not probable that an outflow of resources will be required to settle the obligation, or a reliable estimate of the obligation cannot be made. As such, a contingent liability is not recognized and is instead disclosed in the notes to the consolidated financial statements.

In determining whether an item is recognized in the financial statements as a provision or disclosed as a contingent liability in the notes, management must exercise judgment and make various assumptions. Such judgments include whether or not the obligation is a present obligation or a possible obligation, whether it is probable that an outflow of resources will be required to settle the obligation and whether a reliable estimate of the obligation can be made. Furthermore, in determining a reliable estimate of the obligation, management must make assumptions about the amount and likelihood of outflows, the timing of outflows, and the discount rate to use. Should the actual amount or timing of the outflows deviate from the assumptions made by management, there could be a significant impact on the consolidated results of operation, financial position and liquidity. Further information on the Group of Companies' provisions and contingent liabilities are provided in notes 14, 15 and 16 to the consolidated financial statements pages 94 and 95.

Revenue from contracts with customers

As control transfers over time, revenue is recognized to the extent of progress toward completion of the performance obligation. Progress toward completion is estimated using a straight-line output method based on delivery performance days to date. Management believes delivery performance days to date best depicts the transfer of services because delivery performance is a key performance indicator in the industry. Progress toward completion for other goods and services include input methods such as time elapsed over the contract period or output methods such as hours or quantity of service provided. For other retail products revenue is recognized at a point in time, at the retail outlet, and control passes when the customer takes physical possession of the mail or parcel.

The transaction price is generally determined from a price list but includes forms of variable considerations such as discounts or rebates, performance bonuses, refunds for sales with right of return or other considerations that can increase or decrease the transaction price. Discounts, rebates and performance bonuses are estimated using the most likely amount method based on recorded volumes, revenue, scanning or delivery performance metrics and trends. Refunds are estimated using the expected value method based on historical refunds. In determining whether each variable consideration is constrained (i.e. whether or not it is highly probable that a significant reversal in the recognized amount of cumulative revenue will not occur), the Group of Companies considers the impact of outside factors such as labour disruptions, experience or history with uncertainties for the type of revenue contracts and the length of time the uncertainty will remain. When a contract contains more than one performance obligation, the price is allocated based on the stand-alone selling price using rates offered to other customers with similar profiles or estimated using the expected-cost-plus-margin approach where a profit margin comparable to similar contracts for similar services is added to actual cost. Variable considerations that relate directly to a performance obligation are allocated to that specific performance obligation.

Pension, other post-employment benefits and other long-term benefit plans

The Canada Post Group of Companies sponsors plans that provide pension, other post-employment and other long-term benefits for the majority of its employees. The Group of Companies believes the accounting estimates below, used to measure its employee defined benefits plans, are critical accounting estimates because the amounts are based on complex actuarial calculations using several assumptions and, given the magnitude of these estimates, differences in actual results or changes in assumptions could materially affect the consolidated financial statements.

Assumptions

Due to the long-term nature of these defined benefit plans, the calculation of defined benefit expenses and defined benefit obligations depends on various assumptions. These assumptions bear the risk of change as they require significant judgment and have inherent uncertainties that management may not be able to control. The assumptions are determined by management and are reviewed by the Canada Post Group of Companies' actuaries. Below are descriptions of the significant assumptions used:

- **Discount rates –** The Canada Post Group of Companies' discount rate assumptions, which are set annually at the measurement date, are used to determine the present value of the defined benefit obligations at the end of the year and the defined benefit expense for the following year. The discount rate is used to measure the single amount that, if invested at the measurement date in a portfolio of high-quality corporate debt instruments with a rating of AA or better, would provide the necessary cash flows to pay for the defined benefit plans as they become due. The actuaries calculate the discount rates using a yield curve approach, which is based on pricing and yield information for a theoretic portfolio of corporate bonds with a cash flow pattern that resembles that of the plan being valued. The selected discount rate is the yield on that theoretical portfolio. The actuaries determine the future benefit payments based on other assumptions, which include the respective plans' demographics, retirees' profiles and medical trends.
- **Medical costs –** The medical costs assumptions are used in the measurement of certain non-pension defined benefit plans. The claims cost assumption used is derived from actual claims experience. Other assumptions such as health trend factors or provincial coverage are supported by third-party studies.
- **Mortality assumptions –** The mortality rates used to determine the majority of the defined benefit obligations are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners' Mortality (CPM) dated February 2014, more specifically the CPM 2014 Public Sector Mortality Table with the CPM improvement scale B. Mortality tables represent the probability of death within a year for plan members of various ages.

- **Consumer price index –** The consumer price index assumption is used in the measurement of the defined benefit obligations for pension benefit plans and some of the other non-pension benefit plans. This assumption is based on long-term expected rates of inflation derived from market yields on long-term nominal government bonds and real return bonds. The consumer price index also has an impact on the long-term rates of compensation increase.

As a result of applying these actuarial assumptions, remeasurement gains or losses on the defined benefit plans arise from the difference between actual and expected experience and changes in the actuarial assumptions. For pension and other post-employment benefit plans, remeasurement gains or losses are recognized in other comprehensive income or loss and are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. For the other long-term benefit plans, the actuarial gains or losses are recognized in net profit or loss.

Notes 10 (e) and (f) to the consolidated financial statements on pages 88 and 89, respectively, include the remeasurement and actuarial gains or losses components recognized in the statement of comprehensive income.

Sensitivity to assumptions – Canada Post segment

The defined benefit obligation and associated defined benefit expense are sensitive to actuarial assumptions. A lower discount rate results in a higher benefit obligation and a lower funded status.

Sensitivity to changes in significant assumptions for the Corporation's principal pension plan follows:

(in millions of dollars)	Annual pension expense	Defined pension obligation
Discount rate sensitivity		
0.5% increase in discount rates	(157)	(2,071)
0.5% decrease in discount rates	151	2,251
Consumer price index sensitivity		
0.25% increase in consumer price index	64	926
0.25% decrease in consumer price index	(62)	(896)
Mortality tables sensitivity		
10% increase in mortality tables	(34)	(570)
10% decrease in mortality tables	34	582

The Corporation's principal health care plan is sensitive to the following assumptions:

(in millions of dollars)	Annual health care expense	Defined health care obligation
Discount rate sensitivity		
0.5% increase in discount rates	(4)	(277)
0.5% decrease in discount rates	4	314
Health care cost trend rates sensitivity		
1% increase in health care cost trend rates	42	445
1% decrease in health care cost trend rates	(30)	(348)
Mortality tables sensitivity		
10% increase in mortality tables	(2)	(70)
10% decrease in mortality tables	3	81

For complete details on the pension, other post-employment and other long-term benefit plans for the Group of Companies, see Note 10 to the consolidated financial statements beginning page 84.

Income taxes

The Group of Companies is subject to income tax in numerous jurisdictions and significant judgment is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of the additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets and liabilities are composed of temporary differences between the carrying values and the tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of the temporary differences may take many years, and the related deferred tax is calculated using the tax rate substantively enacted for the period of reversal that is applied to the temporary difference. The carrying values of these deferred tax balances are based on the amounts of assets and liabilities recorded in the consolidated financial statements and, therefore, are subject to accounting estimates that are inherent in those balances. The Group of Companies has significant deductible temporary differences and related deferred tax assets. See Note 11 to the consolidated financial statements page 92.

The tax bases of assets and liabilities as well as tax losses carried forward, if any, are computed based on the applicable income tax legislation, regulations and interpretations, all of which, in turn, are subject to interpretation. In computing deferred tax assets and deferred tax liabilities, assumptions are made about their respective timing of reversal and future results of operations. These assumptions also affect classification between current tax expense or current tax income and deferred tax expense or deferred tax income. It is reasonable to expect that the composition of deferred tax assets and deferred tax liabilities may change from period to period because of the significance of these uncertainties. If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred tax adjustments would neither result in an immediate cash outflow nor affect the Group of Companies' immediate liquidity.

9.2 Adoption of new accounting standards

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2018. The following amendments were adopted by the Group of Companies January 1, 2018, as described in Note 5 (a) to the consolidated financial statements on page 76.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which affect the amount or timing of revenue recognized. IFRS 15 was applied retrospectively to these consolidated financial statements in accordance with the transitional provisions. As required by the transitional provisions, the amount of the restatement for each financial statement line item affected in the comparative period is described below.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period is less than one year and, therefore, qualifies under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs previously netted against revenue were reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, revenue and cost from operations each increased by $87 million from amounts previously reported for the year ended December 31, 2017, which had no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue when appropriate. As a result, deferred tax assets, deferred revenue and accumulated deficit increased by $7 million, $28 million and $21 million, respectively, from amounts previously reported as at January 1, 2017, and increased by $8 million, $30 million and $22 million, respectively, from amounts previously reported as at December 31, 2017. The revenue and tax expense decreased by $2 million and $1 million, respectively, from amounts previously reported for the year ended December 31, 2017.

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, the deferred tax assets, deferred revenue and accumulated deficit decreased by $1 million, $2 million and $1 million, respectively, from amounts previously reported as at January 1, 2017, and decreased by $2 million, $6 million and $6 million, respectively, while trade and other receivables increased by $2 million from amounts previously reported as at December 31, 2017. The revenue and tax expense increased by $7 million and $2 million, respectively, from amounts previously reported for the year ended December 31, 2017.

The overall impact of these changes on the comparative figures was as follows:

Consolidated statement of financial position

(in millions of dollars)

As at January 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Deferred tax asset	1,384	6	1,390
Deferred revenue	115	26	141
Accumulated deficit	(1,530)	(20)	(1,550)

Consolidated statement of financial position

(in millions of dollars)

As at December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Trade and other receivables	944	2	946
Deferred tax asset	1,562	6	1,568
Deferred revenue	114	24	138
Accumulated deficit	(1,595)	(16)	(1,611)

Consolidated statement of comprehensive income

(in millions of dollars)

For the year ended December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Revenue from operations	8,226	92	8,318
Other operating costs	2,205	87	2,292
Tax expense (recovery)	55	1	56
Net profit (loss)	144	4	148

The impact of adopting IFRS 15 on the consolidated statement of cash flows is not presented as the changes had no impact on total cash from operating, investing and financing activities.

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The Group of Companies has applied IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities previously classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets are classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation uses the probability-of-default method, adjusted by using forward-looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, as well as marketable and segregated securities, as these investments qualify under the low credit risk approach. The overall impact of adopting IFRS 9 did not result in any adjustments to current or previously reported amounts. Additional disclosures were included in Note 19 (b) on page 99 related to the credit risk and the expected credit loss of the financial assets.

9.3 Accounting policy developments

The following table presents the not-yet-effective standards and amendments issued by the IASB that have not been early adopted at the end of the reporting period and that have been assessed as having a possible effect on the consolidated financial statements of the Group of Companies in the future. The Group of Companies will continue to monitor any additional changes required or available (through early adoption where permitted) during 2019, as new or amended standards are issued by the IASB, as described in Note 5 (b) to the consolidated financial statements on page 78.

Standard or amendment	Effective for annual periods beginning on or after
IFRS 16 "Leases"	January 1, 2019
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Annual Improvements to IFRS – 2015-2017 Cycle	January 1, 2019
Amendments to "IAS 19 Employee Benefits"	January 1, 2019
Amendments to "IAS 1 Presentation of Financial Statements" and "IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors"	January 1, 2020
Amendments to "IFRS 3 Business Combinations"	January 1, 2020

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17) and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" (IFRIC 4), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019. See Note 5 (b) to the consolidated financial statements page 78 for additional detail, including the full estimated quantitative impact as at January 1, 2018 and for the year ending December 31, 2018.

The quantitative assessment of the accounting impact is expected to include the following:

- Recognition, as at January 1, 2018 of right-of-use assets of approximately $935 million and lease liabilities of approximately $1,091 million for leases previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16 that were previously expensed to other operating costs.
- Vehicles and plant equipment approximating $38 million held under finance lease arrangements previously recognized as property, plant and equipment, which will be presented with right-of-use assets as at January 1, 2018. The lease liability on leases previously classified as financing leases under IAS 17 and previously presented within loans and borrowings of $41 million will be presented with lease liabilities.
- A decrease to revenue of $3 million for the year ended December 31, 2018, as the financing component of subleases will be reclassified to investment and other income.
- A decrease in other operating costs of approximately $131 million since IFRS 16 replaces operating lease expenses with a depreciation charge for the right-of-use asset of approximately $101 million and an interest expense of approximately $35 million on the lease liability. This will result in a net decrease to profit (loss) before tax of $8 million.
- An increase in cash used in financing activities because payments for the principal component will be presented as a financing outflow; payments under operating leases under IAS 17 were presented as an operating outflow.

IFRIC 23 "Uncertainty over Income Tax Treatments" (IFRIC 23) • This IFRIC clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group of Companies is not expecting any impact from the adoption of this interpretation.

Annual Improvements to IFRS – 2015-2017 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. These amendments are effective for annual reporting periods beginning on or after January 1, 2019. The standards and topics covered by the amendments were as follows: IFRS 3 "Business Combinations" clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; IFRS 11 "Joint Arrangements" clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 12 "Income Taxes" clarifies that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises and; IAS 23 "Borrowing Costs" clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to "IAS 19 Employee Benefits" (IAS 19) • In February 2018, the IASB issued amendments to IAS 19 "Employee Benefits" addressing the accounting for a plan amendment, curtailment or settlement that occurs during a period. The use of updated actuarial assumptions is required to determine current service cost and net interest for the remainder of the reporting period after such events. The amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after January 1, 2019, with earlier adoption permitted. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to "IAS 1 Presentation of Financial Statements" (IAS 1) and "IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors" (IAS 8) • In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. It was specified that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions. The amendments state that, in assessing whether any information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances. The amendments must be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier adoption permitted. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to "IFRS 3 Business Combinations" (IFRS 3) • In October 2018, the IASB issued narrow-scope amendments to IFRS 3 to guide entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, provide guidance for entities to assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier adoption is permitted. The Group of Companies is not expecting any impact from adopting these amendments.

10 Outlook for 2019

Our prospects for 2019

10.1 Economic outlook

Global economic growth decreased from 3.1% to 3.0% in 2018 and is projected to decrease to 2.9% in 2019. The global economy faces a more challenging environment in 2019. Global financing conditions have tightened, industrial production has moderated, trade tensions remain elevated, and some large emerging market and developing economies have experienced significant financial market stress. Faced with these headwinds, the recovery in emerging markets and developing economies has lost momentum. Downside risks have become more acute and include the possibility of disorderly financial market movements and an escalation of trade disputes. A further high level of uncertainty remains regarding economic policies of the U.S. administration, the impacts of the United Kingdom's move to break with the EU, rising geopolitical tensions and expected interest rate increases in some major economies. The World Bank now forecasts global economic growth around 2.8% from 2020 to 2021.

Canada's economic growth in 2018 was 2.1%, down from 3.0% in 2017. As consumption growth retreats to a more sustainable pace in 2019, overall economic growth is expected to moderate to 1.9% in 2019 and 1.8% in 2020-21. Canada's economy stumbled in the final leg of 2018, weighed down by slumping oil prices and higher interest rates. Consumer spending and real estate had played an outsized role in keeping the economy going, but the regulatory changes and higher interest rates have made housing sales drop and softened spending on durable goods. The Canadian dollar exchange rate is projected to average US$0.76 in 2019 and US$0.78 in 2020, although there remains significant uncertainty due to rising interest rates. The policy outlook of central banks looks increasingly uncertain as commodity prices are under pressure and confidence is starting to fray in a strong economy. Central banks in Canada and the U.S. are expected to continue raising rates in 2019 in order to start the long process of returning to more normal conditions. There remains a considerable risk in this forecast. A further significant change in interest rates and exchange rates could have an impact on Canadian growth expectations and, as a result, on Canadian e-commerce parcel growth and mail volume erosion.

Inflation, as measured by the consumer price index (CPI), rose during 2018 and finished the year at 2.3%. Recent economic growth and minimum wage increases in various provinces fueled inflation in 2018. Economists expect both core and total CPI to return to the target level of 2% by the end of 2019.

Canada's 30-year bond rate is rising very gradually and is forecasted to return to 3% by 2020. Rising long-term rates may alleviate pressure on Canada Post's pension liability after the end of the period of relief from solvency deficit payments.

Housing starts are expected to continue adding an average of almost 200,000 addresses per year. Address growth is a cost pressure on Canada Post's delivery operations as mail volumes continue to decline.

	2018	2019	2020	2021	2022
Economic (% change)					
Real gross domestic product (GDP)	2.1	1.9	1.8	1.8	1.7
Inflation (consumer price index [CPI])	2.3	1.9	2.1	2.0	2.0
Demographic (% change)					
Total population growth	1.0	1.0	0.9	0.9	0.9
Household growth	1.5	1.4	1.4	1.4	1.4

Sources: Forecasts of GDP, CPI and total points of delivery consider projections from the five major Canadian banks, the Canada Mortgage and Housing Corporation and the Bank of Canada. Population growth is from Statistics Canada projections.

10.2 Canada Post Group of Companies outlook

Canada Post segment

Canada Post is counting on success in the highly competitive parcel business to ensure the future of its business. In 2019, we will remain committed to our strategies, which focus on being customer-centric, cost-competitive, innovative and operationally flexible. We expect our Parcels line of business to continue its strong growth as we solidify our leadership in the e-commerce business-to-consumer delivery space.

Our infrastructure capacity must keep up with growth in the e-commerce market. We are assessing our infrastructure capacity and plan to make investments in 2019 to upgrade facilities and replenish assets to support e-commerce growth.

Direct Marketing continues to present a challenge. However, there is an opportunity for growth in this line of business, which generates about $1.1 billion or about 17% of Canada Post's revenue. Direct mail can help marketers and their clients stand out in the competitive digital marketing space by putting a company's message directly into the hands of prospective customers. Canada Post will continue to create new product offerings that are better targeted and more personalized to drive growth in direct marketing as a smart complement to digital advertising.

The collective agreements with both bargaining units of the Canadian Union of Postal Workers, Urban Postal Operations and Rural and Suburban Mail Carriers, that expired January 31, 2018, and December 31, 2017, respectively, are in arbitration. Our goal is to reach settlements that balance employee expectations and cost competitiveness. With growing pension obligations and the need for operational flexibilities and cost competitiveness, current and future negotiations are key to achieve financial self-sustainability in the future, and a shared understanding of the Corporation's structural challenges is critical.The collective agreement with the Canadian Postmasters and Assistants Association expired December 31, 2018. It is expected that negotiations will commence before the end of 2019.

Predicting the rate of erosion of Lettermail™ is difficult. However, we expect it to continue, which presents a significant risk to Canada Post. The rate of erosion may increase drastically and our volumes may decrease more quickly than we expect. Our strategies are focused on addressing this challenge and ensuring we remain financially self-sustaining.

The Government of Canada's vision for renewal of Canada Post announced in 2018 emphasizes service to Canadians and the importance for Canada Post to be efficient and financially sustainable for the long term. The five areas identified by the government were incorporated into our major objectives and our strategies for 2018, and in 2019 we will continue our work on these objectives.

Under regulations of the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities; beyond this level, Canada Post would be required to make special payments to eliminate any shortfalls of assets to liabilities, based on the actuarial valuations, over five years on a solvency basis. As a result of these regulations, Canada Post did not have to make special payments in 2018 and does not expect to make special payments in 2019. However, pension obligations are substantial compared to the financial position and income of the Corporation, and fluctuations in investment returns, variations in discount rates and changes in other assumptions have caused considerable volatility. Deteriorations in the solvency of the Corporation's Registered Pension Plan (RPP) could require special payments that would easily exceed any increase in cash from corporate earnings or cost savings, and threaten the sustainability of the Corporation and the RPP beyond 2018.

Purolator segment

In 2019, Purolator will continue to emphasize differentiation through customer experience, service quality and operational efficiency. Purolator will augment its efforts on profitable growth in high-value vertical segments and continually enhance service offerings. It will also focus on network, revenue management and technology initiatives.

Logistics segment

In 2019, SCI will continue to focus on growing revenue and driving operational savings through continuous improvement initiatives, while investing in strategic initiatives to support future profitable growth. This growth is expected to come from contract logistics and transportation services within targeted verticals in Canada. As well, SCI will continue to work with Canada Post and Purolator on opportunities to capitalize on existing capabilities within the Group of Companies.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated)	**2018**	2017	2016	2015	2014
OPERATIONS[1]					
Revenue from operations	**8,675**	8,318	7,880	8,006	7,982
Total cost of operations	**8,784**	8,087	7,731	7,837	7,683
Profit (loss) from operations	**(109)**	231	149	169	299
Percentage of revenue from operations	**(1.3) %**	2.8 %	1.9 %	2.1 %	3.7 %
Investing and financing income (expense), net	**(1)**	(27)	(35)	(33)	(30)
Profit (loss) before tax	**(110)**	204	114	136	269
Tax expense (recovery)	**(23)**	56	33	37	71
Net profit (loss)	**(87)**	148	81	99	198
Other comprehensive income (loss)	**397**	(193)	741	788	(1,843)
Comprehensive income (loss)	**310**	(45)	822	887	(1,645)
Net profit (loss) attributable to					
Government of Canada	**(96)**	142	78	96	194
Non-controlling interests	**9**	6	3	3	4
	(87)	148	81	99	198
Comprehensive income (loss) attributable to					
Government of Canada	**300**	(51)	820	884	(1,644)
Non-controlling interests	**10**	6	2	3	(1)
	310	(45)	822	887	(1,645)
STATEMENT OF FINANCIAL POSITION[1]					
Assets					
Current	**3,840**	3,396	2,826	2,505	2,260
Segregated securities	**495**	526	523	539	551
Capital assets	**2,815**	2,746	2,789	2,845	2,793
Pension benefit assets	**95**	116	135	157	141
Deferred tax assets	**1,641**	1,568	1,384	1,540	1,706
Other assets	**311**	137	135	134	133
Total assets	**9,197**	8,489	7,792	7,720	7,584
Liabilities and equity					
Current	**1,944**	1,512	1,307	1,356	1,413
Pension, other post-employment and other long-term benefit liabilities	**6,277**	6,297	5,726	6,398	7,037
Other liabilities	**1,038**	1,050	1,063	1,090	1,145
Non-controlling interests	**40**	32	27	27	24
Equity of Canada	**(102)**	(402)	(331)	(1,151)	(2,035)
Total liabilities and equity	**9,197**	8,489	7,792	7,720	7,584
ADDITIONS TO CAPITAL ASSETS					
Land and buildings	**66**	80	40	35	55
Other capital assets	**321**	221	215	339	238
	387	301	255	374	293

1. Effective January 1, 2018, the Group of Companies adopted IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial Instruments”. The historical financial information as at and for the year ended December 31, 2017 has been restated. Previous years presented in this table have not been restated.

Historical Financial Information

(unaudited, in millions of Canadian dollars unless otherwise indicated / trading day adjusted percentage)	**2018**	**% Change**	2017	% Change	2016	% Change	2015	% Change	2014
LINE OF BUSINESS DIMENSIONS									
REVENUE FROM OPERATIONS[1,2]									
Transaction Mail									
Domestic Lettermail	**2,601**	**(2.7) %**	2,663	(2.9) %	2,754	(5.2) %	2,905	0.1 %	2,902
Outbound Letter-post (to other postal administrations)	**99**	**(14.5) %**	116	(2.4) %	119	(9.5) %	132	(9.5) %	145
Inbound Letter-post (from other postal administrations)	**83**	**(46.7) %**	155	(5.8) %	164	7.7 %	153	(2.2) %	156
Canada Post segment	**2,783**	**(5.5) %**	2,934	(3.0) %	3,037	(4.8) %	3,190	(0.4) %	3,203
Elimination of intersegment	**(2)**		(2)		(3)		(3)		(3)
Canada Post Group of Companies	**2,781**	**(5.5) %**	2,932	(3.0) %	3,034	(4.8) %	3,187	(0.4) %	3,200
Parcels									
Domestic Parcels	**1,864**	**15.3 %**	1,610	28.8 %	1,255	7.6 %	1,167	10.7 %	1,054
Outbound Parcels (to other postal administrations)	**242**	**(1.9) %**	246	10.5 %	223	(2.5) %	229	4.3 %	220
Inbound Parcels (from other postal administrations)	**367**	**18.6 %**	309	28.4 %	241	3.0 %	234	7.4 %	218
Total – Parcels	**2,473**	**13.8 %**	2,165	26.4 %	1,719	5.5 %	1,630	9.3 %	1,492
Other	**30**	**(2.2) %**	30	62.3 %	19	17.3 %	16	(3.7) %	17
Canada Post segment	**2,503**	**13.6 %**	2,195	26.8 %	1,738	5.6 %	1,646	9.1 %	1,509
Purolator segment	**1,847**	**12.5 %**	1,634	7.5 %	1,527	(0.7) %	1,537	(8.7) %	1,683
Logistics segment	**322**	**16.4 %**	276	6.9 %	259	(1.1) %	262	17.1 %	223
Elimination of intersegment	**(117)**		(94)		(90)		(110)		(138)
Canada Post Group of Companies	**4,555**	**13.1 %**	4,011	17.3 %	3,434	3.0 %	3,335	1.7 %	3,277
Direct Marketing									
Personalized Mail™	**501**	**(1.8) %**	508	(4.5) %	534	(5.5) %	565	(0.7) %	569
Neighbourhood Mail™	**408**	**(2.2) %**	415	6.9 %	390	(4.2) %	407	2.7 %	397
Total – Smartmail Marketing™	**909**	**(2.0) %**	923	0.4 %	924	(5.0) %	972	0.7 %	966
Publications Mail™	**153**	**(5.8) %**	162	(9.3) %	180	(8.6) %	197	(7.3) %	212
Business Reply Mail™ and Other mail	**22**	**1.8 %**	22	(3.4) %	22	(6.1) %	24	(4.0) %	25
Total – Mail	**1,084**	**(2.5) %**	1,107	(1.3) %	1,126	(5.6) %	1,193	(0.8) %	1,203
Other	**14**	**0.4 %**	14	16.9 %	12	0.3 %	12	(6.4) %	12
Canada Post segment / Group of Companies	**1,098**	**(2.4) %**	1,121	(1.1) %	1,138	(5.6) %	1,205	(0.9) %	1,215
Other revenue									
Canada Post segment	**236**	**(8.7) %**	256	(5.6) %	273	(0.9) %	275	(3.7) %	287
Purolator segment	**5**	**328 %**	(1)	(294.7) %	1	(78.7) %	5	50.6 %	4
Innovapost and elimination of intercompany	**–**		(1)		–		(1)		(1)
Canada Post Group of Companies	**241**	**(5.0)**	254	(7.8) %	274	(2.1) %	279	(3.0) %	290
Revenue from operations									
Canada Post segment	**6,620**	**1.3 %**	6,506	5.6 %	6,186	(2.1) %	6,316	1.7 %	6,214
Purolator segment	**1,852**	**13.0 %**	1,633	7.3 %	1,528	(1.0) %	1,542	(8.6) %	1,687
Logistics segment	**322**	**16.4 %**	276	6.9 %	259	(1.1) %	262	17.1 %	223
Innovapost and elimination of intercompany	**(119)**		(97)		(93)		(114)		(142)
Canada Post Group of Companies	**8,675**	**3.9 %**	8,318	5.9 %	7,880	(1.6) %	8,006	0.3 %	7,982

1. Effective January 1, 2018, the Group of Companies adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments". The historical financial information as at and for the year ended December 31, 2017 has been restated. Previous years presented in this table have not been restated.
2. Prior years' revenues may be restated due to realignments in the reporting structure.

Historical Financial Information

(unaudited, in millions of pieces unless otherwise indicated / trading day adjusted percentage)	**2018**	**% Change**	2017	% Change	2016	% Change	2015	% Change	2014
LINE OF BUSINESS DIMENSIONS									
VOLUME[1]									
Transaction Mail									
Domestic Lettermail	**2,863**	**(4.6) %**	2,988	(5.3) %	3,169	(7.6) %	3,430	(5.2) %	3,617
Outbound Letter-post (to other postal administrations)	**49**	**(12.1) %**	56	(9.1) %	61	(11.5) %	69	(11.9) %	79
Inbound Letter-post (from other postal administrations)	**106**	**(34.8) %**	161	(7.3) %	175	(9.1) %	192	(18.0) %	234
Canada Post segment	**3,018**	**(6.2) %**	3,205	(5.5) %	3,405	(7.8) %	3,691	(6.1) %	3,930
Elimination of intersegment	**(2)**		(2)		(3)		(3)		(3)
Canada Post Group of Companies	**3,016**	**(6.2) %**	3,203	(5.5) %	3,402	(7.8) %	3,688	(6.0) %	3,927
Parcels									
Domestic Parcels	**196**	**10.9 %**	176	22.3 %	144	9.0 %	133	13.5 %	117
Outbound Parcels (to other postal administrations)	**10**	**(3.5) %**	10	(3.0) %	11	(8.7) %	11	2.8 %	11
Inbound Parcels (from other postal administrations)	**90**	**60.8 %**	56	39.8 %	40	8.4 %	37	(0.4) %	37
Canada Post segment	**296**	**21.7 %**	242	24.5 %	195	7.7 %	181	9.7 %	165
Purolator segment	**134**	**9.2 %**	122	0.8 %	122	1.0 %	120	(9.1) %	133
Elimination of intersegment	**(7)**		(6)		(4)		(3)		(3)
Canada Post Group of Companies	**423**	**17.5 %**	358	14.8 %	313	4.9 %	298	1.2 %	295
Direct Marketing									
Personalized Mail	**918**	**(4.2) %**	954	(3.6) %	994	(7.1) %	1,070	(3.1) %	1,105
Neighbourhood Mail	**3,486**	**(3.5) %**	3,600	7.5 %	3,362	(4.3) %	3,514	2.3 %	3,434
Total – Smartmail Marketing	**4,404**	**(3.7) %**	4,554	5.0 %	4,356	(5.0) %	4,584	1.0 %	4,539
Publications Mail	**231**	**(8.3) %**	250	(10.6) %	281	(9.6) %	311	(10.1) %	346
Business Reply Mail and Other mail	**18**	**(1.5) %**	18	(6.0) %	19	(11.5) %	22	(3.8) %	22
Canada Post segment / Group of Companies	**4,653**	**(3.9) %**	4,822	4.0 %	4,656	(5.3) %	4,917	0.2 %	4,907
Total volume									
Canada Post segment	**7,967**	**(4.0) %**	8,269	0.6 %	8,256	(6.1) %	8,789	(2.4) %	9,002
Purolator segment	**134**	**9.2 %**	122	0.8 %	122	1.0 %	120	(9.1) %	133
Elimination of intersegment	**(9)**		(8)		(7)		(6)		(6)
Canada Post Group of Companies	**8,092**	**(3.9) %**	8,383	0.5 %	8,371	(6.0) %	8,903	(2.5) %	9,129
EMPLOYMENT[2]									
Canada Post segment	**52,891**	**3.7 %**	50,995	0.6 %	50,711	0.7 %	50,348	(2.0) %	51,365
Purolator segment	**11,403**	**15.1 %**	9,907	(3.9) %	10,304	(4.7) %	10,814	(5.0) %	11,389
Logistics segment	**2,338**	**17.4 %**	1,991	10.6 %	1,800	1.2 %	1,778	23.7 %	1,437
Innovapost business unit	**834**	**(4.8) %**	876	(2.3) %	897	(1.0) %	906	3.1 %	879
Canada Post Group of Companies	**67,466**	**5.8 %**	63,769	0.1 %	63,712	(0.2) %	63,846	(1.9) %	65,070
MAIL NETWORK									
Post offices	**6,137**	**(0.7) %**	6,183	(0.5) %	6,217	(0.6) %	6,252	(0.7) %	6,296
Points of delivery (in thousands)	**16,379**	**1.2 %**	16,185	1.1 %	16,006	1.2 %	15,814	0.9 %	15,677
Pickup points (in thousands)[3]	**947**	**(0.1) %**	948	0.2 %	946	0.2 %	944	2.0 %	925

1. Volumes of prior years may be restated due to realignments in the reporting structure.
2. Includes paid full-time and part-time employees and excludes temporary, casual and term employees.
3. Includes rural mailboxes (RMBs), which are collection points for customers with this mode of delivery.

Independent Auditors' Report on Annual Cost Study Contribution Analysis

To the Board of Directors of Canada Post Corporation

We have audited the accompanying Annual Cost Study Contribution Analysis (Annual Cost Study) of Canada Post Corporation (the Entity) for the year ended December 31, 2018 and of the accompanying management assertion in note 1 on whether the competitive grouping of services has been cross-subsidized using revenues from exclusive privilege services based on the Annual Cost Methodology (applicable criteria) for the year ended December 31, 2018.

Management's Responsibility
Management is responsible for the preparation of the Annual Cost Study, and the measurement and evaluation of the Annual Cost Study, both in accordance with the Annual Cost Methodology (applicable criteria). Management is responsible for evaluating the appropriateness of the applicable criteria used. Management is also responsible for such internal control as management determines necessary to enable the preparation, measurement and evaluation of the Annual Cost Study that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibilities
Our responsibility is to express a reasonable assurance opinion on the Annual Cost Study based on the evidence we have obtained.

We conducted our reasonable assurance engagement in accordance with Canadian Standard on Assurance Engagements (CSAE) 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*. This standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the Annual Cost Study is free from material misstatement.

Reasonable assurance is a high level of assurance, but is not a guarantee that an engagement conducted in accordance with this standard will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users of our report. The nature, timing and extent of procedures performed depends on our professional judgment, including an assessment of the risks of material misstatement, whether due to fraud or error, and involves obtaining evidence about the Annual Cost Study.

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

Auditors' Independence and Quality Control
We have complied with the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The Firm applies Canadian Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* and, accordingly, maintains a comprehensive system of quality control, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Opinion
In our opinion:
(a) the Annual Cost Study of the Entity for the year ended December 31, 2018 is prepared, in all material respects, in accordance with the applicable criteria; and
(b) based on the Annual Cost Methodology, management's assertion that the Entity did not cross-subsidize its competitive services with revenues from exclusive privilege services, for the year ended December 31, 2018, is fairly stated, in all material respects.

Specific Purpose of the Annual Cost Study
The Annual Cost Study is prepared to demonstrate, in accordance with the applicable criteria, that the competitive grouping of services has not been cross-subsidized using revenues from exclusive privilege services. The Annual Cost Study has been evaluated against the applicable criteria. As a result, the Annual Cost Study may not be suitable for another purpose.

Other Matter
We have not audited, reviewed or performed any procedures on the Entity's operational systems and special studies that yield operational data used to allocate costs to products and therefore we do not provide any assurance on such matters.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

March 21, 2019
Ottawa, Canada

Annual Cost Study Contribution Analysis

Canada Post Corporation

The Annual Cost Study Contribution Analysis calculates the long-run incremental contribution from exclusive privilege services, competitive services, concessionary services and other services. The long-run incremental contribution is defined as the revenue from such services, less their long-run incremental cost.

Annual Cost Study Contribution Analysis

Year ended December 31, 2018
(in millions of Canadian dollars, unless otherwise indicated)

Long-run incremental contribution from exclusive privilege, competitive, concessionary and other services

The following analysis is based on the assignment of 61% of the total non-consolidated costs of Canada Post Corporation to individual services or groups of services.

	Exclusive privilege	Competitive	Concessionary	Other	**Total**
Revenue from operations	$ 3,063	$ 3,294	$ 24	$ 239	$ 6,620
Long-run incremental costs	(1,739)	(2,318)	(17)	(136)	(4,210)
Long-run incremental contribution	**$ 1,324**	**$ 976**	**$ 7**	**$ 103**	**$ 2,410**
Percentage of revenue	43 %	30 %	29 %	43 %	36 %
Unallocated fixed costs					$ (2,702)
Contribution before the undernoted items					**$ (292)**
Investment and other income					77
Finance costs and other expense					(55)
Loss before tax – Canada Post segment					**$ (270)**

The accompanying notes are an integral part of the Annual Cost Study Contribution Analysis.

Notes to Annual Cost Study Contribution Analysis

Year ended December 31, 2018

1. Basis of Preparation

The Annual Cost Study Contribution Analysis provides costing data that serve as the basis for ensuring that Canada Post Corporation is not competing unfairly by cross-subsidizing its competitive services with revenues from exclusive privilege services.

In conjunction with external experts, Canada Post Corporation maintains a costing methodology based on the principles of long-run incremental costs, which was designed to leverage the structure of an activity-based costing system. Canada Post Corporation applies this methodology each year in its Annual Cost Study Contribution Analysis for cost attribution purposes (Annual Cost Methodology).

The Annual Cost Methodology, which is summarized in Note 2, recognizes that some costs are caused by the provision of individual services or groups of services, while others are common costs of Canada Post Corporation's infrastructure.

Under the Annual Cost Methodology, a positive long-run incremental contribution from competitive services establishes that this grouping of services has not been cross-subsidized using revenues from exclusive privilege services. As the Annual Cost Study Contribution Analysis indicates, the competitive grouping of services generated a positive long-run incremental contribution, and therefore, Canada Post Corporation did not cross-subsidize its competitive services using revenues protected by exclusive privilege for the year ended December 31, 2018.

2. Annual Cost Methodology

(a) Long-run incremental cost • The Annual Cost Methodology employed by Canada Post Corporation measures the long-run incremental cost of individual services and groups of services. Long-run incremental cost is the total annual cost caused by the provision of a service.

(b) Activity-based • Services provided by Canada Post Corporation are analyzed to determine the various activities involved in their fulfillment. Each activity is then analyzed to determine the causal relationship between the costs of the activity and the services that require the performance of that particular activity. Service volumes or other data are used to attribute those activity costs to services.

(c) Attribution principles • The relationship between the cost of resources and the activities performed, and the relationship between the activities performed and the services delivered are identified using the principles of causality and time horizon. Those activity costs, which are incurred because of the provision of a service, are attributed to that service. Activity costs that cannot be attributed to the provision of a service but are common to a specific group of services, are attributed at that higher level of aggregation. The remaining business-sustaining and common fixed costs are unallocated fixed costs.

(d) Source data • The source of the financial data used to produce the Annual Cost Study Contribution Analysis is the Canada Post Corporation general ledger revenues and costs. Operational time, volume and weight/cubage data are used to attribute general ledger costs to activities and activity costs to services. Operational volume data are used to determine revenue by services. Where operational data are not available, an appropriate proxy is used to make the attribution.

(e) Reconciliation with financial records • Total revenues and costs considered in the Annual Cost Study Contribution Analysis are reconciled with the total revenues and expenses forming the Canada Post segment of the audited consolidated financial statements.

(f) Cross-subsidization test • Under the Annual Cost Methodology in the Annual Cost Study Contribution Analysis, a positive long-run incremental contribution (revenue exceeds long-run incremental cost) from a competitive grouping of services establishes that the grouping of services has not been cross-subsidized using revenues from other services or groups of services.

Management's Responsibility for Financial Reporting

Management is responsible for the consolidated financial statements and all other information presented in this Annual Report. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and include amounts based on management's best estimates and judgments. Financial information presented elsewhere in this Annual Report is consistent with the consolidated financial statements.

In support of its responsibilities, management has established and maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable financial information in accordance with the *Financial Administration Act* and regulations, as well as the *Canada Post Corporation Act* and regulations, by-laws of the Corporation, and Government of Canada directives. On a risk basis, internal audits examine and evaluate the application of the Corporation's policies and procedures and the adequacy of the system of internal controls.

The Board of Directors' Audit Committee acts on behalf of the Board in fulfilling its responsibilities, which are prescribed by section 148 of the *Financial Administration Act*. The Audit Committee, consisting of five members who are independent in accordance with the Corporation's standards of independence, meets not less than four times a year, focusing on the areas of financial reporting, risk management and internal control. It is responsible for reviewing the consolidated financial statements and the Annual Report, and for meeting with management and internal and external auditors to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues.

The Board of Directors, on the recommendation of the Audit Committee, approves the consolidated financial statements.

Canada Post Corporation is a Crown corporation included in Part I of Schedule III of the *Financial Administration Act*. The Auditor General of Canada and KPMG LLP were appointed as joint auditors of the Corporation for the year ended December 31, 2018, in accordance with the *Financial Administration Act*. The Auditor General and KPMG LLP audit the consolidated financial statements and report to the Audit Committee of the Board of Directors, as well as to the Minister of Public Services and Procurement and Accessibility.

President and CEO

Chief Financial Officer

March 21, 2019

Independent Auditors' Report

To the Minister of Public Services and Procurement and Accessibility

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Canada Post Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditors' report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, and remain alert for indications that the other information appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Independent Auditors' Report (continued)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Compliance with Specified Authorities

Opinion

In conjunction with the audit of the consolidated financial statements, we have audited transactions of Canada Post Corporation and its wholly owned subsidiaries coming to our notice for compliance with specified authorities. The specified authorities against which compliance was audited are Part X of the *Financial Administration Act* and regulations, the *Canada Post Corporation Act* and regulations, the by-laws of Canada Post Corporation and its wholly owned subsidiaries, and the directives issued pursuant to section 89 of the *Financial Administration Act*.

In our opinion, the transactions of Canada Post Corporation and its wholly owned subsidiaries that came to our notice during the audit of the consolidated financial statements have complied, in all material respects, with the specified authorities referred to above. Further, as required by the Financial Administration Act, we report that, in our opinion, the accounting principles in IFRSs have been applied, after giving retrospective effect to the change in accounting standards as explained in Note 5 (a) to the consolidated financial statements, on a basis consistent with that of the preceding year.

Responsibilities of Management for Compliance with Specified Authorities

Management is responsible for Canada Post Corporation and its wholly owned subsidiaries' compliance with the specified authorities named above, and for such internal control as management determines is necessary to enable Canada Post Corporation and its wholly owned subsidiaries to comply with the specified authorities.

Auditors' Responsibilities for the Audit of Compliance with Specified Authorities

Our audit responsibilities include planning and performing procedures to provide an audit opinion and reporting on whether the transactions coming to our notice during the audit of the consolidated financial statements are in compliance with the specified authorities referred to above.

Marise Bédard

KPMG LLP

Marise Bédard, CPA, CA
Principal
for the Auditor General of Canada

Chartered Professional Accountants
Licensed Public Accountants

Ottawa, Canada
March 21, 2019

Consolidated Statement of Financial Position

As at (in millions of Canadian dollars)	**Notes**	**December 31, 2018**	December 31, 2017 (restated – Note 5)	January 1, 2017 (restated – Note 5)
Assets				
Current assets				
Cash and cash equivalents	6	$ 1,421	$ 1,503	$ 849
Marketable securities	6	1,338	821	1,038
Trade and other receivables	19, 21	979	946	829
Other assets	7	102	126	110
Total current assets		3,840	3,396	2,826
Non-current assets				
Marketable securities	6	132	–	–
Property, plant and equipment	8	2,709	2,627	2,672
Intangible assets	8	106	119	117
Segregated securities	6	495	526	523
Pension benefit assets	10	95	116	135
Deferred tax assets	11	1,641	1,568	1,390
Goodwill	12	130	130	130
Other assets		49	7	5
Total non-current assets		5,357	5,093	4,972
Total assets		$ 9,197	$ 8,489	$ 7,798
Liabilities and equity				
Current liabilities				
Trade and other payables	13	$ 653	$ 583	$ 548
Salaries and benefits payable and related provisions	15	988	600	487
Provisions	14	61	77	70
Income tax payable		8	38	3
Deferred revenue	21	154	138	141
Loans and borrowings	17	12	13	22
Other long-term benefit liabilities	10	68	63	62
Total current liabilities		1,944	1,512	1,333
Non-current liabilities				
Loans and borrowings	17	1,013	1,025	1,037
Pension, other post-employment and other long-term benefit liabilities	10	6,277	6,297	5,726
Other liabilities		25	25	26
Total non-current liabilities		7,315	7,347	6,789
Total liabilities		9,259	8,859	8,122
Equity				
Contributed capital		1,155	1,155	1,155
Accumulated other comprehensive income	24	43	54	44
Accumulated deficit		(1,300)	(1,611)	(1,550)
Equity of Canada		(102)	(402)	(351)
Non-controlling interests		40	32	27
Total equity		(62)	(370)	(324)
Total liabilities and equity		$ 9,197	$ 8,489	$ 7,798
Contingent liabilities	16			
Commitments	20			

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors:

Chair of the Board of Directors

Chair of the Audit Committee

Consolidated Statement of Comprehensive Income

For the year ended (in millions of Canadian dollars)	Notes	December 31, 2018	December 31, 2017 (restated – Note 5)
Revenue from operations	**26**	**$ 8,675**	$ 8,318
Cost of operations			
Labour		**4,365**	4,034
Employee benefits	**9**	**1,620**	1,456
		5,985	5,490
Other operating costs	**22**	**2,488**	2,292
Depreciation and amortization	**8**	**311**	305
Total cost of operations		**8,784**	8,087
Profit (loss) from operations		**(109)**	231
Investing and financing income (expense)			
Investment and other income	**6, 23**	**57**	19
Finance costs and other expense	**17, 23**	**(58)**	(46)
Investing and financing income (expense), net		**(1)**	(27)
Profit (loss) before tax		**(110)**	204
Tax expense (recovery)	**11**	**(23)**	56
Net profit (loss)		**$ (87)**	$ 148
Other comprehensive income (loss)			
Items that may subsequently be reclassified to net profit (loss)			
Change in unrealized fair value of financial assets	**24**	**$ (13)**	$ 12
Foreign currency translation adjustment	**24**	**2**	(2)
Item never reclassified to net profit (loss)			
Remeasurements of defined benefit plans	**24**	**408**	(203)
Other comprehensive income (loss)		**397**	(193)
Comprehensive income (loss)		**$ 310**	$ (45)
Net profit (loss) attributable to			
Government of Canada		**$ (96)**	$ 142
Non-controlling interests		**9**	6
		$ (87)	$ 148
Comprehensive income (loss) attributable to			
Government of Canada		**$ 300**	$ (51)
Non-controlling interests		**10**	6
		$ 310	$ (45)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended December 31, 2018 (in millions of Canadian dollars)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2017, as previously reported	**$ 1,155**	**$ 54**	**$ (1,595)**	**$ (386)**	**$ 32**	**$ (354)**
Effects of adopting new standards (Note 5)	**–**	**–**	**(16)**	**(16)**	**–**	**(16)**
Balance at December 31, 2017, as restated	**$ 1,155**	**$ 54**	**$ (1,611)**	**$ (402)**	**$ 32**	**$ (370)**
Net profit (loss)	**–**	**–**	**(96)**	**(96)**	**9**	**(87)**
Other comprehensive income (loss) (Note 24)	**–**	**(11)**	**407**	**396**	**1**	**397**
Comprehensive income (loss)	**–**	**(11)**	**311**	**300**	**10**	**310**
Transactions with shareholders – Dividend	**–**	**–**	**–**	**–**	**(2)**	**(2)**
Balance at December 31, 2018	**$ 1,155**	**$ 43**	**$ (1,300)**	**$ (102)**	**$ 40**	**$ (62)**

For the year ended December 31, 2017 (in millions of Canadian dollars) (restated – Note 5)	Contributed capital	Accumulated other comprehensive income	Accumulated deficit	Equity of Canada	Non-controlling interests	Total equity
Balance at December 31, 2016, as previously reported	$ 1,155	$ 44	$ (1,530)	$ (331)	$ 27	$ (304)
Effects of adoption of new standards (Note 5)	–	–	(20)	(20)	–	(20)
Balance at beginning of year, as restated	$ 1,155	$ 44	$ (1,550)	$ (351)	$ 27	$ (324)
Net profit	–	–	142	142	6	148
Other comprehensive income (loss) (Note 24)	–	10	(203)	(193)	–	(193)
Comprehensive income (loss)	–	10	(61)	(51)	6	(45)
Transactions with shareholders - Dividend	–	–	–	–	(1)	(1)
Balance at December 31, 2017	$ 1,155	$ 54	$ (1,611)	$ (402)	$ 32	$ (370)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended (in millions of Canadian dollars)	**Notes**	**December 31, 2018**	December 31, 2017 (restated – Note 5)
Cash flows from operating activities			
Net profit (loss)		**$ (87)**	$ 148
Adjustments to reconcile net profit to cash provided by operating activities:			
Depreciation and amortization	**8**	**311**	305
Pension, other post-employment and other long-term benefit expense	**10**	**1,083**	868
Pension, other post-employment and other long-term benefit payments	**10**	**(532)**	(547)
Loss on sale of capital assets	**23**	**6**	3
Tax expense (recovery)	**11**	**(23)**	56
Net interest expense (income)	**23**	**(5)**	22
Change in non-cash operating working capital:			
Increase in trade and other receivables		**(33)**	(115)
Increase in trade and other payables		**70**	35
Increase in salaries and benefits payable and related provisions		**389**	114
(Decrease) increase in provisions		**(20)**	8
Net (increase) decrease in other non-cash operating working capital		**31**	(10)
Other income not affecting cash, net		**(18)**	(20)
Cash provided by operations before interest and tax		**1,172**	867
Interest received		**60**	43
Interest paid		**(44)**	(44)
Tax paid		**(215)**	(118)
Cash provided by operating activities		**973**	748
Cash flows from investing activities			
Acquisition of securities		**(2,135)**	(2,180)
Proceeds from sale of securities		**1,506**	2,407
Acquisition of capital assets		**(373)**	(299)
Proceed from sale of capital assets		**1**	4
Advance made as long-term receivables		**(44)**	–
Cash used in investing activities		**(1,045)**	(68)
Cash flows from financing activities			
Payments on finance lease obligations		**(13)**	(22)
Dividend paid to non-controlling interests		**(2)**	(1)
Other financing activities, net		**1**	(1)
Cash used in financing activities		**(14)**	(24)
Net (decrease) increase in cash and cash equivalents		**(86)**	656
Cash and cash equivalents, beginning of year		**1,503**	849
Effect of exchange rate changes on cash and cash equivalents		**4**	(2)
Cash and cash equivalents, end of year		**$ 1,421**	$ 1,503

The accompanying notes are an integral part of these consolidated financial statements.

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December 31, 2018

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1. Incorporation, Business Activities and Directives

Established by the *Canada Post Corporation Act* in 1981, Canada Post Corporation (Corporation) is a Crown corporation included in Schedule III of the *Financial Administration Act* and is an agent of Her Majesty. On September 24, 2018, pursuant to subsection 3(3) of the *Financial Administration Act*, Canada Post Corporation was reclassified from Part II of Schedule III to Part I, thereby removing the requirement to submit an annual dividend proposal to its shareholder, the Government of Canada. The Corporation's head office is located at 2701 Riverside Drive, Ottawa, Ontario, Canada.

The Corporation operates a postal service for the collection, transmission and delivery of messages, information, funds and goods, both within Canada and between Canada and places outside Canada. While maintaining basic customary postal services, the *Canada Post Corporation Act* requires the Corporation to carry out its statutory objects, with regard to the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that will meet the needs of the people of Canada and that is similar with respect to communities of the same size.

Under the *Canada Post Corporation Act*, the Corporation has the sole and exclusive privilege (with some exceptions) of collecting, transmitting and delivering letters to the addressee thereof within Canada.

In December 2006, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to restore and maintain its mail delivery at rural roadside mailboxes that were serviced by the Corporation September 1, 2005, while respecting all applicable laws. The Corporation's assessment of the safety risks related to rural roadside mailboxes was completed at the end of 2013, and applicable corrective measures were implemented over the course of the assessment, as required.

The Corporation is subject to a directive that was issued in December 2013, and a related subsequent directive that was issued in June 2016, pursuant to section 89 of the *Financial Administration Act* to obtain Treasury Board approval before fixing the terms and conditions of employment of non-unionized employees who are not appointed by the Governor in Council. Treasury Board approvals were obtained, where necessary.

In July 2015, the Corporation was issued a directive pursuant to section 89 of the *Financial Administration Act* to align its travel, hospitality, conference and event expenditure policies, guidelines and practices with Treasury Board policies, directives and related instruments in a manner that is consistent with the Corporation's legal obligations, and to report on the implementation of the directive in the Corporation's next Corporate Plan. The Corporation aligned its travel, hospitality, conference and event expenditure policies, guidelines and practices with those of the Treasury Board in 2018, and it reported on the implementation of the directive in the 2019-23 Corporate Plan.

2. Regulation of Customer Postage Rates

The Corporation establishes customer postage rates for Domestic Lettermail and U.S. and international Letter-post items as well as fees for certain services such as Domestic Registered Mail through regulations under the *Canada Post Corporation Act* (Act). These regulations are subject to approval by the Government of Canada, the sole shareholder and, therefore, a related party of the Corporation. The Act states that regulated postage rates must be fair and reasonable, and consistent so far as possible with providing revenue, together with any revenue from other sources, sufficient to defray costs incurred by the Corporation in the conduct of its operations under the Act. The Act permits the Corporation to offer rates that differ from regulated rates under certain circumstances, such as when the customer agrees to prepare a mailing in bulk or in a manner that facilitates its processing. Revenue from products and services charged to customers at regulated rates comprises 8% (2017 – 9%) of the Canada Post segment revenue (Note 26).

The Act requires that proposed changes to regulated rates be published in the *Canada Gazette* to provide interested persons with a reasonable opportunity to make representations to the Minister responsible for the Corporation. These representations are considered by the Corporation's Board of Directors when determining the final form of the proposed rate changes. Once approved by the Board of Directors, the regulations are submitted to the Minister responsible for Canada Post Corporation for approval by the Government of Canada, specifically the Governor in Council. Regulations are deemed approved 60 days after the Clerk of the Privy Council receives them for submission to the Governor in Council for consideration, unless the Governor in Council previously approved or refused to approve them.

On June 23, 2018, Canada Post published proposed rate increases to Lettermail™ items, International Letter-post items, and special services and fees in the *Canada Gazette*. On December 6, 2018, the Governor in Council approved the new rates that came into effect on January 14, 2019.

Under the provisions of the *Canada Post Corporation Act*, the Corporation is required to provide services free of charge for certain Government of Canada mailings and for the mailing of materials for persons who are blind. The Government of Canada provides compensation to the Corporation in respect of these services (Note 25 [a]).

The fact that postage rates of certain products and services are subject to regulation does not affect the application of International Financial Reporting Standards (IFRS) to these consolidated financial statements.

3. Basis of Presentation and Significant Accounting Policies

Statement of compliance • The Corporation has prepared its consolidated financial statements in compliance with IFRS issued and effective as at the reporting date.

These consolidated financial statements were approved and authorized for issue by the Board of Directors March 21, 2019.

Basis of presentation • The consolidated financial statements have been prepared on a historical cost basis as set out in the accounting policies below, except as permitted by IFRS and as otherwise indicated within these notes. Amounts are shown in millions, unless otherwise noted.

Functional and presentation currency • These consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Group of Companies.

Significant accounting policies • A summary of the significant accounting policies used in these consolidated financial statements are set out below. The accounting policies have been applied consistently to all periods presented.

(a) Basis of consolidation • These consolidated financial statements include the accounts of the Corporation and its subsidiaries, Purolator Holdings Ltd. (Purolator), SCI Group Inc. (SCI) and Innovapost Inc. (Innovapost). The Corporation, Purolator, SCI and Innovapost are collectively referred to as the "Canada Post Group of Companies," or the "Group of Companies."

Details of the Corporation's material subsidiaries at the end of the reporting period are set out below.

Name of subsidiary	Principal activity	Place of incorporation	Place of operation	Proportion of ownership interest held directly or indirectly	
				December 31, 2018	December 31, 2017
Purolator Holdings Ltd.	Transportation and courier services	Canada	Canada and United States	91 %	91 %
SCI Group Inc.	Logistics and transportation services	Canada	Canada	99 %	99 %
Innovapost Inc.	IS/IT services	Canada	Canada	98 %	98 %

(b) Financial instruments • Upon initial recognition, all financial assets are either irrevocably designated at fair value through profit and loss or are classified based on the business model and the contractual cash flow characteristics of financial instruments as financial assets at (i) amortized cost, (ii) fair value through other comprehensive income, or (iii) fair value through profit and loss. All financial liabilities are classified as financial liabilities at amortized cost or, at fair value through profit and loss if they are held for trading or designated as such. After initial recognition and classification, the financial asset is not reclassified, unless there is a change in the business model used for managing the financial assets. Financial liabilities cannot be reclassified.

Except for trade receivables, financial instruments are initially recognized at fair value and subsequent measurement depends on the classification of the financial instrument. Trade receivables are initially recognized at their transaction price in accordance with IFRS 15 "Revenue from Contracts with Customers" (IFRS 15). Financial assets are derecognized when rights to receive cash flows from assets have expired or have been transferred, and the Group of Companies has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the contractual obligation is discharged, cancelled or has expired.

The Group of Companies' financial assets and financial liabilities are classified and subsequently measured as follows:

Financial instrument	Classification	Subsequent measurement
Cash	Amortized cost	Amortized cost
Cash equivalents	Fair value through other comprehensive income	Fair value
Marketable securities	Fair value through other comprehensive income	Fair value
Segregated securities	Fair value through other comprehensive income	Fair value
Trade and other receivables	Amortized cost	Amortized cost
Risk management financial assets and liabilities	Fair value through profit or loss	Fair value
Trade and other payables	Amortized cost	Amortized cost
Salaries and benefits payable	Amortized cost	Amortized cost
Loans and borrowings	Amortized cost	Amortized cost

3. Basis of Presentation and Significant Accounting Policies (continued)

(b.1) Financial Assets at fair value through other comprehensive income

The Corporation's financial assets at fair value through other comprehensive income are debt instruments with cash flows consisting of solely payments of principal and interest.

Cash equivalents and marketable securities are principally used to manage cash flow requirements, while earning return on investment and are managed by either collecting contractual cash flows or selling financial assets. Cash equivalents consist of investments with maturities of three months or less from the date of acquisition and are recognized at the settlement date. Marketable securities consist of investments in debt securities with maturities of 3 years or less and are recognized at the settlement date. Unrealized changes in fair value are recognized as they occur in other comprehensive income.

Segregated securities are intended to be held to fund specific restricted benefit plans (Note 6 [a]) and consist of investments that are managed by either collecting contractual cash flows or selling financial assets. These debt securities are recognized at the settlement date and unrealized changes in fair value are recognized as they occur and are included in other comprehensive income or loss until the investment is sold, impaired or otherwise derecognized. Interest income and realized gains and losses on sale of investments are included in the employee benefit expense.

Impairment • The Corporation's investment policy restricts the type of investments to investment grade debt securities. Therefore, by using the low credit risk approach, a 12-month expected credit loss impairment provision is estimated using the probability-of-default method. The probability-of-default method uses historical default rates implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. When these financial assets at fair value through other comprehensive income are impaired, the unrealized changes in fair value recorded in other comprehensive income or loss are reclassified, for cash equivalents and marketable securities, to investment and other income or, for segregated securities, to employee benefit expense, which are both recorded within net profit or loss. The cumulative loss that is removed from accumulated other comprehensive income or loss and recognized in net profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in net profit and loss.

(b.2) Financial assets at amortized cost

Trade and other receivables are initially recognized at their transaction price if these are in scope of IFRS 15 or at fair value and subsequently measured at amortized cost using the effective interest method, less any impairment.

Impairment • The expected credit loss allowance for trade and other receivables is estimated using the simplified approach, which requires the use of lifetime expected credit losses. The allowance for other receivables not in scope of IFRS 15 are estimated using 12-month expected credit losses, unless there is a deterioration in credit risk since initial recognition, in which case the allowance is estimated based on the lifetime expected credit losses. The Group of Companies estimates the lifetime expected credit losses from a combination of historical write-off percentages and forward-looking information used to identify a deterioration of credit, either at company level or macroeconomic level. The amount of the allowance is the difference between the receivable's gross carrying amount and the estimated future cash flows. Credit losses and subsequent recoveries are recognized in other operating costs.

(b.3) Financial assets and liabilities at fair value through profit or loss

Risk management financial assets and liabilities are derivatives purchased to manage foreign exchange risk, which consist of foreign exchange forward contracts that will be settled in future periods. These financial assets and liabilities are recognized at the trade date and are presented within either trade and other receivables or trade and other payables. Fair value adjustments are recognized as they occur in revenue from operations. These derivatives were not designated in a hedging relationship for accounting purposes.

3. Basis of Presentation and Significant Accounting Policies (continued)

(b.4) Financial liabilities at amortized cost

Trade and other payables and salaries and benefits payable include financial liabilities as well as obligations created by statutory requirements imposed by governments. After initial recognition at fair value, financial liabilities are measured at amortized cost using the effective interest method. Where the time value of money is not significant due to short-term settlement, financial liabilities are carried at payment or settlement amounts.

Loans and borrowings are initially recognized at fair value, net of transaction costs. After initial recognition, loans and borrowings are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account transaction costs and any discount or premium. The interest expense on loans and borrowings is recognized in finance costs and other expense.

(b.5) Fair value measurement

Fair values used to measure or disclose amounts in these consolidated financial statements are categorized into different levels in a fair value hierarchy based on inputs to the valuation technique as follows:

- Level 1: Fair value is based on unadjusted quoted prices in active markets for identical financial instruments.
- Level 2: Fair value is based on valuation techniques using inputs other than quoted prices included in level 1 that are observable, either directly or indirectly, including inputs and quoted prices in markets that are not considered to be active. Financial assets and liabilities are measured by discounting future cash flows, making maximum use of directly or indirectly observable market data, such as interest rates with similar terms and characteristics and yield curves and forward market prices from interest rates and credit spreads of identical or similar instruments.
- Level 3: Fair value is based on valuation techniques using unobservable market inputs requiring management's best estimate.

The fair values of cash, trade and other receivables, trade and other payables, and salaries and benefits payable and related provisions approximate their carrying values due to their expected short-term settlement.

(c) Capital assets • Property, plant and equipment and intangible assets are referred to collectively as capital assets. The carrying value of capital assets is calculated as follows:

(c.1) Recognition and measurement • Capital assets acquired or developed internally are initially measured at cost and are subsequently measured at cost, less accumulated depreciation or amortization and any accumulated impairment losses.

Assets acquired under finance leases are initially recorded at their fair value at the inception of the lease, or if lower, at the present value of the minimum lease payments, as determined at the inception of the lease.

Cost includes expenditures that are directly attributable to the acquisition of an asset, any other costs directly attributable to bringing the asset to working condition for its intended use, the costs of restoring the site on which it is located, and borrowing costs on a qualifying asset.

When significant parts of an item of capital assets have different useful lives, they are accounted for as separate items (major components) of capital assets with depreciation or amortization being recognized over the useful life of each major component.

(c.2) Subsequent costs • The cost of replacing a part of a capital asset is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group of Companies and its cost can be measured reliably. The carrying amount of the replaced part is derecognized concurrent with the replacement. The costs of day-to-day servicing of capital assets are recognized in net profit or loss as incurred.

(c.3) Depreciation and amortization • Depreciation or amortization commences when assets are available for use and is calculated on the cost of an asset, less residual value. Depreciation or amortization is recognized over the estimated useful lives of capital assets, as described in the table below. When a capital asset includes major components, depreciation or amortization is recognized at this level; the depreciation or amortization periods noted below incorporate those applicable for major components, if any, contained within the overall asset.

3. Basis of Presentation and Significant Accounting Policies (continued)

Type of capital asset	Depreciation or amortization method	Depreciation or amortization period or rate
Buildings	Straight-line	10 to 65 years
Leasehold improvements	Straight-line	Shorter of lease term or the asset's economic useful life
Plant equipment	Straight-line	3 to 20 years
Vehicles:		
Passenger	Declining balance	Annual rate of 30%
Other	Straight-line	3 to 12 years
Sales counters, office furniture and equipment	Straight-line	3 to 10 years
Other equipment	Straight-line	5 to 20 years
Software	Straight-line	3 to 7 years
Customer relationships	Straight-line	Estimated period of future benefit, based on historical experience and future projections of customer business

Capital assets held under finance leases are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group of Companies will obtain ownership by the end of the lease term.

The appropriateness of depreciation or amortization methods and estimates of useful lives and residual values is assessed on an annual basis and revised on a prospective basis, where appropriate.

(c.4) Decommissioning obligations • Obligations associated with the retirement of property, plant and equipment are recorded when those obligations result from the acquisition, construction, development or normal operation of the assets. The Group of Companies recognizes these obligations in the period they are incurred at the present value of the best estimate of the expenditures required to settle the present obligation, discounted at a risk-free interest rate. Subsequently, at each reporting date, the obligation is adjusted to reflect the passage of time through accretion expense, changes in the estimated amounts required to settle the obligation and significant changes in the discount rate. The associated costs are capitalized as part of the carrying value of the related asset.

(c.5) Impairment of capital assets • The Group of Companies assesses the carrying amount of non-financial assets including capital assets at each reporting date to determine whether there is any indication that the carrying amount of an asset or group of assets may be impaired. If such indication exists, or when annual impairment testing for an asset or group of assets is required, the Group of Companies makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or group of assets. When the carrying amount exceeds the recoverable amount, the asset or group of assets is considered impaired and is written down to its recoverable amount. For the purpose of assessing recoverability, capital assets are grouped at the cash-generating unit level, which is the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If it is determined that the net carrying value is not recoverable, an impairment loss is recognized as part of net profit or loss for the year. After the recognition of an impairment loss, the depreciation or amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value, on a systematic basis over its remaining useful life.

An assessment is also made at each reporting date as to whether there is an indication that any previously recognized impairment loss may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. In such cases, the carrying amount of the asset is increased to its recoverable amount, subject to an upper limit. The carrying amount after the reversal cannot exceed the carrying amount that would have been determined, net of depreciation or amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized during the period. After any such reversal, depreciation or amortization is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

3. Basis of Presentation and Significant Accounting Policies (continued)

(c.6) Capital assets to be disposed of by sale • When the Group of Companies intends to sell a capital asset, for which the sale within 12 months is highly probable, the asset is classified as held for sale and is presented in assets held for sale under current assets, provided that the asset is available for immediate sale in its present condition, subject only to customary terms and conditions. The asset to be sold is measured at the lower of its carrying amount and fair value less costs to sell, and no further depreciation or amortization is recorded once the held-for-sale classification is met. The impairment loss, if any, resulting from the remeasurement of an asset to fair value less costs to sell is recorded as a charge to net profit or loss. If the asset's fair value less costs to sell subsequently increases, the gain is recognized, only to the extent of cumulative impairment losses already recognized for that particular asset. The gain or loss on the sale of a capital asset held for sale is realized at the time the asset is disposed of by sale.

(d) Goodwill • Goodwill arising on the acquisition of a business represents the excess of the cost of acquisition over the net fair value of the identifiable assets and liabilities of the business recognized at the date of acquisition. Goodwill is initially recognized at cost and is subsequently measured at cost, less any accumulated impairment losses. Goodwill is not amortized, but is tested for impairment annually, as at the same date each year, or more frequently if events and circumstances indicate that there may be an impairment. Impairment losses recognized for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill arising on the acquisition of a business is, from the acquisition date, allocated to each of the cash-generating units or groups of cash-generating units to which it relates. An impairment loss is recognized when the carrying value of a cash-generating unit, including the allocated goodwill, exceeds its estimated recoverable amount. The impairment loss is the excess of the carrying value over the estimated recoverable amount, and is recognized in net profit or loss in the period in which it is determined. The impairment loss is first allocated to reduce the carrying amount of the goodwill allocated to the cash-generating unit, and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro-rata basis.

(e) Borrowing costs • Borrowing costs consist primarily of interest expense calculated using the effective interest method. Any borrowing costs attributable to the acquisition, construction or production of qualifying assets, which are assets that take a substantial period of time to prepare for their intended use, are capitalized as part of the cost of those assets until such time as they are substantially ready for use. All other borrowing costs are recognized in finance costs and other expense in the period in which they are incurred.

(f) Provisions and contingent liabilities • A provision is an obligation of uncertain timing or amount. Provisions are recognized when the Group of Companies has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. Provisions are measured at the best estimate of the expenditures expected to be required to settle the present obligation at the end of the reporting period. When there are a number of similar obligations, the likelihood that an outflow will be required in the settlement of obligations is determined by considering the class of obligations as a whole. Discounting, using a risk-free interest rate specific to the liability, is applied in the measurement of amounts to settle the obligation when the expected time to settlement extends over many years and, when coupled with the settlement amounts, would result in material differences if discounting was not considered. Provisions are remeasured at each reporting date using the current discount rate, as applicable. The accretion expense is presented in net profit or loss as part of finance costs and other expense.

A contingent liability is disclosed in the notes to the consolidated financial statements if there is a possible outflow of resources embodying economic benefits or if no reliable estimate can be made. No contingent liability is disclosed if the possibility of an outflow of resources embodying economic benefits is remote.

(g) Revenue from contracts with customers • The Group of Companies' revenue is derived primarily from providing products and services represented by three distinct lines of business: Transaction Mail, Parcels and Direct Marketing. Transaction Mail includes physical delivery of bills, invoices, notices and statements. Parcels include regular parcels, all expedited delivery and courier services, as well as transportation and third-party logistics services. Direct Marketing includes Personalized Mail™, Neighbourhood Mail™ and Publications Mail™, such as newspapers and periodicals.

(g.1) Legally enforceable contracts • Revenue from these lines of business are generally subject to master service agreements, statements of work and/or customer guides that depict terms and conditions, which become legally enforceable rights and obligations when mail and parcels are inducted into the delivery network or when a delivery or service request is received.

3. Basis of Presentation and Significant Accounting Policies (continued)

(g.2) Performance obligation and allocation • Delivery of mail or parcels is generally the only performance obligation in contracts with customers. This performance obligation sometimes includes other services (i.e. pickup, transportation, signature, proof of identity, etc.) that are integrated by the network to create a bundle of services and represent one combined output or performance obligation for which the customer has contracted for. However, if a contract is separated into more than one performance obligation, allocation of the total transaction price to each performance obligation is based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. In limited circumstances, when the right to consideration from a customer corresponds directly with the value to the customer of the service transferred to date, the Group of Companies recognizes revenue in the amount to which it has a right to invoice the customer. The Group of Companies applied the practical expedient to not disclose information about remaining performance obligations that have an original expected duration of one year or less and for performance obligations where revenue is recognized in the amount to which it has a right to invoice the customer.

(g.3) Transaction price • Revenue is measured based on the value of the expected consideration in a contract with a customer and excludes sales taxes and other amounts collected on behalf of third parties. Certain Canada Post Group of Companies' customer contracts contain customary discounts or rebates, performance bonuses, refunds for sales with right of return or other consideration that can increase or decrease the transaction price. Most of these forms of variable considerations are contingent on meeting certain volume or revenue thresholds or other performance metrics. These amounts are included in revenue to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur. Due to the short-term nature of customer contract payment terms, the Group of Companies does not have a significant financing component within its revenue from contracts with customers.

(g.4) Revenue recognition • The Group of Companies generally recognizes revenue over time due to the continuous transfer of control to the customers. Customers receive the benefit from delivery services as parcels, transaction mail and direct marketing mail are delivered from origin to destination, or as transportation and third-party logistics services are provided. Basic warranties for lost, damaged or missing content, as well as warranties for on-time delivery are not sold separately. Therefore, they are not separate performance obligations and are accounted for in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets."

Other revenue is derived from mail redirection, data products and services, philatelic products and other retail products and services such as money orders and postal box rentals. Other revenue is typically provided over a short period, less than one year, and recognized over time. For certain other retail products, revenue is recognized at a point in time.

The Group of Companies may enter into arrangements with subcontractors, mostly resellers and delivery agents, to provide services to customers. If the Group of Companies acts as the principal in such an arrangement, the amount billed to the customer is recognized as revenue. Otherwise, the net amount retained, which is the amount billed to the customer less the amount paid to the subcontractor, is recognized as revenue.

(g.5) Contract costs consist mostly of costs to obtain contracts such as fees or commissions paid to resellers to sell products and services on its behalf. The Group of Companies applies the practical expedient, which allows it to recognize the incremental cost of obtaining contracts as an expense when incurred if the amortization of the asset would have otherwise been less than one year.

(g.6) Contract assets includes mostly billed and unbilled amounts resulting from in-transit parcels and mail as a receivable only exists when all performance obligations have been completed and the right to payment is solely based on the passage of time. Given the short-term nature, both billed and unbilled amounts are presented as current with trade and other receivables.

(g.7) Contract liabilities include payments received or amounts billed before services or goods are transferred to the customer. These include payments from meter customers, which are deferred based on a sampling methodology that closely reflects the meter-resetting practices of customers and payments for mail redirection services deferred over the term of the contract, generally four to 12 months. Deferred revenue also includes amounts billed for delivery services prior to delivery or amounts billed to resellers for postal product shipments prior to rendering of related services to customers. Contract liabilities are presented as current in deferred revenue or as non-current in other liabilities based on the nature of the transaction.

(g.8) Refund liabilities include volume-based rebates expected to be refunded to the customer when an established sales volume is reached. Refund liabilities are presented as a current liability in trade and other payables.

(h) Incentive and lease inducements • Lease inducements are deferred and are amortized on a straight-line basis over the initial fixed lease term. Amortization of incentives and lease inducements are presented as reductions of other operating costs. The current portion of any deferred incentive and lease inducement is presented in deferred revenue, and any remaining unamortized balance is presented in non-current other liabilities.

3. Basis of Presentation and Significant Accounting Policies (continued)

(i) Pension, other post-employment and other long-term benefit plans

(i.1) Defined contribution pension plans • Employer contributions to the defined contribution pension plans are recognized as an expense when employees render the service entitling them to the contributions.

(i.2) Defined benefit pension and other post-employment plans • Obligations for providing defined benefit pension and other post-employment benefits are recognized over the period of employee service. Defined benefit obligations and related estimated costs are determined annually on an actuarial basis using the projected unit credit method. Actuarial calculations include actuarial assumptions about demographic and financial variables, such as the discount rates, inflation rate, rates of compensation increase, retirement age, growth rates of health care and dental costs, rates of employee disability and mortality tables.

Discount rates used to establish defined benefit obligations are determined by reference to market conditions at year's end using the yield curve approach, based on a theoretical portfolio of AA-rated corporate bonds with overall duration equal to the weighted-average duration of respective defined benefit obligations.

Components of defined benefit costs include service costs, net interest on the net defined benefit liability and remeasurements of the net defined benefit liability.

The defined benefit expense is presented in employee benefits in net profit or loss on the consolidated statement of comprehensive income and includes, as applicable, the estimated cost of employee benefits for the current year service, interest cost, interest income on plan assets, interest on the effect of the asset ceiling, plan amendments, curtailments, other administration costs of the pension plans and any gain or loss on settlement. The current service cost, interest income on plan assets, interest cost and interest on the effect of the asset ceiling are computed by applying the discount rate used to measure the plan obligation at the beginning of the annual period.

Remeasurements of defined benefit plans are presented in other comprehensive income or loss on the consolidated statement of comprehensive income and arise from actuarial gains and losses on defined benefit obligations, the difference between the actual return (net of costs of managing plan assets) and interest income on plan assets, and the change in the effect of the asset ceiling (net of interest), if applicable. Remeasurements are included immediately in retained earnings or accumulated deficit without reclassification to net profit or loss in a subsequent period. The plans' significant assumptions are assessed and revised, as appropriate.

When a funded plan gives rise to a pension benefit asset, a remeasurement for the effect of the asset ceiling may occur if it is established that the surplus will not provide future economic benefits with respect to future service costs. Furthermore, in circumstances where the funding position of a plan is in a deficit with respect to past service, the minimum funding requirements for past service may require further reduction of the pension benefit asset and may create or increase a pension benefit liability. This assessment is made on a plan-by-plan basis.

The pension benefit assets and the pension and other post-employment benefit liabilities are presented as non-current items on the consolidated statement of financial position.

(i.3) Other long-term employee benefits • Other long-term employee benefits primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and the continuation of benefits for employees on long-term disability. The same methodology and assumptions as for post-employment benefit plans are applicable, except for the following:

- The obligation for providing workers' compensation benefits and the continuation of certain benefits for employees on long-term disability is recognized when the event triggering the obligation occurs.
- Management's best estimate includes top-up credits utilization experience as well as the experience and assumptions for provincial workers' compensation boards.
- Any actuarial gains and losses on defined benefit obligations are recognized in net profit or loss in the period in which they arise.
- Other long-term benefit liabilities are segregated between current and non-current components on the consolidated statement of financial position.

(i.4) Termination benefits • Termination benefits result from a decision to terminate the employment or an employee's decision to accept an entity's offer of benefits in exchange for termination of employment. The Group of Companies recognizes termination benefits at the earliest of when it can no longer withdraw its termination offer or when restructuring costs are accrued if termination benefits are part of a restructuring plan.

3. Basis of Presentation and Significant Accounting Policies (continued)

(j) Income taxes • Deferred tax assets and deferred tax liabilities are recognized for the tax effect of the difference between carrying values and tax bases of assets and liabilities. Deferred tax assets are recognized for deductible temporary differences, for unused tax losses and income tax reductions to the extent that their realization is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realized. Deferred tax assets and deferred tax liabilities are measured using substantively enacted income tax rates and income tax laws. These amounts are reassessed each reporting period in the event of changes in income tax rates.

Scientific research and experimental development (SR&ED) tax credits are recorded as a reduction of the current cost of operations or capital assets, when there is reasonable assurance that the SR&ED tax credit will be realized.

(k) Foreign currency translation

(k.1) Subsidiaries • Items included in the consolidated financial statements of each of the Corporation's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operated (functional currency).

(k.2) Transactions and balances • Foreign currency transactions for each entity within the Canada Post Group of Companies are translated into Canadian dollars, the functional and presentation currency of the Corporation, using the exchange rates prevailing on transaction dates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation, at the period-end rate of exchange, of monetary assets and liabilities not denominated in the functional currency of the Corporation, are recognized in net profit or loss. Assets and liabilities of entities with functional currencies other than Canadian dollars are translated at the period-end rates of exchange, and the results of their operations are translated at exchange rates on transaction dates. The resulting foreign currency translation adjustment is recognized in other comprehensive income or loss. Additionally, foreign exchange gains and losses related to intercompany loans that are permanent in nature are recognized in other comprehensive income or loss.

(l) Leases • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Group of Companies. A lease is classified as a finance lease whenever the terms of the lease transfer substantially all the risks and rewards of ownership of the asset to the Group of Companies. All other leases are classified as operating leases.

Assets held under a finance lease are recognized as assets of the Group of Companies at their fair value at the inception of the lease or, if lower, at the present value of minimum lease payments as determined at the inception of the lease. The corresponding liability to the lessor is recorded as a finance lease obligation included in loans and borrowings. Lease payments are apportioned between finance charges and the reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in net profit or loss under finance costs and other expense.

Rent payable under operating leases is recognized in net profit or loss on a straight-line basis over the term of the respective lease.

(m) Segmented information

Operating segments • The Corporation manages its consolidated operations and, accordingly, determines its operating segments on the basis of legal entities. Three reportable operating segments have been identified: Canada Post, Purolator and Logistics. The Other category includes the results of the support functions provided by the information technology business unit, Innovapost, under a shared services agreement between Canada Post, Purolator and Innovapost, as well as consolidation adjustments and intersegment balance eliminations.

The Canada Post segment provides transaction mail, parcel delivery services and direct marketing, as well as other products and services. The Purolator segment derives its revenue from specialized courier services. The Logistics segment, which is essentially composed of SCI, provides third-party logistics services in supply chain management and transportation services in the small to medium enterprise market.

4. Critical Accounting Estimates and Judgments

The preparation of the Corporation's consolidated financial statements requires management to make complex or subjective judgments, estimates and assumptions based on existing knowledge that affect reported amounts and disclosures in the consolidated financial statements and accompanying notes. Actual results may differ from judgments, estimates and assumptions. It is reasonably possible that management's reassessments of these and other estimates and assumptions in the near term, as well as actual results, could require material change in reported amounts and disclosures in the consolidated financial statements of future periods.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which estimates are revised if revisions affect only that period, or in the period of revision and future periods if revisions affect both current and future periods.

(a) Critical judgments in applying accounting policies • The following are critical judgments, apart from those involving estimations (see [b] below), that management has made in the process of applying the Group of Companies' accounting policies and that have the most significant effects on amounts recognized in the consolidated financial statements.

(a.1) Capital assets • Capital assets with finite useful lives are required to be tested for impairment only when indication of impairment exists. Management is required to make a judgment with respect to the existence of impairment indicators at the end of each reporting period. Some indicators of impairment that management may consider include changes in the current and expected future use of the asset, external valuations of the asset, and obsolescence or physical damage to the asset.

(a.2) Provisions and contingent liabilities • In determining whether a liability should be recorded in the form of a provision, management is required to exercise judgment in assessing whether the Group of Companies has a present legal or constructive obligation as a result of a past event, whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and whether a reasonable estimate can be made of the amount of the obligation. In making this determination, management may use past experience, prior external precedents and the opinions and views of legal counsel. If management determines that the above three conditions are met, a provision is recorded for the obligation. Alternatively, a contingent liability is disclosed in the notes to the consolidated financial statements if management determines that any one of the above three conditions is not met, unless the possibility of outflow in settlement is remote.

(a.3) Leases – The Canada Post Group of Companies as lessee • The Canada Post Group of Companies is party to many leasing arrangements, which requires management to determine whether the lease is a finance lease or an operating lease by assessing if substantially all the risks and rewards of ownership have passed to the Group of Companies. Factors used by management in determining whether a lease is a finance or an operating lease include, but are not limited to, whether there is a transfer of ownership at the end of the lease term, whether the lease term is for the major part of the economic life of the leased asset and whether at the inception of the lease the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset.

(a.4) Revenue from contracts with customers • As control transfers over time, revenue from Parcels, Transaction Mail and Direct Marketing, is recognized to the extent of progress toward completion of the performance obligation. Progress toward completion is estimated using a straight-line output method based on delivery performance days to date. Management believes delivery performance days to date best depict the transfer of services because delivery performance is a key performance indicator in the industry. Progress toward completion for services included in other revenue is estimated using input methods such as time elapsed over the contract period or output methods such as hours or quantity of service provided. Retail product revenue included in other revenue, is recognized at a point in time, as control passes when the customer takes physical possession of the product in the retail outlet.

The transaction price is generally determined from a price list, but it is also based on variable considerations such as discounts or rebates, performance bonuses, refunds for sales with right of return or other considerations that can increase or decrease the transaction price. Discounts, rebates and performance bonuses are estimated using the most likely amount method based on observed volumes, revenue, scanning or delivery performance metrics and trends. Refunds are estimated using the expected value method based on historical refunds. In determining whether each variable consideration is constrained (i.e. whether or not it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur), the Group of Companies considers the impact of outside factors. These factors can include labour disruptions, experience or history with uncertainties for the type of revenue contracts and the length of time the uncertainties will remain. When a contract contains more than one performance obligation, price is allocated based on the stand-alone selling price. Stand-alone selling price is estimated using rates offered to other customers with similar profiles or estimated using the expected cost plus margin approach where a profit margin comparable to similar contracts for similar services is added to actual cost. Variable considerations that relate directly to a performance obligation are allocated to that specific performance obligation.

4. Critical Accounting Estimates and Judgments (continued)

(b) Key sources of estimation uncertainty • The following are key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the consolidated financial statements within the next 12 months.

(b.1) Impairment of financial assets • The impairment provisions for financial assets are based on assumptions about risk of default and expected loss rates. The Group of Companies uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. Refer to Note 19 (b) on credit risk for further details of key assumptions and inputs used.

(b.2) Capital assets • Capital assets, comprising property, plant and equipment and intangible assets with finite useful lives, are depreciated or amortized over their useful lives. Useful lives are based on management's best estimates of the periods of service provided by the assets, and are included in Note 3 (c.3). The appropriateness of useful lives of these assets is assessed annually. Changes to useful life estimates would affect future depreciation or amortization expenses and future carrying values of assets.

Capital assets are tested for impairment as described in Note 3 (c.5). The impairment test compares the carrying value to the asset's recoverable amount, which is the higher of the asset's fair value less costs to sell and its value in use. Determining both the fair value less costs to sell and its value in use requires management to make estimates, either regarding the asset's market value and selling costs or the future cash flows related to the asset or cash-generating unit, discounted at the appropriate rate to reflect the time value of money. Differences from estimates in determining any of these variables could materially affect the consolidated financial statements, both in determining the existence of any impairment and in determining the amount of impairment.

(b.3) Goodwill • The Group of Companies tests annually, or more frequently if necessary, whether goodwill has suffered any impairment in accordance with the accounting policy provided in Note 3 (d). Performing goodwill impairment testing requires management to determine the estimated recoverable amount of the relevant cash-generating units on the basis of projected future cash flows using internal business plans or forecasts, and discounting these cash flows to appropriately reflect the time value of money. While management believes that estimates of future cash flows and discount rates are reasonable, different assumptions regarding future cash flows or discount rates could materially affect the outcome of the goodwill impairment test. For assumptions relating to goodwill impairment testing, refer to Note 12.

(b.4) Deferred revenue • The Group of Companies estimates deferred revenue at the end of the reporting period for parcels deposited or in transit but not yet delivered, stamps distributed to dealers but not yet resold to customers, meters filled but not yet used by customers and the remaining contract period for mail redirection services. The estimate of deferred parcel revenue is made based on delivery service statistics maintained by the Group of Companies. Estimates relating to deferred stamp and meter revenue are established using aggregate dealer outlet and meter customer actual usage patterns, respectively, while mail redirection revenue is deferred over the term of the contract, generally four to 12 months.

(b.5) Pension, other post-employment and other long-term benefit plans • Pension, other post-employment and other long-term benefit obligations to be settled in the future require assumptions to establish the benefit obligations. Defined benefit accounting is intended to reflect the recognition of benefit costs over the employee's approximate service period or when the event triggering the benefit entitlement occurs based on the terms of the plan, and the investment and funding decisions. The significant actuarial assumptions used by the Group of Companies in measuring the benefit obligations and benefit costs are the discount rates, mortality tables, health care costs trend rates and inflation rate, which has an impact on the long-term rates of compensation increase. The Group of Companies consults with external actuaries regarding these assumptions at least annually. Changes in these key assumptions can have a significant impact on defined benefit obligations, funding requirements and pension, other post-employment and other long-term benefit costs.

For funded plans, assets are recognized only to the extent that the Group of Companies can realize future economic benefits from them. In establishing the economic benefit, the Group of Companies calculates gains resulting from a projected rate of return on assets exceeding the going-concern discount rate used for funding requirements. In addition, to establish asset limit adjustments, it is assumed that a contribution holiday is taken whenever possible and that the Corporation intends to use additional relief in special contributions as permitted by legislation.

Funded plans for which the Canada Post Group of Companies has a unilateral right to the surplus are not subject to asset limit adjustment requirements.

For a description of the pension, other post-employment and other long-term benefit plans, and a sensitivity analysis of significant assumptions, see Note 10.

4. Critical Accounting Estimates and Judgments (continued)

(b.6) Provisions • When it has been determined by management that the Group of Companies has a present legal or constructive obligation as a result of a past event, that it is probable an outflow of resources embodying economic benefits will be required to settle the obligation and that a reliable estimate of the obligation can be made, a provision is accrued.

In determining a reliable estimate of the obligation, management makes assumptions about the amount and likelihood of outflows, the timing of outflows, as well as the appropriate discount rate to use. Factors affecting these assumptions include the nature of the provision, the existence of a claim amount, opinions or views of legal counsel and other advisers, experience in similar circumstances, and any decision of management as to how the Group of Companies intends to handle the obligation. The actual amount and timing of outflows may deviate from assumptions, and the difference might materially affect future consolidated financial statements, with a potentially adverse impact on the consolidated results of operations, financial position and liquidity.

(b.7) Income taxes • The Group of Companies operates in many jurisdictions requiring calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Liabilities are recognized for anticipated tax exposures based on estimates of additional taxes that are likely to become due. Where the final tax outcome of these matters is different from the amount that was initially recorded, such differences will affect the income tax and deferred tax provisions in the period in which such a determination is made.

Deferred tax assets and liabilities comprise temporary differences between carrying values and tax bases of assets and liabilities, as well as tax losses carried forward. Deferred tax assets are only recorded to the extent that it is probable that they will be realized. The timing of the reversal of temporary differences may take many years, and the related deferred tax is calculated using substantively enacted tax rates for the related period.

If future outcomes were to adversely differ from management's best estimate of future results from operations affecting the timing of reversal of deductible temporary differences, the Group of Companies could experience material deferred income tax adjustments. Such deferred income tax adjustments would not result in an immediate cash outflow, nor would they affect the Group of Companies' immediate liquidity.

5. Application of New and Revised International Financial Reporting Standards

(a) New standards, amendments and interpretations

Certain pronouncements were issued by the International Accounting Standards Board (IASB) or the IFRS Interpretations Committee that had mandatory effective dates of annual periods beginning on or after January 1, 2018.

The following standards were adopted by the Group of Companies January 1, 2018.

IFRS 15 "Revenue from Contracts with Customers" (IFRS 15) • The IASB issued IFRS 15, which provides a framework that replaces existing revenue recognition guidance in IFRS. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which affect the amount or timing of revenue recognized. IFRS 15 was applied retrospectively to these consolidated financial statements in accordance with the transitional provisions. As required by the transitional provisions, the amount of the restatement for each financial statement line item affected in the comparative period is described below.

IFRS 15 requires that the incremental cost of obtaining a revenue contract be capitalized and expensed at the time when related revenue is recognized. The Group of Companies has identified certain fees paid to its resellers as contract costs. Due to the short delivery cycle, this period is less than one year and, therefore, qualifies under a practical expedient to be expensed directly to cost of operations without first being capitalized. In addition, some of these contract costs previously netted against revenue were reclassified to cost of operations as the Group of Companies is considered the principal in these transactions. As a result, revenue and cost from operations each increased by $87 million from amounts previously reported for the year ended December 31, 2017, which had no impact on net profit (loss).

IFRS 15 also has more specific guidance on methods that measure the stage of completion. For stand-ready services such as mail forwarding, where the customer benefits from having the mail forwarding service available throughout the contract period, the Group of Companies has determined a time-based measurement method to recognize revenue when appropriate. As a result, deferred tax assets, deferred revenue and accumulated deficit increased by $7 million, $28 million and $21 million, respectively, from amounts previously reported as at January 1, 2017, and increased by $8 million, $30 million and $22 million, respectively, from amounts previously reported as at December 31, 2017. Revenue and the tax expense decreased by $2 million and $1 million, respectively, from amounts previously reported for the year ended December 31, 2017.

(in millions of Canadian dollars, unless otherwise indicated)

5. Application of New and Revised International Financial Reporting Standards (continued)

In addition, IFRS 15 requires revenue to be recognized as control is transferred to the customer over time rather than at a point in time, which accelerates revenue recognition from delivery of Lettermail™, Direct Marketing and Parcels. As a result, the deferred tax assets, deferred revenue and accumulated deficit decreased by $1 million, $2 million and $1 million, respectively, from amounts previously reported as at January 1, 2017, and decreased by $2 million, $6 million and $6 million, respectively, while trade and other receivables increased by $2 million from amounts previously reported as at December 31, 2017. Revenue and tax expense increased by $7 million and $2 million, respectively, from amounts previously reported for the year ended December 31, 2017.

The overall impact of these changes on the comparative figures was as follows:

Consolidated statement of financial position

As at January 1, 2017	As previously reported	IFRS 15 adjustments	Restated
Deferred tax asset	$ 1,384	$ 6	$ 1,390
Deferred revenue	$ 115	$ 26	$ 141
Accumulated deficit	$ (1,530)	$ (20)	$ (1,550)

Consolidated statement of financial position

As at December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Trade and other receivables	$ 944	$ 2	$ 946
Deferred tax asset	$ 1,562	$ 6	$ 1,568
Deferred revenue	$ 114	$ 24	$ 138
Accumulated deficit	$ (1,595)	$ (16)	$ (1,611)

Consolidated statement of comprehensive income

For the year ended December 31, 2017	As previously reported	IFRS 15 adjustments	Restated
Revenue from operations	$ 8,226	$ 92	$ 8,318
Other operating costs	$ 2,205	$ 87	$ 2,292
Tax expense	$ 55	$ 1	$ 56
Net profit	$ 144	$ 4	$ 148

The adoption of IFRS 15 resulted in no adjustments to the consolidated statement of cash flows; therefore, it is not presented above. The impact of adopting IFRS 15 is included in notes 11, 18, 19, 21, 22 and 26, and resulting comparative subtotals and totals of the IFRS 15 restatement are included in the restated consolidated financial statements on pages 60-63.

IFRS 9 "Financial Instruments" (IFRS 9) • The IASB issued the final version of IFRS 9, bringing together the classification and measurement, impairment and hedge accounting phases of the project to replace IAS 39 "Financial Instruments: Recognition and Measurement." The Group of Companies has applied IFRS 9 retrospectively, effective January 1, 2018. The Group of Companies has identified changes in the classification and subsequent measurement of cash equivalents and marketable securities previously classified and subsequently measured at fair value through profit and loss. Under the new standard, these financial assets are classified and subsequently measured at fair value through other comprehensive income. Also, the standard requires an entity to measure and recognize expected impairment losses on all financial assets. The Corporation uses the probability-of-default method, adjusted by using forward-looking information (i.e. bond spreads), to estimate future losses on its cash equivalents, as well as marketable and segregated securities, as these investments qualify under the low credit risk approach. The overall impact of adopting IFRS 9 did not result in any adjustments to current or previously reported amounts. Additional disclosures were included in Note 19 (b) related to the credit risk and the expected credit loss of the financial assets.

5. Application of New and Revised International Financial Reporting Standards (continued)

(b) Standards, amendments and interpretations not yet in effect

The following standards, amendments and interpretations issued by the IASB or the IFRS Interpretations Committee have been assessed as having a possible effect on the Group of Companies in the future.

IFRS 16 "Leases" (IFRS 16) • The IASB issued IFRS 16, completing its project to improve the financial reporting of leases. The new standard to replace IAS 17 "Leases" (IAS 17) and IFRIC 4 "Determining Whether an Arrangement Contains a Lease" (IFRIC 4), sets out the principles for the recognition, measurement, presentation and disclosure of leases for parties of a contract. For lessees, IFRS 16 eliminates the classification of leases as either operating or finance leases that exist under IAS 17, and requires the recognition of assets and liabilities for all leases unless the lease term is 12 months or less, or the underlying asset is of low value. IFRS 16 substantially carries forward the lessor accounting requirements under IAS 17, maintaining the classification of leases as operating or finance leases, and accounting for the leases according to their classification. The Group of Companies will adopt IFRS 16 effective January 1, 2019.

(b.1) General impact of application • The Group of Companies will apply IFRS 16 using the full retrospective approach and in accordance with transitional provisions. Full retrospective application will require the Group of Companies to adjust the opening balance of retained earnings as at January 1, 2018, and the other comparative amounts disclosed for each prior period presented as if IFRS 16 had always been applied.

(b.2) Definition of a lease • The Group of Companies performed a comprehensive review to determine which existing contracts could contain a lease. This review included those contracts previously identified as a lease in accordance with IAS 17 and IFRIC 4, as well as contracts previously identified as not containing a lease. Criteria used in the determination of whether identified contracts contain a lease or not include whether an identified asset exists, whether the right to obtain substantially all of the economic benefits from use of the asset exists, whether the right to direct how and for what purpose the asset is used exists, whether the right to operate the asset throughout the period of use without the vendor having the right to change those operating instructions exists and whether the purpose of the asset and the manner in which it will be used has been predetermined. This comprehensive review resulted in the identification of short-term lease contracts for vehicles governed by certain owner-operator agreements. The review did not yield a substantially different lease population had the old definition been applied. The Group of Companies will apply the definition of a lease and related guidance set out in IFRS 16 to all contracts identified as containing a lease as if IFRS 16 had always been applied.

(b.3) Impact on lessee accounting • As a lessee, the Group of Companies previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group of Companies. Under IFRS 16, the Group of Companies will do the following:

- recognize right-of-use assets and lease liabilities in the consolidated statement of financial position, measured at the present value of future lease payments and discounted using the incremental borrowing rate;
- recognize depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of comprehensive income;
- separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

The Group of Companies will apply recognition exemptions to low-value assets (value of $5,000 or less when new, including items such as computer hardware and office equipment) and short-term leases (defined as leases with a term of 12 months or less for all right-of-use asset classes). Payments for such leases are expensed over the term and will be disclosed in the notes to the consolidated financial statements.

Lease incentives such as free rent periods will be recognized as part of the measurement of the right-of-use assets and lease liabilities. Under IAS 17 they resulted in the recognition of a lease incentives liability, amortized as a reduction of rental expense on a straight line basis. Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 "Impairment of Assets" to replace the previous requirement recognizing a provision for onerous lease contracts.

(b.4) Impact on lessor accounting • The Group of Companies will continue to classify subleases as operating or financing in nature after reassessing the nature of subleases as part of the IFRS 16 transition. Under IFRS 16 this classification is determined with reference to the right-of-use asset rather than the underlying asset. Lessor accounting will remain substantially unchanged from IAS 17 and the Group of Companies will continue to record letting income for operating leases as an offset to other operating costs while any income from finance subleases will be recognized as investment and other income.

(in millions of Canadian dollars, unless otherwise indicated)

5. Application of New and Revised International Financial Reporting Standards (continued)

The overall impact of these changes on the consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows is estimated to be as follows:

Consolidated statement of financial position

As at January 1, 2018	As currently reported	Estimated impact of IFRS 16	Expected result
Other assets (current)	$ 126	$ (2)	$ 124
Property, plant and equipment	$ 2,627	$ (38)	$ 2,589
Right-of-use assets	$ –	$ 935	$ 935
Deferred tax asset	$ 1,568	$ 37	$ 1,605
Other assets (non-current)	$ 7	$ 4	$ 11
Trade and other payables	$ 583	$ (1)	$ 582
Deferred revenue	$ 138	$ (1)	$ 137
Lease liabilities (current)	$ –	$ 105	$ 105
Loans and borrowings (current)	$ 13	$ (13)	$ –
Lease liabilities (non-current)	$ –	$ 986	$ 986
Loans and borrowings (non-current)	$ 1,025	$ (28)	$ 997
Other liabilities (non-current)	$ 25	$ (4)	$ 21
Accumulated deficit	$ (1,611)	$ 108	$ (1,503)

Consolidated statement of financial position

As at December 31, 2018	As currently reported	Estimated impact of IFRS 16	Expected result
Other assets (current)	$ 102	$ 1	$ 103
Property, plant and equipment	$ 2,709	$ (22)	$ 2,687
Right-of-use assets	$ –	$ 968	$ 968
Deferred tax asset	$ 1,641	$ 39	$ 1,680
Other assets (non-current)	$ 49	$ 14	$ 63
Trade and other payables	$ 653	$ (3)	$ 650
Lease liabilities (current)	$ –	$ 109	$ 109
Loans and borrowings (current)	$ 12	$ (12)	$ –
Lease liabilities (non-current)	$ –	$ 1,039	$ 1,039
Loans and borrowings (non-current)	$ 1,013	$ (16)	$ 997
Other liabilities (non-current)	$ 25	$ (4)	$ 21
Accumulated deficit	$ (1,300)	$ 113	$ (1,187)

Consolidated statement of comprehensive income

For the year ended December 31, 2018	As currently reported	Estimated impact of IFRS 16	Expected result
Revenue	$ 8,675	$ (3)	$ 8,672
Other operating costs	$ 2,488	$ (131)	$ 2,357
Depreciation and amortization	$ 311	$ 101	$ 412
Finance cost and other expense	$ (58)	$ (35)	$ (93)
Profit (loss) before tax	$ (110)	$ (8)	$ (118)
Tax expense (recovery)	$ (23)	$ (2)	$ (25)
Net profit (loss)	$ (87)	$ (6)	$ (93)

(in millions of Canadian dollars, unless otherwise indicated)

5. Application of New and Revised International Financial Reporting Standards (continued)

Consolidated statement of cash flows

For the year ended December 31, 2018	As currently reported	Estimated impact of IFRS 16	Expected result
Net profit (loss)	$ (87)	$ (6)	$ (93)
Cash provided by operating activities	$ 973	$ 127	$ 1,100
Cash used in financing activities	$ (14)	$ (127)	$ (141)

The quantitative assessment of the accounting impact is expected to include the following:

- A change in other assets as a prepaid rent expense recognized under IAS 17, which will be recognized as a reduction of the lease liability. This is offset by the current portion of finance subleases.
- Vehicles and plant equipment held under finance lease arrangements previously recognized as property, plant and equipment, which will be presented with right-of-use assets. The lease liability on leases previously classified as financing leases under IAS 17 and previously presented within loans and borrowings will be presented with lease liabilities.
- Recognition of right-of-use assets for leases previously classified as operating leases under IAS 17 and other contracts assessed as containing a lease under IFRS 16 that were previously expensed to other operating costs.
- An increase in other non-current assets due to the recognition of finance subleases.
- An increase in current and long-term lease liabilities as all lease payments, which will be recognized as a financial liability that represents an obligation to make future lease payments.
- A decrease to revenue as the financing component of subleases, which will be reclassified to investment and other income.
- A decrease to profit (loss) before tax given that the existing rent expense (recorded under other operating costs) will be replaced by depreciation of right-of-use assets and interest expense on the lease liability.
- An increase to cash provided by operations since IFRS 16 replaces operating lease expenses with a depreciation charge for the right-of-use asset and an increase in investing and financing income (expense) due to the interest expense on the lease liability.
- An increase in cash used in financing activities because payments for the principal component will be presented as a financing outflow; payments under operating leases under IAS 17 were presented as an operating outflow.

IFRIC 23 "Uncertainty over Income Tax Treatments" (IFRIC 23) • This IFRIC clarifies the accounting for uncertainties in income taxes. The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. IFRIC 23 is effective for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted. The Group of Companies is not expecting any impact from the adoption of this interpretation.

5. Application of New and Revised International Financial Reporting Standards (continued)

Annual Improvements to IFRS – 2015-2017 Cycle • The IASB issued annual improvements in response to non-urgent issues addressed during the 2015-2017 cycle. These amendments are effective for annual reporting periods beginning on or after January 1, 2019. The standards and topics covered by the amendments were as follows: IFRS 3 "Business Combinations" clarifies that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business; IFRS 11 "Joint Arrangements" clarifies that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business; IAS 12 "Income Taxes" clarifies that all income tax consequences of dividends (i.e. distribution of profits) should be recognized in profit or loss, regardless of how the tax arises; and IAS 23 "Borrowing Costs" clarifies that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalization rate on general borrowings. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to IAS 19 Employee Benefits (IAS 19) • In February 2018, the IASB issued amendments to IAS 19 "Employee Benefits" addressing the accounting for a plan amendment, curtailment or settlement that occurs during a period. The use of updated actuarial assumptions is required to determine current service cost and net interest for the remainder of the reporting period after such events. The amendments apply prospectively to plan amendments, curtailments or settlements that occur on or after January 1, 2019, with earlier adoption permitted. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to IAS 1 Presentation of Financial Statements (IAS 1) and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8) • In October 2018, the IASB issued amendments to IAS 1 and IAS 8 to align the definition of "material" across the standards and to clarify certain aspects of the definition. It was specified that the materiality assessment will need to take into account how primary users could reasonably be expected to be influenced in making economic decisions. The amendments state that, in assessing whether any information could reasonably be expected to influence decisions of the primary users, an entity must consider the characteristics of those users as well as its own circumstances. The amendments must be applied prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier adoption permitted. The Group of Companies is not expecting any impact from the adoption of these amendments.

Amendments to IFRS 3 Business Combinations (IFRS 3) • In October 2018, the IASB issued narrow-scope amendments to IFRS 3 to guide entities in determining whether a transaction should be accounted for as a business combination or as an asset acquisition. The amendments clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, provide guidance for entities to assess whether an acquired process is substantive, narrow the definitions of a business and outputs, and introduce an optional fair value concentration test. The amendments must be applied to transactions that are either business combinations or asset acquisitions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Consequently, entities do not have to revisit such transactions that occurred in prior periods. Earlier adoption is permitted. The Group of Companies is not expecting any impact from the adoption of these amendments.

(in millions of Canadian dollars, unless otherwise indicated)

6. Cash and Cash Equivalents, Marketable Securities and Segregated Securities

(a) Cash and cash equivalents, marketable securities and segregated securities consisted of the following:

As at December 31	2018		2017	
Cash and cash equivalents				
Cash	$ 1,252	88 %	$ 1,100	73 %
Money market instruments issued by				
Government of Canada	20	1 %	30	2 %
Provincial governments	44	3 %	35	2 %
Financial institutions	40	3 %	182	12 %
Corporations	65	5 %	156	11 %
Total cash and cash equivalents	**$ 1,421**	**100 %**	$ 1,503	100 %
Marketable securities				
Money market instruments issued by				
Government of Canada	$ 256	18 %	$ 172	21 %
Provincial governments	473	32 %	305	37 %
Financial institutions	349	24 %	110	13 %
Corporations	328	22 %	234	29 %
Bonds issued by corporations	64	4 %	–	– %
Total marketable securities	$ 1,470	100 %	$ 821	100 %
Current marketable securities	**$ 1,338**	**91 %**	$ 821	100 %
Non-current marketable securities	**$ 132**	**9 %**	$ –	– %
Segregated securities				
Cash	$ 22	5 %	$ 10	2 %
Bonds issued by				
Government of Canada	101	20 %	111	21 %
Provincial governments	198	40 %	208	40 %
Corporations	174	35 %	197	37 %
Total segregated securities	**$ 495**	**100 %**	$ 526	100 %

All money market instruments and bonds held as at December 31, 2018, were issued by Canadian entities at fixed interest rates. The weighted-average effective interest rate as at December 31, 2018, was 2.1% for money market instruments (2017 – 1.4%) and 3.1% for bonds (2017 – 2.8%).

Securities are segregated due to external restrictions imposed on other retirement dental and life insurance benefit plans repatriated through the federal public sector pension reform. These defined benefit plans were partially funded by the transitional support from the Government of Canada; therefore, the Group of Companies is obligated to use these funds exclusively for related benefit payments. Segregated securities, if held to maturity, have terms expiring over a 24-year period.

(b) Income from investments

Interest income and gains and losses on cash and cash equivalents and marketable securities amounted to $47 million (2017 – $20 million). Interest income and gains and losses on segregated securities amounted to $18 million (2017 – $19 million).

(c) Fair values of financial instruments

The estimated fair values of cash equivalents, marketable securities, segregated securities and risk management financial assets and liabilities used to measure amounts in the consolidated financial statements are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the years ended December 31, 2018, and 2017.

(in millions of Canadian dollars, unless otherwise indicated)

7. Other Current Assets

As at December 31	2018	2017
Income tax receivable	$ 5	$ –
Prepaid expenses	96	94
Assets held for sale	1	32
Total other current assets	**$ 102**	$ 126

As at December 31, 2018, all properties classified as held for sale were from the Canada Post segment. It is anticipated that the carrying amount of the properties will be fully recovered through the sale proceeds. During the year, a property held for sale was sold for its recoverable amount of $31 million in exchange for $17 million in cash and $14 million in land.

8. Capital Assets

(a) Property, plant and equipment

	Land	Buildings	Leasehold improvements	Plant equipment	Vehicles	Sales counters, office furniture and equipment	Other equipment	Assets under development	Total
Cost									
December 31, 2016	$ 315	$ 2,057	$ 286	$ 1,330	$ 547	$ 409	$ 944	$ 91	$ 5,979
Additions	39	41	16	38	39	14	18	50	255
Reclassified from (as) held for sale	(23)	(8)	–	–	–	–	–	–	(31)
Retirements	–	(11)	(5)	(119)	(5)	(98)	(3)	–	(241)
Transfers	–	3	8	18	–	(1)	34	(62)	–
December 31, 2017	$ 331	$ 2,082	$ 305	$ 1,267	$ 581	$ 324	$ 993	$ 79	$ 5,962
Additions	16	50	16	44	68	40	31	91	356
Reclassified from (as) held for sale	–	2	–	–	–	–	–	–	2
Retirements	–	(12)	(3)	(112)	(6)	–	(9)	–	(142)
Transfers	–	16	1	3	4	–	43	(67)	–
December 31, 2018	**$ 347**	**$ 2,138**	**$ 319**	**$ 1,202**	**$ 647**	**$ 364**	**$ 1,058**	**$ 103**	**$ 6,178**
Accumulated depreciation									
December 31, 2016	$ –	$ 1,063	$ 223	$ 827	$ 349	$ 338	$ 507	$ –	$ 3,307
Depreciation	–	60	13	76	50	21	43	–	263
Reclassified from (as) held for sale	–	(1)	–	–	–	–	–	–	(1)
Retirements	–	(9)	(5)	(117)	(4)	(96)	(3)	–	(234)
December 31, 2017	$ –	$ 1,113	$ 231	$ 786	$ 395	$ 263	$ 547	$ –	$ 3,335
Depreciation	–	67	12	72	51	22	45	–	269
Reclassified from (as) held for sale	–	1	–	–	–	–	–	–	1
Retirements	–	(10)	(1)	(111)	(6)	–	(8)	–	(136)
December 31, 2018	**$ –**	**$ 1,171**	**$ 242**	**$ 747**	**$ 440**	**$ 285**	**$ 584**	**$ –**	**$ 3,469**
Carrying amounts									
December 31, 2017	$ 331	$ 969	$ 74	$ 481	$ 186	$ 61	$ 446	$ 79	$ 2,627
December 31, 2018	**$ 347**	**$ 967**	**$ 77**	**$ 455**	**$ 207**	**$ 79**	**$ 474**	**$ 103**	**$ 2,709**

As at December 31, 2018, the Group of Companies held assets under finance leases in two asset classes: vehicles with net book value of $21 million (2017 – $35 million) and plant equipment with net book value of $1 million (2017 – $3 million).

(in millions of Canadian dollars, unless otherwise indicated)

8. Capital Assets (continued)

(b) Intangible assets

		Software		Software under development		Customer contracts and relationships		Total
Cost								
December 31, 2016	$	734	$	21	$	25	$	780
Additions		4		42		–		46
Retirements		(1)		(2)		(2)		(5)
Transfers		30		(30)		–		–
December 31, 2017	$	767	$	31	$	23	$	821
Additions		6		25		–		31
Retirements		–		(2)		–		(2)
Transfers		45		(45)		–		–
December 31, 2018	**$**	**818**	**$**	**9**	**$**	**23**	**$**	**850**
Accumulated amortization								
December 31, 2016	$	640	$	–	$	23	$	663
Amortization		41		–		1		42
Retirements		(1)		–		(2)		(3)
December 31, 2017	$	680	$	–	$	22	$	702
Amortization		42		–		–		42
December 31, 2018	**$**	**722**	**$**	**–**	**$**	**22**	**$**	**744**
Carrying amounts								
December 31, 2017	$	87	$	31	$	1	$	119
December 31, 2018	**$**	**96**	**$**	**9**	**$**	**1**	**$**	**106**

9. Employee Benefits

The employee benefits expense recognized in net profit consisted of the following items:

For the year ended December 31		2018		2017
Active and other employee benefits	$	555	$	607
Pension, other post-employment and other long-term benefit expense (Note 10 [e])		1,065		849
Employee benefits	**$**	**1,620**	$	1,456

10. Pension, Other Post-employment and Other Long-term Benefit Plans

(a) Characteristics of benefit plans

The Group of Companies has a number of funded and unfunded benefit plans that provide defined benefit pension plans, other post-employment and other long-term benefits for the majority of its employees, and also provides pension benefits to eligible employees through defined contribution plans. Certain new employees must join the defined contribution plans and are not eligible to join the defined benefit pension plans. The pension benefit plans are funded through contributions made to external trusts, and the other post-employment and other long-term benefit plans are unfunded. Unfunded plans are plans where benefits are paid directly by the employer. With funded plans, which are individually sponsored by each legal entity of the Group of Companies, funds are transferred to external trusts and the benefits are paid directly from these trusts.

Benefits provided under the most significant defined benefit pension plans are calculated based on length of pensionable service, pensionable salary and retirement age, or for certain employees, are based on negotiated benefit rates. These plans provide for a retirement pension, a survivor's pension or a refund after termination of employment or death. Pension benefits are covered by the registered pension plans and the retirement compensation arrangements, for benefits in excess of statutory limits as defined under the *Income Tax Act*. For the salaried plans, pension benefits in pay are indexed annually.

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

Both the employers' and, where applicable, the employees' contributions to the external trusts are made in accordance with the provisions of the plans. The contributions to the defined benefit plans are determined by actuarial valuations in compliance with the requirements of regulatory authorities, to ensure that the external trusts have sufficient assets to pay pension benefits when employees retire. Each entity in the Group of Companies has a pension governance structure in place, which is overseen by the Board of Directors. The governance structure includes committees that provide expertise and support management in areas such as investments, administration and compensation. Committees are composed of elected, appointed and retired employees.

The most significant post-employment defined benefit plans, other than pension, include unfunded health care, as well as dental, life and death insurance plans. The benefit costs covered by the employer and the costs assumed by retirees, if any, are determined in accordance with the rules of each plan and the provisions of labour contracts.

Other long-term benefit plans primarily include the top-up credits available to eligible employees while on short-term disability or injury-on-duty leave, workers' compensation benefits and health, dental and life insurance coverage for employees receiving long-term disability benefits. Under short-term disability or injury-on-duty leave, eligible employees can use their unused balances from the former sick leave plan as top-up credits to supplement eligible employees' salary while on leave. The other long-term benefit costs covered by the employer and the costs assumed by employees, if any, are determined in accordance with the rules of each plan, the provisions of labour contracts and respective provincial worker's compensation legislation.

The Corporation is subject to the *Government Employees Compensation Act* and, therefore, is not mandatorily covered under any provincial workers' compensation act. The Corporation is a self-insured employer, responsible for workers' compensation benefits incurred since incorporation. The Corporation's unfunded obligation for workers' compensation benefits is based on known awarded disability and survivor pensions and other potential future awards for accidents that occurred up to the measurement date. Workers' compensation benefits are provided according to the respective provincial workers' compensation legislation. Benefit entitlements in the three territories are based on the Alberta legislation.

(b) Risks associated with defined benefit plans

Funding risk
One of the primary risks that plan sponsors face is funding risk, which is the risk that the investment asset growth and contribution rates of the pension plans will not be sufficient to cover the pension funding obligations, resulting in unfunded liabilities. When funding deficits exist, regulatory authorities require that special contributions be made over specified future periods. Regulations allowed the Corporation to reduce special contributions from 2014 to 2017. Additional details and risks associated with the funding relief are disclosed in Note 10 (i).

The most significant contributors to funding risk are declines in solvency discount rates, investments failing to achieve expected returns, and non-economic factors like changes in member demographics. Changes to member demographics, such as an increase in life expectancies of plan members, also contribute to increasing the funding obligations, which increases the funding risk faced by plan sponsors.

The Group of Companies manages funding risk by monitoring and reviewing the funded ratio on an ongoing basis and ensuring that investment decisions are made in accordance with individual investment policies and procedures and applicable legislation. Investment policies and procedures are designed to provide the pension plans with a long-term rate of return sufficient to assist the plans in meeting funding objectives and the ongoing growth of the pension funding obligations. A Statement of Investment Policies and Procedures (SIPP), addressing the manner in which the pension plan assets will be invested, is reviewed at least annually for significant plans. Under the current SIPP, it is recognized that it is not always desirable to have the investment portfolio exactly match the long-term asset target allocation. Therefore, minimum and maximum asset category limits have been established. For the most significant plans, asset-liability studies are conducted periodically to ensure that the pension plans' investment strategies remain appropriate in challenging economic environments. The investment strategies also incorporate a mix of return-generating and liability-matching investments. The portion of plan assets invested in liability-matching investments has characteristics that offset a portion of variation in the pension funding requirements.

Other risks
Plan assets are also subject to a variety of financial risks as a result of investment activities. These risks include credit risk, market risk (interest rate, currency and price risk) and liquidity risk arising from financial instruments. In addition, defined benefit obligations are subject to measurement uncertainty due to the use of significant actuarial assumptions (Note 10 [g]). The impact of these factors on the remeasurement of the pension benefit asset, and pension, other post-employment and other long-term benefit obligations can be significant and volatile (Note 10 [h]).

(in millions of Canadian dollars, unless otherwise indicated)

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(c) Net defined benefit liability

A reconciliation of the net defined benefit liability of the defined benefit plans was as follows, including the present value of defined benefit plan obligations and the fair value of plan assets:

As at December 31	**2018**		2017	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of benefit obligations				
Balance, beginning of year	$ 28,790	$ 3,919	$ 26,500	$ 3,612
Current service cost	561	120	498	104
Interest cost	1,033	141	1,052	146
Employee contributions	235	–	235	–
Benefits paid	(1,052)	(158)	(1,036)	(156)
Actuarial (gains) losses (Note 10 [f])	(1,031)	(405)	1,541	212
Losses from plan amendments	164	27	–	1
Balance, end of year	$ 28,700	$ 3,644	$ 28,790	$ 3,919
Fair value of plan assets				
Balance, beginning of year	$ 26,465	$ –	$ 24,459	$ –
Interest income on plan assets	943	–	969	–
Return on plan assets, excluding interest income on plan assets	(838)	–	1,475	–
Employer regular contributions	303	–	319	–
Employer special contributions	51	–	58	–
Employee contributions	235	–	235	–
Other administration costs	(13)	–	(14)	–
Benefits paid	(1,052)	–	(1,036)	–
Balance, end of year	$ 26,094	$ –	$ 26,465	$ –
Net defined benefit liability	**$ 2,606**	**$ 3,644**	$ 2,325	$ 3,919

The remeasurements for the effect of the asset ceiling have been made on a plan-by-plan basis. There was no resulting decrease in the pension benefit assets and no resulting increase in the pension benefit liabilities as at December 31, 2018, and 2017.

A reconciliation of the net defined benefit liability was as follows:

As at December 31	**2018**		2017	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Net defined benefit liability, beginning of the year	$ 2,325	$ 3, 919	$ 2,041	$ 3,612
Remeasurements of defined benefit plans (Note 10 [e])	(193)	(352)	66	204
Benefits paid directly to beneficiaries	–	(158)	–	(156)
Employer regular contributions paid	(303)	–	(319)	–
Employer special contributions paid	(51)	–	(58)	–
Defined benefit expense (Note 10 [e])	828	235	595	259
Net defined benefit liability, end of the year	**$ 2,606**	**$ 3,644**	$ 2,325	$ 3,919

The net defined benefit liability was recognized and presented in the consolidated statement of financial position as follows:

As at December 31	**2018**	2017
Pension benefit assets	**$ 95**	$ 116
Pension benefit liabilities	$ 2,701	$ 2,441
Other post-employment and other long-term benefit liabilities	3,644	3,919
Total pension, other post-employment and other long-term benefit liabilities	$ 6,345	$ 6,360
Current other long-term benefit liabilities	**$ 68**	$ 63
Non-current pension, other post-employment and other long-term benefit liabilities	**$ 6,277**	$ 6,297

(in millions of Canadian dollars, unless otherwise indicated)

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(d) Fair value measurement of plan assets

The fair value measurement of plan assets disaggregated by asset class and the fair value hierarchy described in Note 3 (b.5) for the Group of Companies were as follows:

As at December 31, 2018

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 234	1 %	$ 91	– %	$ –	– %	$ 325	1 %
Fixed income	–	– %	10,261	40 %	–	– %	10,261	40 %
Equities	10,035	39 %	34	– %	3	– %	10,072	39 %
Real estate	–	– %	–	– %	2,986	11 %	2,986	11 %
Private equity	–	– %	–	– %	1,078	4 %	1,078	4 %
Infrastructure	–	– %	–	– %	990	4 %	990	4 %
Derivatives	–	– %	(76)	– %	–	– %	(76)	– %
Other	–	– %	–	– %	257	1 %	257	1 %
Total investment assets	**$ 10,269**	**40 %**	**$ 10,310**	**40 %**	**$ 5,314**	**20 %**	**$ 25,893**	**100 %**
Non-investment assets less liabilities							$ 201	
Fair value of plan assets							**$ 26,094**	

As at December 31, 2017

	Level 1		Level 2		Level 3		Total	
Cash and short-term securities	$ 237	1 %	$ 253	1 %	$ –	– %	$ 490	2 %
Fixed income	5	– %	9,710	37 %	–	– %	9,715	37 %
Equities	11,528	44 %	116	– %	5	– %	11,649	44 %
Real estate	–	– %	–	– %	2,512	10 %	2,512	10 %
Private equity	–	– %	–	– %	847	3 %	847	3 %
Infrastructure	–	– %	–	– %	812	3 %	812	3 %
Derivatives	–	– %	39	– %	–	– %	39	– %
Other	–	– %	–	– %	203	1 %	203	1 %
Total investment assets	$ 11,770	45 %	$ 10,118	38 %	$ 4,379	17 %	$ 26,267	100 %
Non-investment assets less liabilities							$ 198	
Fair value of plan assets							$ 26,465	

Total plan assets included $3,283 million (2017 – $3,422 million) in money market instruments and bonds issued by the Government of Canada, its agencies and other Crown corporations and $171 million (2017 – $166 million) in refundable taxes held by the Canada Revenue Agency. The fair value of the non-investment assets less liabilities, which included the refundable taxes, approximated the carrying value.

The Group of Companies' pension plans do not own financial instruments or any other assets of the Group of Companies.

(in millions of Canadian dollars, unless otherwise indicated)

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(e) Defined benefit and defined contribution costs

The defined benefit and defined contribution cost components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31			**2018**			2017
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Current service cost	$ 561	$ 120	$ 681	$ 498	$ 104	$ 602
Interest cost	1,033	141	1,174	1,052	146	1,198
Interest income on plan assets	(943)	–	(943)	(969)	–	(969)
Actuarial (gains) losses (Note 10 [f])[1]	–	(53)	(53)	–	8	8
Other administration costs	13	–	13	14	–	14
Losses from plan amendments	164	27	191	–	1	1
Defined benefit expense (Note 10 [c])	828	235	1,063	595	259	854
Defined contribution expense	20	–	20	14	–	14
Total expense	848	235	1,083	609	259	868
Return on segregated securities (Note 6 [b])	–	(18)	(18)	–	(19)	(19)
Component included in employee benefits expense (Note 9)	**$ 848**	**$ 217**	**$ 1,065**	$ 609	$ 240	$ 849
Remeasurement (gains) losses:						
Return on plan assets, excluding interest income on plan assets	$ 838	$ –	$ 838	$ (1,475)	$ –	$ (1,475)
Actuarial (gains) losses (Note10 [f])	(1,031)	(352)	(1,383)	1,541	204	1,745
Component included in other comprehensive income (Note 10 [c])	**$ (193)**	**$ (352)**	**$ (545)**	$ 66	$ 204	$ 270

1. Remeasurements for other long-term benefit plans are recognized in net profit or loss in the period in which they arise.

On May 31, 2018, the arbitrator for a pay equity study pertaining to the Canadian Union of Postal Workers – Rural and Suburban Mail Carriers (CUPW-RSMC) issued her decision that rural and suburban mail carriers perform work of equal value to the work of urban letter carriers (Canadian Union of Postal Workers – Urban Postal Operations), however, the exact value of the wage gap was not specified. Instead, the parties were to determine the amount of the wage gap between the two groups, as well as the solution to rectify the gap. The parties had until August 31, 2018, to reach an agreement. The parties were then engaged in discussions facilitated by the arbitrator, but since no agreement was reached, outstanding matters proceeded to binding arbitration.

On September 20, 2018, the arbitrator released her final ruling resulting in adjustments to wages, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. The Corporation has recognized plan amendments to affected pension benefit plans and other post-employment benefit plans in the year ended December 31, 2018. See Note 15 for more information.

(in millions of Canadian dollars, unless otherwise indicated)

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

(f) Actuarial (gains) losses

The actuarial (gains) losses components recognized in the consolidated statement of comprehensive income were as follows:

For the year ended December 31	2018			2017		
	Pension benefit plans	**Other benefit plans**	**Total**	Pension benefit plans	Other benefit plans	Total
Actuarial (gains) losses on other long-term benefit obligations:						
Actuarial losses arising from changes in demographic assumptions	$ –	$ 4	$ 4	$ –	$ 4	$ 4
Actuarial (gains) losses arising from changes in financial assumptions	–	(57)	(57)	–	2	2
Actuarial losses arising from experience adjustments	–	–	–	–	2	2
Actuarial (gains) losses included in net profit (Note10 [e])	**$ –**	**$ (53)**	**$ (53)**	$ –	$ 8	$ 8
Actuarial (gains) losses on defined benefit obligations:						
Actuarial (gains) losses arising from changes in demographic assumptions	$ –	$ (25)	$ (25)	$ (2)	$ 1	$ (1)
Actuarial (gains) losses arising from changes in financial assumptions	(948)	(341)	(1,289)	1,663	204	1,867
Actuarial (gains) losses arising from experience adjustments	(83)	14	(69)	(120)	(1)	(121)
Actuarial (gains) losses included in other comprehensive income (Note 10 [e])	**$ (1,031)**	**$ (352)**	**$ (1,383)**	$ 1,541	$ 204	$ 1,745
Total actuarial (gains) losses (Note 10 [c])	**$ (1,031)**	**$ (405)**	**$ (1,436)**	$ 1,541	$ 212	$ 1,753

(g) Significant actuarial assumptions

The weighted-average actuarial assumptions used in measuring the Group of Companies' significant defined benefit plans were as follows:

As at December 31	2018		2017	
	Pension benefit plans	**Other benefit plans**	Pension benefit plans	Other benefit plans
Present value of defined benefit obligations:				
Discount rate	3.8 %	3.9 %	3.6 %	3.6 %
Consumer price index	2.0 %	2.0 %	2.0 %	2.0 %
Defined benefit expense:				
Discount rate	3.6 %	3.6 %	4.0 %	4.1 %
Consumer price index	2.0 %	2.0 %	2.0 %	2.0 %
Health care cost trend rate[1]	N/A	5.2 %	N/A	5.2 %

1. For 2018, the health care cost trend rate was 5.2%, decreasing progressively to a rate of 4% by 2040. For 2017, the health care cost trend rate was 5.2%, decreasing progressively to a rate of 4.5% by 2029.

(in millions of Canadian dollars, unless otherwise indicated)

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

The average life expectancies used in the measurement of the defined benefit obligations for the significant plans were as follows:

As at December 31	**2018**	2017
Life expectancy[1] at age 60 at December 31, 2018, and 2017 (in years):		
Males	28	28
Females	30	30
Life expectancy[1] at age 60 at December 31, 2038, and 2037 (in years):		
Males	29	29
Females	30	30

1. The average life expectancies are based on the Canadian Institute of Actuaries' Final Report on Canadian Pensioners Mortality (CPM), more specifically the CPM 2014 Public Sector Mortality Tables with the CPM improvement scale B. A study of Canada Post pension plan experience was performed in 2016, the results of which show that the unadjusted tables give the best agreement with past experience.

(h) Sensitivity analysis

The sensitivity analysis of the significant actuarial assumptions on the Group of Companies' defined benefit obligations was as follows:

As at December 31, 2018

	Pension benefit plans	**Other benefit plans**	**Total**
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,180)	$ (278)	$ (2,458)
0.5% decrease in discount rates	$ 2,376	$ 315	$ 2,691
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 929	$ 33	$ 962
0.25% decrease in CPI	$ (902)	$ (31)	$ (933)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (583)	$ (70)	$ (653)
10% decrease in mortality tables	$ 597	$ 81	$ 678
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 446	$ 446
1% decrease in health care trend rates	N/A	$ (349)	$ (349)

As at December 31, 2017

	Pension benefit plans	Other benefit plans	Total
Discount rate sensitivity:			
0.5% increase in discount rates	$ (2,253)	$ (309)	$ (2,562)
0.5% decrease in discount rates	$ 2,462	$ 351	$ 2,813
Consumer price index (CPI) sensitivity:			
0.25% increase in CPI	$ 949	$ 42	$ 991
0.25% decrease in CPI	$ (920)	$ (40)	$ (960)
Mortality tables sensitivity:			
10% increase in mortality tables	$ (590)	$ (83)	$ (673)
10% decrease in mortality tables	$ 603	$ 97	$ 700
Health care cost trend rates sensitivity:			
1% increase in health care trend rates	N/A	$ 560	$ 560
1% decrease in health care trend rates	N/A	$ (429)	$ (429)

(in millions of Canadian dollars, unless otherwise indicated)

10. Pension, Other Post-employment and Other Long-term Benefit Plans (continued)

This sensitivity analysis is hypothetical and must be used with caution. Changes in amounts based on these variations in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in amounts may not be linear. The sensitivity analysis has been calculated independently of changes in other significant assumptions. Changes in one factor may result in changes in another, which could amplify or reduce certain sensitivities. Methods used in determining this sensitivity analysis are consistent with those used to determine the pension and other benefit plan obligations in 2017.

The mortality tables sensitivity demonstrates the impact of an increase or decrease in the probability of death within a year for plan members of various ages.

The weighted-average duration of the pension plans, other post-employment plans and other long-term employee benefit plan obligations for the Group of Companies ranges from 15 to 22, 14 to 18, and 5 to 7 years, respectively.

(i) Total cash payments and funding relief

Total cash payments for pension, other post-employment and other long-term benefits for the Group of Companies were as follows:

For the year ended December 31	**2018**	2017
Benefits paid directly to beneficiaries for other benefit plans	$ 158	$ 156
Employer regular contributions to pension benefit plans	303	319
Employer special contributions to pension benefit plans	51	58
Cash payments for defined benefit plans	512	533
Contributions to defined contribution plans	20	14
Total cash payments	**$ 532**	$ 547

Under the *Canada Post Corporation Pension Plan Funding Regulations,* the Corporation was exempt from making special contributions to the Registered Pension Plan from 2014 to 2017. In 2018, the Corporation reverted back to the regulations in the *Pension Benefits Standards Act, 1985.*

Under these regulations, aggregate solvency relief is available up to 15% of a plan's solvency liabilities, after which Canada Post, as plan sponsor, would be required to make special payments to eliminate any shortfalls of assets to liabilities based on the actuarial valuations over five years on a solvency basis. As a result of these regulations, Canada Post did not have to make special payments in 2018 and does not expect to make special payments in 2019. Canada Post has notified and received no objections from the Minister of Finance and the Minister of Public Services and Procurement and Accessibility of its intent to reduce special solvency contributions for 2019.

Without relief as outlined in the regulations under the *Pensions Benefits Standards Act, 1985,* significant special contributions would have been required in 2018 as well as in 2019. The CUPW-RSMC pay equity ruling will have an impact on solvency funding in future years, requiring additional pay equity-related payments, subject to regulatory approval. See Note 10 (e) for more information.

(j) Future expected contributions

In 2019, the Group of Companies' total contributions to defined benefit pension plans are estimated to be $408 million, which includes Canada Post Corporation's and Purolator's regular contributions estimated at $264 million and $52 million, respectively. Total contributions also include Canada Post Corporation's estimated employer contributions relating to the RSMC pay equity decision for the period January 2016 to December 2018 as well as transfer deficiency payments.

(in millions of Canadian dollars, unless otherwise indicated)

11. Income Taxes

The Corporation is a prescribed Crown corporation for tax purposes and, as such, is subject to federal income taxation under the *Income Tax Act*. The Corporation's subsidiaries are subject to federal and provincial income taxes.

The sources of the temporary differences giving rise to net deferred tax assets (liabilities), affecting net profit and other comprehensive income or loss (OCI), were as follows:

	December 31, 2017 (restated – Note 5)	**Recognized in net profit**	**Recognized in OCI**	**December 31, 2018**
Net deferred tax assets (liabilities)				
Capital assets	$ (63)	$ 1	$ –	$ (62)
Salaries and benefits payable and related provisions	71	75	–	146
Pension, other post-employment and other long-term benefit liabilities	1,543	143	(137)	1,549
Other	16	(13)	4	7
Net deferred tax assets	$ 1,567	**$ 206**	**$ (133)**	**$ 1,640**

	December 31, 2016 (restated – Note 5)	Recognized in net profit (restated – Note 5) [1]	Recognized in OCI[1]	December 31, 2017 (restated – Note 5)
Net deferred tax assets (liabilities)				
Capital assets	$ (63)	$ –	$ –	$ (63)
Salaries and benefits payable and related provisions	40	31	–	71
Pension, other post-employment and other long-term benefit liabilities	1,393	83	67	1,543
Other	18	2	(4)	16
Net deferred tax assets	$ 1,388	$ 116	$ 63	$ 1,567

1. For the year ended December 31, 2017, the disclosure in this table of net deferred tax assets recognized in net profit decreased by $126 million and the amount recognized in OCI increased by an equivalent amount.

As presented in the consolidated statement of financial position:

As at December 31	**2018**	2017 (restated – Note 5)
Deferred tax assets	**$ 1,641**	$ 1,568
Deferred tax liabilities, included in non-current other liabilities	**1**	1
Net deferred tax assets	**$ 1,640**	$ 1,567

Deferred tax liabilities were not recognized for temporary differences associated with investments in subsidiaries as the Corporation is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. The aggregate amount of these temporary differences at December 31, 2018, was $469 million (2017 – $351 million).

The major components of tax expense (recovery) were as follows:

For the year ended December 31	**2018**	2017 (restated – Note 5)
Current tax expense	$ 183	$ 172
Deferred tax recovery relating to origination and reversal of temporary differences	(206)	(116)
Tax expense (recovery)	**$ (23)**	$ 56

(in millions of Canadian dollars, unless otherwise indicated)

11. Income Taxes (continued)

The tax expense (income) differed from the amount that would be computed by applying the Corporation's federal statutory income tax rate of 25% (2017 – 25%) to profit (loss) before tax. The reasons for the differences were as follows:

For the year ended December 31	**2018**	2017 (restated – Note 5)
Profit (loss) before tax	$ (110)	$ 204
Federal tax at Corporation's statutory rate	(27)	51
Subsidiaries' provincial tax less federal tax abatement	3	2
Other	1	3
Tax expense (recovery)	**$ (23)**	$ 56

The federal statutory tax rate, which is the applicable long-term federal statutory tax rate, stood at 25% for 2018 (2017 – 25%).

12. Goodwill

Goodwill was allocated on initial recognition to two cash-generating units, corresponding to the Purolator segment and the Logistics segment. The carrying amounts of goodwill for those segments were as follows:

As at December 31			**2018**	2017
	Purolator segment	**Logistics segment**	**Total**	Total
Balance, beginning and end of the year	$ 121	$ 9	**$ 130**	$ 130

Goodwill impairment testing
Impairment testing for goodwill is carried out annually at the end of the third quarter for the Purolator and Logistics segments. The recoverable amount of each segment was estimated based on its value in use and was determined to be higher than its carrying value. No impairment was recognized in the current or prior year.

The calculation of the value in use for the Purolator segment, the only segment with a material balance, was based on the following assumptions:

- Future cash flows were discounted in determining the value in use. The cash flows were based on Purolator's five-year plan, which is aligned with past experience and the way Purolator is managed. Cash flows were extrapolated in perpetuity using a growth rate of 2.5% (2017 – 2.5%), which considers both growth and inflation, and reflects an acceptable percentage given the information and industry standard available at the time of the impairment test.
- The recoverable amount was calculated using a pre-tax discount rate of 15% (2017 – 18%), which is based on Purolator's weighted-average cost of capital.

13. Trade and Other Payables

As at December 31	**2018**	2017
Trade payables	$ 178	$ 158
Accruals and other payables	317	263
Payables to foreign postal administrations	63	68
Outstanding money orders	19	20
Taxes payable	76	74
Total	**$ 653**	$ 583

Market and liquidity risks relating to trade and other payables are disclosed in Note 19.

(in millions of Canadian dollars, unless otherwise indicated)

14. Provisions

The following table presents the movement in provisions for the year ended December 31, 2018:

	Claims	Other	Total
Balance at December 31, 2017	$ 57	$ 22	$ 79
Additional provisions recognized	11	16	27
Provisions used during the year	(25)	(16)	(41)
Reduction from remeasurement of provisions	(2)	(1)	(3)
Balance at December 31, 2018	**$ 41**	**$ 21**	**$ 62**
Current provisions	**$ 41**	**$ 20**	**$ 61**
Non-current provisions, included in non-current other liabilities	**$ –**	**$ 1**	**$ 1**

Claims
The provision for claims is management's best estimate of the probable cash outflows related to legal claims and grievances, as well as non-litigated disputes. The timing of cash outflows related to these claims is uncertain, as it often depends on the outcome of specific events including, but not limited to, the length of legal proceedings.

Other
The December 31, 2018, and 2017, balances for the other provisions category consist of a number of sales tax provisions and other corporate provisions, which represents management's best estimate of the probable cash outflows.

Disclosures regarding contingent liabilities, for which no provisions were recognized due to either insufficient information to reasonably estimate the amount of the obligation, or the outflow of resources associated with the obligation being possible rather than probable, can be found in Note 16.

15. Labour Related Matters

The Corporation is involved in a number of pay equity and related matters filed by various labour groups of Canada Post. Where appropriate, the Corporation has recorded a provision in salary and benefits payable and related provisions, and such a provision is measured at management's best estimate of the expenditure to be incurred.

The following matters have evolved during the year ended December 31, 2018:

(a) In September 2016, Canada Post and the Canadian Union of Postal Workers (CUPW) signed a memorandum of understanding in which the parties agreed to enter into a joint pay equity study to assess whether or not a gender-based wage gap exists for the female-predominant occupational group of rural and suburban mail carriers. The study was coordinated by a committee comprising representatives of Canada Post and CUPW. In October 2017, the committee received dual reports on the potential wage gap under the *Canadian Human Rights Act.* Discussions between the parties, in an attempt to resolve any inconsistencies between the reports and to agree on the amount of the wage gap and actions to rectify, did not result in an agreement. Binding arbitration commenced in February 2018 and ended on May 2, 2018. On May 31, 2018, the arbitrator released her decision that urban and suburban mail carriers perform work of equal value, remitting the determination of the extent of the wage gap back to the parties for resolution by August 31, 2018, failing which, outstanding matters would proceed to further binding arbitration. The parties were engaged in discussions, facilitated by the arbitrator, but since no agreement was reached, outstanding matters proceeded to binding arbitration.

On September 20, 2018, the arbitrator released her final ruling, which included wage adjustments, increases in pensionable pay received for personal contact items and lock changes (subject to regulatory approval), vacation leave improvements, pre-retirement leave, post-retirement benefits and eligibility for many other benefits, leaves and allowances. As at and for the year ended December 31, 2018, the Corporation recognized provisions in salaries and benefits payable and related provisions and plan amendments in pension, other post-employment and other long-term benefit liabilities to reflect these changes. Labour and employee benefit costs, excluding plan amendments, also increased for the year ended December 31, 2018. Adjustments were retroactive to January 1, 2016. Amounts were estimated using information available as of the date of approval of these consolidated financial statements. In implementing the arbitrator's decision, the parties entered into a memorandum of agreement to work together and meet regularly, which they continue to do.

(b) The Canadian Postmasters and Assistants Association (CPAA) initially filed complaints with the Canadian Human Rights Commission (Commission) in 1982 and 1992, alleging discrimination by the Corporation concerning work of equal value. Both complaints were settled by the parties. However in 2012, the CPAA requested reactivation of the 1992 complaint and in 2014, the Commission investigator concluded that the period 1992-97 remained at issue and should be referred to the Canadian Human Rights Tribunal. In early 2015, the Commission rendered a decision that the matter should proceed to the Tribunal on its merits. On September 1, 2016, the Tribunal directed the parties (Canada Post, the CPAA and the Commission) to exchange statements of particulars by the end of 2016 in order for the matter to proceed to its merits. Statements of particulars have been exchanged.

15. Labour Related Matters (continued)

In 2017, the CPAA took the position that the Tribunal should not be limited to the 1992-97 period, but should assess liability against Canada Post to the present day. A motion was heard by the Tribunal on June 19, 2017, and by the decision of January 15, 2018, the Tribunal ruled that the complaint is limited to the period from September 1992 to March 30, 1997, and does not include ongoing liability.

The parties agreed to mediation in an attempt to reach a settlement for the 1992-97 period. Five days of mediation have been set aside between January and May 2019. If the parties are not able to reach a settlement through mediation, the Tribunal has established hearing days commencing in June 2019.

(c) The implementation of the 2013 memorandum of agreement between the Public Service Alliance of Canada (PSAC) and the Corporation regarding the Canadian Human Rights Tribunal (Tribunal) decision related to PSAC's pay equity complaint continues. The Corporation provided notice to PSAC that former employees who could not be reached by mail or other forms of notification have five years to claim their entitlement under the memorandum of agreement. The five-year time frame started July 28, 2016.

It is currently not possible for the Corporation to predict the final outcome of the various pay equity and related matters, and may adjust any such provisions in its net profit for subsequent periods, as required. These matters will continue to evolve, but further detailed information will not be provided as it could be prejudicial to the Corporation.

16. Contingent Liabilities

(a) An application to the Federal Court seeking a judicial review of Canada Post's decision to convert door-to-door delivery to community mailbox delivery was filed by CUPW and others in November 2014, with a number of Montréal urban communities granted intervenor status. The matter was placed in abeyance pending the results of the government review of Canada Post. In January 2018, the government announced that it was ending the program to convert door-to-door delivery to community mailboxes. As a result, on consent and on a without-cost basis, CUPW filed a notice of discontinuance with the Federal Court, effectively ending this litigation as of April 12, 2018.

(b) In June 2017, the Quebec Superior Court authorized a class action lawsuit to proceed against the Corporation. The allegation is that some employees and retirees in Quebec may have made, between July 1, 2013, and the present, co-payments for prescription drugs under the Canada Post drug insurance plan that are in excess of the annual maximum set by legislation that regulates the Régie de l'assurance maladie du Québec (RAMQ). The outcome of this class action is currently not determinable.

(c) In 2017, the Federal Court of Appeal reinstated the original direction of a health and safety officer from Employment and Social Development Canada (ESDC), which requires Canada Post to conduct annual health and safety inspections of all affected points of call in Burlington, Ontario. No financial compensation was granted. Leave to appeal the decision of the Federal Court of Appeal was granted by the Supreme Court of Canada, and the notice of appeal was filed on May 14, 2018. A hearing took place on December 10, 2018. Judgment was reserved.

(d) In the normal course of business, the Group of Companies enters into agreements that include indemnities in favour of third parties. In addition, each member of the Group of Companies indemnifies its respective directors, officers and certain employees, either through corporate by-laws or indemnity agreements, against claims and expenses incurred by them as a result of serving as directors or officers of the Group of Companies or as directors or officers or in a similar capacity of another entity at the request of the Group of Companies.

These agreements generally do not contain specified limits on the Group of Companies' liability. Therefore, it is not possible to estimate the potential future liability from these indemnities. No amounts have been accrued in the consolidated financial statements with respect to these indemnities.

(e) The Group of Companies is involved in various other claims and litigation in the normal course of business for which the outflows of resources to settle the obligations either cannot be estimated or are not probable at this time. Provisions for such claims are recorded when an obligation exists, an outflow of resources is probable, and amounts can be reasonably estimated.

(f) Some of the Corporation's owned buildings have asbestos-containing materials, which the Corporation would be obligated to remove and dispose of in a special manner should the property undergo major renovations or full or partial demolition. Unless such renovations or demolitions occur, there would be no related provision recognized in the consolidated financial statements as there is currently no obligation to remove and dispose of asbestos-containing materials.

The fair value of decommissioning obligations associated with site restoration after permanent removal of a community mailbox from a location is not reasonably estimable due to indeterminate settlement dates, and as a result no provision has been recorded in the consolidated financial statements. The Corporation will continue to assess its ability to estimate the fair values of its decommissioning obligations at each future reporting date.

(in millions of Canadian dollars, unless otherwise indicated)

17. Loans and Borrowings

As at December 31	**2018**		2017	
	Fair value[4]	**Carrying value**	Fair value[4]	Carrying value
Series 1 bonds maturing July 2040, interest at 4.36%, payable semi-annually on January 16 and July 16[1,2]	$ 617	$ 498	$ 615	$ 498
Series 2 bonds maturing July 2025, interest at 4.08%, payable semi-annually on January 16 and July 16[1,2]	553	499	558	499
Finance lease obligations, maturing on various dates through 2022, net of implicit interest at rates varying from 2.4% to 4.0%[3]	28	28	41	41
Total loans and borrowings	**$ 1,198**	**$ 1,025**	$ 1,214	$ 1,038
Current loans and borrowings	**$ 12**	**$ 12**	$ 13	$ 13
Non-current loans and borrowings	**$ 1,186**	**$ 1,013**	$ 1,201	$ 1,025

1. The Corporation has a right of redemption prior to maturity at a premium to fair value.
2. Bonds constitute direct, unconditional and unsecured obligations of the Corporation and direct, unconditional obligations of the Government of Canada.
3. The leasing facility of a subsidiary, which allows for borrowings of up to $80 million to acquire capital assets, requires that, every quarter, the funded debt to income before interest, tax and amortization covenant ratio be equal to or less than 2.5:1. The subsidiary is in compliance with this covenant.
4. The estimated fair values disclosed for loans and borrowing are categorized as level 2 in the fair value hierarchy and are applied on a recurring basis. There were no transfers between the levels of the fair value hierarchy during the year ended December 31, 2018 (2017 – nil).

Additional information regarding the Group of Companies' externally imposed capital requirements and borrowing capacity is disclosed in notes 18 and 19 (c).

Interest expense on loans and borrowings amounted to $44 million (2017 – $44 million).

Future principal repayments on loans and borrowings, excluding finance lease obligations, were as follows:

As at December 31	**2018**	2017
Maturity:		
2025	$ 500	$ 500
2040	500	500
	$ 1,000	$ 1,000

Finance lease obligations at December 31, 2018, were as follows:

	Minimum payments	**Unamortized interest expense**	**Present value of minimum payments**
Not later than one year	$ 13	$ 1	$ 12
Later than one year and not later than five years	16	–	16
Later than five years	–	–	–
Finance lease obligations	**$ 29**	**$ 1**	**$ 28**
Current finance lease obligations	**$ 13**	**$ 1**	**$ 12**
Non-current finance lease obligations	**$ 16**	**$ –**	**$ 16**

Finance lease obligations at December 31, 2017, were as follows:

	Minimum payments	Unamortized interest expense	Present value of minimum payments
Not later than one year	$ 14	$ 1	$ 13
Later than one year and not later than five years	29	1	28
Later than five years	–	–	–
Finance lease obligations	$ 43	$ 2	$ 41
Current finance lease obligations	$ 14	$ 1	$ 13
Non-current finance lease obligations	$ 29	$ 1	$ 28

(in millions of Canadian dollars, unless otherwise indicated)

17. Loans and Borrowings (continued)

Changes in liabilities arising from financing activities:

	December 31, 2017	Cash flows	Other	**December 31, 2018**
Loans and borrowings	$ 997	$ –	$ –	**$ 997**
Finance lease obligations	41	(13)	–	**28**
Total	$ 1,038	$ (13)	$ –	**$ 1,025**

	December 31, 2016	Cash flows	Other	December 31, 2017
Loans and borrowings	$ 997	$ –	$ –	$ 997
Finance lease obligations	62	(22)	1	41
Total	$ 1,059	$ (22)	$ 1	$ 1,038

Interest is accrued to trade and other payables. Interest paid is included in cash flows from operating activities in the consolidated statement of cash flows.

18. Capital Management

The Corporation is subject to the *Canada Post Corporation Act* and the *Financial Administration Act* (Acts) and any directives issued pursuant to the Acts. The Acts affect how the Corporation manages its capital by, among other things, setting broad objectives for the Corporation. Specifically, while maintaining basic postal service and in carrying out its objectives, the Corporation must have regard for the need to conduct its operations on a self-sustaining financial basis, while providing a standard of service that meets the needs of the people of Canada.

The Corporation views capital as the sum of loans and borrowings, other liabilities (non-current) and equity of Canada. This definition of capital is used by management and may not be comparable to measures presented by other postal organizations or public companies.

The total outstanding loans and borrowings were $1,025 million at December 31, 2018, compared to $1,038 million at December 31, 2017. The decrease of $13 million in 2018 was due to a decrease in finance lease obligations. The equity of Canada was in a deficit position of $102 million at December 31, 2018, compared to a deficit position of $402 million as at December 31, 2017 (restated – Note 5). The increase in the equity of Canada was primarily attributable to the remeasurements of defined benefit plans, which are recognized in other comprehensive income and are included immediately in retained earnings or accumulated deficit.

The Corporation's objectives in managing capital are as follows:

- Provide sufficient liquidity to support and repay its financial obligations and support its operating and strategic plans.
- Maintain financial capacity and access to credit facilities to support future development of the business.

These objectives and their related strategies are reviewed and approved each year by the Board of Directors through the annual Corporate Plan, which is then forwarded for Governor-in-Council approval. The Corporation's 2019-23 Corporate Plan was approved by the Governor in Council January 31, 2019.

On September 24, 2018, pursuant to subsection 3(3) of the *Financial Administration Act* , Canada Post Corporation was reclassified from Part II of Schedule III to Part I of Schedule III of the Act, removing the requirement to submit an annual dividend proposal to its shareholder. Canada Post has not paid a dividend to its shareholder since 2008.

The borrowing capacity of the Corporation and its access to credit facilities are outlined in the discussion of liquidity risk arising from financial instruments in Note 19 (c). Pursuant to the *Financial Administration Act,* Part X, the Corporation must indicate its intention to borrow money in the annual Corporate Plan, or in an amendment thereto, both of which are subject to the approval of the Corporation's Board of Directors and the Governor in Council. In addition, the detailed terms and conditions of any specific borrowing transaction must be approved by the Minister of Finance.

The Corporation's borrowing limit, other than from the Crown, is authorized pursuant to *Appropriation Act No. 4, 2009-10*. The *Canada Post Corporation Act* provides a maximum limit for borrowing from the Government of Canada's Consolidated Revenue Fund and for the establishment of a share capital structure, giving the Corporation the ability to raise funds through the issuance of shares to the Government of Canada and to the Corporation's employees. No such shares have been issued. Additional information regarding the Corporation's total authorized borrowing limit is disclosed in Note 19 (c).

The Corporation is not subject to any externally imposed capital requirements. Under various borrowing agreements, subsidiaries must satisfy certain restrictive covenants related to funded debt to income before interest, tax and amortization, and interest coverage ratios. The subsidiaries are in compliance with all covenants.

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management

Financial risk factors
The Group of Companies' financial instruments are exposed to a variety of financial risks: market risk (including interest rate risk, foreign exchange risk and commodity risk), credit risk and liquidity risk. Risk management for investment activities is carried out by the Corporate Treasury function under policies approved by the Board of Directors. Investments are held for liquidity purposes, or for longer terms, to achieve the highest possible rate of return, consistent with the investment policies approved by the Board of Directors. The Group of Companies has various other financial instruments, such as trade and other receivables, trade and other payables and salaries payable, which arise directly from operations. The Group of Companies enters into derivative contracts to manage certain risks in accordance with its risk management policy. Derivatives are never purchased for speculative purposes.

Risk management strategies are likely to evolve in response to future conditions and circumstances, including the effects and consequences resulting from changes in the economic environment. These future strategies may not fully insulate the Group of Companies in the near term from adverse effects, the more significant of which relate to liquidity and capital resources as well as exposure to credit losses.

(a) Market risk

Market risk is the potential for loss that may arise from changes in external market factors, such as interest rates, foreign exchange rates and commodity prices.

(a.1) Interest rate risk • The Group of Companies' investments consist of cash equivalents, marketable securities and segregated securities and are classified as fair value through other comprehensive income. Substantially all investments are fixed-rate debt securities; therefore, they are exposed to a risk of change in their fair value for changes in interest rates. The risk is managed by either maintaining a short term to maturity or, in the case of segregated securities, extending terms to maturity to better match certain long-term post-employment liabilities to which they are externally restricted. The average duration in the segregated securities portfolio was 12 years as at December 31, 2018 (2017 – 13 years).

The Group of Companies has performed a sensitivity analysis on interest rate risk using a 1% increase or decrease, which represents management's assessment of a reasonably possible change in interest rates given the nature and term to maturity of the outstanding investments. An increase or decrease of 1% in market interest rates, with all other variables held constant, would decrease or increase the value of the segregated securities and other comprehensive income or loss by $63 million at December 31, 2018 (2017 – $68 million). Such change in value would be partially offset by the change in value of certain post-employment benefit liabilities. Substantially all of the Group of Companies' loans and borrowings have fixed interest rates with prepayment terms at a premium to fair value.

(a.2) Foreign exchange risk • Exposure to foreign exchange risk primarily applies to the Canada Post segment where it arises mainly from international settlements with foreign postal administrations and the redemption of money orders denominated in foreign currencies. The Corporation's obligation to settle with foreign postal administrations is denominated in special drawing rights (SDRs), a basket of currencies comprising the U.S. dollar (US$), euro (€), British pound (£), Japanese yen (JP¥) and Chinese renminbi (CN¥), whereas payment is usually denominated in US$.

The Canada Post segment has an economic hedge program to mitigate its exposure to foreign exchange balances and forecasted sales denominated in SDRs. These exposures are first netted against forecasted expenses denominated in SDRs, and the remaining exposure may be hedged using foreign exchange forward contracts denominated in the five currencies, which underlie one SDR. Under the program, hedging is permitted on up to 70% of forecasted net exposures, where cash flows are highly probable. The forward contracts outstanding were as follows:

As at December 31, 2018

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$37	$ 49	$1.335/US$	January 10, 2019	Sell forward	$ (1)
Euro	€15	23	$1.52/€	January 11, 2019	Sell forward	(1)
British pound	£3	5	$1.706/£	January 11, 2019	Sell forward	–
Japanese yen	JP¥600	7	$0.012/JP¥	January 11, 2019	Sell forward	–
Chinese renminbi	CN¥45	9	$0.195/CN¥	January 11, 2019	Sell forward	–
Total		**$ 93**				**$ (2)**

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

As at December 31, 2017

Currency	Notional value	Canadian equivalent	Average contract rate	Maturity	Type	Fair value
U.S. dollar	US$37	$ 47	$1.28/US$	January 11, 2018	Sell forward	$ 1
Euro	€25	37	$1.51/€	January 12, 2018	Sell forward	–
British pound	£6	9	$1.71/£	January 12, 2018	Sell forward	–
Japanese yen	JP¥750	9	$0.011/JP¥	January 12, 2018	Sell forward	–
Chinese renminbi	CN¥65	13	$0.192/CN¥	January 12, 2018	Sell forward	–
Total		$ 115				$ 1

The foreign exchange gains (losses) and derivative gains were recognized as follows:

For the year ended December 31		**2018**				2017
	Foreign exchange gains	**Derivative losses**	**Total**	Foreign exchange gains (losses)	Derivative gains	Total
Unrealized	$ 8	$ (3)	$ 5	$ 1	$ 1	$ 2
Realized	10	(8)	2	(8)	–	(8)
Total	**$ 18**	**$ (11)**	**$ 7**	$ (7)	$ 1	$ (6)

The effect on the remaining foreign exchange exposure of a 10% increase or decrease in prevailing exchange rates at December 31, 2018, all other variables held constant, would have been an increase or decrease in net profit for the year by $10 million (2017 – $13 million).

(a.3) Commodity risk • The Group of Companies is inherently exposed to fuel-price increases. It partially mitigates this risk through the use of a fuel-price surcharge on some of its products. This is an industry-accepted practice and long-standing technique in mitigating risk and as a result, does not require derivative instruments to manage the remaining exposure to commodity risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty to a financial instrument will default on its contractual obligations, resulting in financial loss to the Group of Companies. Credit risk arises from investments in corporations and financial institutions, as well as credit exposures to wholesale and commercial customers, including outstanding receivables. Sales to consumers are settled in cash or using major credit cards.

The carrying amount of financial assets recorded in the consolidated financial statements, which are presented net of expected credit losses, represents the Group of Companies' maximum exposure to credit risk. The Group of Companies does not believe that it is subject to any significant concentration of credit risk.

(b.1) Cash equivalents, marketable securities and segregated securities • Credit risk arising from investments in cash equivalents, marketable securities and segregated securities is mitigated by investing with issuers who meet specific criteria and imposing dollar limits by financial product type and debt issuer. Investments in financial institutions and corporations must be investment grade ratings with minimum ratings from two external rating agencies that are equivalent to Dominion Bond Rating Service (DBRS) ratings of R-1 (middle) for short-term investments and A for long-term investments. The Group of Companies regularly reviews the credit ratings of issuers with whom the Group of Companies holds investments and disposes of investments within a specified time period when the issuer's credit rating declines below acceptable levels.

Cash equivalents, marketable and segregated securities, which are investments in debt securities, are considered to have low credit risk, and thus the impairment provision recognized during the period was limited to 12-month expected losses. The probability-of-default approach is used to determine the 12-month expected credit loss, which uses a historical default rate implied from external credit agencies for similar grade debt securities. The historical defaults are adjusted, if necessary, by using current and forward-looking information such as bond spreads. The debt securities are grouped by their individual credit rating and the 12-month expected credit loss is measured on a collective basis. A security designated to be in default implies that the issuer has either not met a legally scheduled payment or has made it clear that it will miss such a payment in the near future or, in certain cases, that there has been a distressed exchange. The debt securities are considered credit impaired when they are in default. There were no significant allowance and no impairment loss on investments recognized during the year and or held at year's end (2017 – nil).

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

The following table shows the credit risk concentration by credit risk rate grades of debt securities held as cash equivalents, marketable securities and segregated securities:

For the year ended December 31			2018			2017
	R-1 (high)[1] / AAA[4]	**R-1 (middle)[2] / AA[5]**	**R-1 (low)[3] / A[6]**	R-1 (high) / AAA	R-1 (middle) / AA	R-1 (low) / A
Cash equivalents	**$ 89**	**$ 80**	**$ –**	$ 314	$ 89	$ –
Marketable securities	**$ 924**	**$ 411**	**$ 135**	$ 517	$ 183	$ 121
Segregated securities	**$ 154**	**$ 85**	**$ 256**	$ 143	$ 113	$ 270
12-month expected credit loss rate	**0.00%**	**0.08%**	**0.08%**	0.00%	0.08%	0.08%

The Dominion Bond Rating Service (DBRS) credit risk rate grades applicable to cash equivalents and marketable securities are considered investment grade and are defined as follows:

1. R-1 (high): Highest credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is exceptionally high. It is unlikely to be adversely affected by future events.
2. R-1 (middle): Superior credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is very high. It differs from R-1 (high) by a relatively modest degree. Unlikely to be significantly vulnerable to future events.
3. R-1 (low): Good credit quality. The capacity for the payment (by the debtor) of short-term financial obligations as they fall due is substantial. Overall strength is not as favorable as higher rating categories. May be vulnerable to future events, but qualifying negative factors are considered manageable.

The DBRS credit risk rate grades applicable to segregated securities are considered investment grade and are defined as follows:

4. AAA: The loan portfolio (of debt securities) is considered to be of highest credit quality.
5. AA: The loan portfolio (of debt securities) is considered to be of a superior credit quality.
6. A: The loan portfolio (of debt securities) is considered to be of a good credit quality.

The gross carrying amount of the debt securities approximates their net carrying amount due to the low expected credit loss rate.

(b.2) **Trade and other receivables •** Credit risk associated with trade receivables from wholesale and commercial customers is mitigated by the Group of Companies' large customer base, which covers substantially all business sectors in Canada. The Group of Companies follows a program of individual customer credit evaluation based on financial strength and payment history, and limits the amount of credit extended when deemed necessary. The Group of Companies monitors customer accounts against these credit limits and the aging of past-due invoices. The Group of Companies establishes an allowance for doubtful accounts using the simplified approach which requires the use of lifetime expected credit losses. The Group of Companies estimates the lifetime expected losses from a combination of historical write-off percentages and forward-looking information used to identify a deterioration of credit, either at company level or macroeconomic level. A trade receivable designated to be in default implies that the customer has not met the agreed payment terms and has stated through internal collection efforts that it will not pay part or all of the amount due. Trade receivables that are sent to third-party collection agency are automatically considered in default. Trade receivables are considered credit impaired when they are in default. Despite continued weakness in certain sectors of the Canadian economy, the Group of Companies' bad debt expense has remained consistent with prior years. Weekly and ad hoc monitoring of aged receivables and the day's outstanding sales has indicated no significant change in the trend of the aging of receivables.

Credit risk attributable to receivables from foreign postal administrations, other than the United States Postal Service (USPS), is generally mitigated by corresponding trade payables to each foreign postal administration, under the provisions of the Universal Postal Union. Amounts receivable from and payable to the USPS are settled independently under the bilateral agreement between the Corporation and the USPS. Estimates of receivables and payables, including monthly provisional payments, are based on statistics for weights and number of pieces exchanged by Canada and the United States. Final settlement with each foreign postal administration can be billed a year or more after the service is performed. The Corporation's provision for uncollectible receivables from specific foreign postal administrations is based on the past-due period after billing of the final settlement.

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

The age of receivables and the allowance for doubtful accounts for trade and other receivables were as follows:

As at December 31		**2018**		2017 (restated – note 5)
Trade receivables:				
Current	$	557	$	503
1-15 days past due		115		102
16-30 days past due		43		35
Over 30 days past due		38		41
Allowance for doubtful accounts		(5)		(7)
Trade receivables – net		748		674
Trade receivables from foreign postal administrations		190		246
Other receivables		41		26
Trade and other receivables	**$**	**979**	$	946

The allowance for doubtful accounts is a provision representing potential accounts receivable losses. The weighted average expected loss rate for the Group of Companies ranged from 0% to 1% (2017 – 0% to 1.5%), based on historical write-offs, is applied to current and past due amounts and trade receivables aging is monitored to identify potential credit deterioration. When credit deterioration is indicative of a possible economic downturn, a factor is applied to the historical rate. The allowance may also include balances known to be in default which have not been written off because internal collection efforts continue.

The reconciliation of the allowance for doubtful accounts for trade receivables as at December 31, 2018 was as follows:

As at December 31		**2018**		2017
Opening allowance for doubtful accounts:	**$**	**7**	$	8
Increase in allowance in the period recognized in profit and loss		2		1
Decrease from write-off		(4)		(2)
Closing allowance for doubtful accounts:	$	**5**	$	7

(c) Liquidity risk

Liquidity risk is the risk that a company will not be able to meet its financial obligations as they fall due. The Group of Companies manages liquidity risk by maintaining adequate cash reserves, banking facilities and reserve-borrowing facilities, by monitoring forecasted and actual cash flows and matching the maturity profiles of financial assets and liabilities. Surplus cash is invested into a range of short-term money market securities. The Group of Companies invests in high-credit quality government or corporate securities, in accordance with policies approved by the Board of Directors.

Under the *Pension Benefits Standards Act, 1985*, aggregate solvency relief is available up to 15% of a plan's solvency liabilities. As a result of these regulations, Canada Post did not have to make special payments in 2018 and does not expect to make special payments in 2019. See Note 10 (i) for additional information. The Corporation believes it has sufficient liquidity and authorized borrowing capacity to support its operations for at least the next 12 months.

The Corporation's borrowing plan is reviewed and approved annually by the Board of Directors and subsequently submitted for approval to the Governor in Council on the recommendation of the Minister responsible for Canada Post and the Minister of Finance, as part of its Corporate Plan approval process (Note 18). Pursuant to the *Canada Post Corporation Act*, the Corporation may borrow a maximum of $500 million from the Government of Canada's Consolidated Revenue Fund. Pursuant to *Appropriation Act No. 4, 2009-10*, the Corporation is authorized to borrow other than from the Crown an aggregate outstanding amount not exceeding $2.5 billion, in accordance with the terms and conditions approved by the Minister of Finance. As part of the total authorized borrowing limit, a maximum of $100 million (2017 – $100 million) was available for cash management purposes in the form of short-term borrowings at December 31, 2018.

The Corporation's loans and borrowings amounted to $997 million (2017 – $997 million), and letters of credit of $13 million (2017 – $12 million) were issued at December 31, 2018. No amounts were drawn on the short-term borrowing facilities as of December 31, 2018.

As at December 31, 2018, the Corporation's subsidiaries had access to financing facilities totalling $135 million (2017 – $120 million), of which $28 million (2017 – $41 million) was drawn at year's end. The subsidiaries also had letters of credit issued in the amount of $7 million (2017 – $7 million). Additional information regarding the Group of Companies' loans and borrowings is disclosed in Note 17.

(in millions of Canadian dollars, unless otherwise indicated)

19. Financial Instruments and Risk Management (continued)

The following table details the Group of Companies' remaining contractual maturities for its financial liabilities. The amounts represent undiscounted cash flows of financial liabilities based on the earliest date on which the Group of Companies can be required to pay. The table includes both principal and interest cash flows.

As at December 31, 2018

	Effective interest rate	**Less than one year**	**Later than one year and not later than five years**	**Later than five years**	**Total**
Non-interest bearing[1]	N/A	$ 950	$ –	$ –	$ 950
Risk management liabilities	N/A	2	–	–	2
Bonds, Series 1	4.39%	22	87	871	980
Bonds, Series 2	4.12%	20	82	541	643
Finance lease obligations	2.4%-4.0%	13	16	–	29
		$ 1,007	**$ 185**	**$ 1,412**	**$ 2,604**

1. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

As at December 31, 2017

	Effective interest rate	Less than one year	Later than one year and not later than five years	Later than five years	Total
Non-interest bearing[1]	N/A	$ 721	$ –	$ –	$ 721
Bonds, Series 1	4.39%	22	87	892	1,001
Bonds, Series 2	4.12%	20	82	561	663
Finance lease obligations	2.4%-4.1%	14	29	–	43
		$ 777	$ 198	$ 1,453	$ 2,428

1. Non-interest bearing consists of financial liabilities included in trade and other payables and salaries and benefits payable and related provisions.

Liquidity risk arising from financial instruments is also affected by the Group of Companies' management of debt and equity levels that is summarized in Note 18.

20. Commitments

(a) The Group of Companies is committed to the following future minimum lease payments under facilities, transportation equipment and other operating leases:

As at December 31	**2018**	2017
Not later than one year	$ 149	$ 133
Later than one year and not later than five years	405	354
Later than five years	300	334
Total	**$ 854**	$ 821

Included in the above table are lease payments to be made to related parties, in the normal course of business, in the amount of $24 million for premises used in postal operations and transportation services (2017 – $38 million).

The Group of Companies leases a number of properties, including industrial buildings, retail stores, offices and land, as well as operating equipment under operating leases. Where renewal options exist, exercise is at the discretion of the Group of Companies. Some of the Corporation's property leases include the right of first refusal to purchase the building.

During the year ended December 31, 2018, $129 million was recognized as an expense in net profit in respect of operating leases (2017 – $126 million). This amount is net of lease revenue of $13 million (2017 – $11 million).

(b) The Group of Companies has contractual arrangements with third-party suppliers, including contracts that allow for termination with penalties, approximating $451 million that extend to 2022.

(c) In the normal course of business, the Group of Companies enters into contractual arrangements for the supply of goods and services over periods extending beyond one year. Disbursements largely depend on future volume-related requirements and are subject to the Group of Companies' contractual rights of termination.

(in millions of Canadian dollars, unless otherwise indicated)

21. Revenue from Contracts with Customers

The following tables provide information about trade and other receivables (including contract assets) and contract liabilities from contracts with customers:

As at December 31	**2018**	2017 (restated – Note 5)
Receivables from contracts with customers	$ 925	$ 913
Contract assets	14	9
Other receivables	40	24
Total trade and other receivables	**$ 979**	$ 946

Contract assets relate to the Group of Companies' rights to consideration for parcels in-transit at the reporting date. The contract assets are transferred to receivables when rights become unconditional, which occurs shortly after the reporting date due to the short parcel delivery cycle.

As at December 31	**2018**	2017 (restated – Note 5)
Contract liabilities included in:		
Trade and other payables (refund liabilities)	$ 13	$ 13
Deferred revenue (current)	153	136
Other liabilities (non-current)	5	7
Total	**$ 171**	$ 156

The following table includes a reconciliation of contract liabilities:

As at December 31	**2018**	2017 (restated – Note 5)
Contract liabilities beginning of period	$ 156	$ 158
Revenue recognized included in Deferred revenue (current) and Other liabilities (non-current) at the beginning of the period	(138)	(143)
Increase in refund liabilities	–	5
Increase due to cash received or amounts billed, excluding amounts recognized as revenue during the period	153	136
Contract liabilities end of period	**$ 171**	$ 156

The amount of revenue recognized for the year ended December 31, 2018 from performance obligations satisfied in previous periods, mainly due to changes in the estimate of certain performance based metrics in the international channel was nil (2017 – $7 million).

22. Other Operating Costs

For the year ended December 31	**2018**	2017 (restated – Note 5)
Non-labour collection, processing and delivery	$ 1,563	$ 1,433
Property, facilities and maintenance	387	375
Selling, administrative and other	538	484
Other operating costs	**$ 2,488**	$ 2,292

(in millions of Canadian dollars, unless otherwise indicated)

23. Investing and Financing Income (Expense)

For the year ended December 31	2018	2017
Interest income	$ 49	$ 22
Loss on sale of capital assets and assets held for sale	(6)	(3)
Other income	14	–
Investment and other income	**$ 57**	$ 19
Interest expense	$ (44)	$ (44)
Other expense	(14)	(2)
Finance costs and other expense	**$ (58)**	$ (46)
Investing and financing expense, net	**$ (1)**	$ (27)

24. Other Comprehensive Income

	Items that may subsequently be reclassified to net profit (loss)			Item never reclassified to net profit (loss)	
	Change in unrealized fair value of financial assets	Cumulative foreign currency translation adjustment	Accumulated other comprehensive income	Remeasurements of defined benefit plans	Other comprehensive income (loss)
Accumulated balance as at December 31, 2016	$ 39	$ 5	$ 44		
Gains (losses) arising	$ 16	$ (2)	$ 14	$ (270)	$ (256)
Income taxes	(4)	–	(4)	67	63
Net	$ 12	$ (2)	$ 10	$ (203)	$ (193)
Accumulated balance as at December 31, 2017	$ 51	$ 3	$ 54		
Gains (losses) arising	$ (17)	$ 2	$ (15)	$ 545	$ 530
Income taxes	4	–	4	(137)	(133)
Net	**$ (13)**	**$ 2**	**$ (11)**	**$ 408**	**$ 397**
Accumulated balance as at December 31, 2018	**$ 38**	**$ 5**	**$ 43**		

(in millions of Canadian dollars, unless otherwise indicated)

25. Related Party Transactions

The Corporation is wholly owned by the Government of Canada and is under common control with other government agencies and departments, and Crown corporations. The Group of Companies had the following transactions with related parties in addition to those disclosed elsewhere in these consolidated financial statements:

(a) Government of Canada, its agencies and other Crown corporations

For the year ended December 31	**2018**	2017
Related party revenue	**$ 227**	$ 250
Compensation payments for programs		
Government mail and mailing of materials for persons who are blind	**$ 22**	$ 22
Payments from related parties for premises leased from the Corporation	**$ 8**	$ 7
Related party expenditures	**$ 28**	$ 23

The majority of the related party revenue was for commercial contracts relating to postal services with the Government of Canada. As well, compensation was provided by the Government of Canada for parliamentary mail services and mailing of materials for persons who are blind sent free of postage (Note 2).

As at December 31	**2018**	2017
Due to/from related parties		
Included in trade and other receivables	**$ 13**	$ 15
Included in trade and other payables	**$ 9**	$ 10
Deferred revenue from related parties	**$ 1**	$ 1

Future payments from related parties for premises leased from the Corporation were as follows:

As at December 31	**2018**	2017
Not later than one year	$ 6	$ 6
Later than one year and not later than five years	23	6
Later than five years	6	–
Total	**$ 35**	$ 12

(b) Key management personnel compensation

Key management personnel (KMP) are defined as the Boards of Directors and members of the senior executive teams responsible for planning, controlling and directing the activities of the Group of Companies.

The remuneration of the KMP was as follows:

For the year ended December 31	**2018**	2017
Short-term employee benefits	$ 11	$ 9
Post-employment benefits	1	1
Total compensation	**$ 12**	$ 10

The KMP Group of Companies' compensation relating to the Boards of Directors included in this table was $0.5 million (2017 – $0.4 million).

In addition to the amounts in the table, KMP remuneration relating to one-time termination benefits of $0.5 million was incurred in 2018 (2017 – $1 million). There were no transactions with the KMP other than compensation.

(in millions of Canadian dollars, unless otherwise indicated)

25. Related Party Transactions (continued)

(c) Transactions with entities in which the KMP of the Canada Post Group of Companies has control or joint control

In the normal course of business, the Group of Companies may interact with companies whose financial and operating policies are solely or jointly governed by the KMP of the Group of Companies. Affected KMP are required to recuse themselves from all discussions and decisions relating to transactions between the companies. The only significant transactions for the year ended December 31, 2018, were between Purolator and a company controlled by one of the Group of Companies' KMP, who is a director and also a minority shareholder of Purolator. This company provided air services to Purolator in the amount of $14 million (2017 – $11 million). These transactions had been made at prices and terms comparable to those given to other suppliers of Purolator.

(d) Transactions with the Corporation's pension plans

During the year, the Corporation provided administration services to the Canada Post Corporation Registered Pension Plan in the amount of $13 million (2017 – $12 million). As at December 31, 2018, $14 million (2017 – $14 million) relating to transactions with the Registered Pension Plan was outstanding and included in trade and other receivables. Cash payments, including contributions to the defined benefit plans and defined contribution plans for the Group of Companies, are disclosed in Note 10 (i).

26. Segmented and Disaggregation of Revenue Information

(a) Operating segments • A description of the Group of Companies' operating segments can be found in the significant accounting policies (Note 3 [m]). The accounting policies of the operating segments are the same as those described in the significant accounting policies (Note 3). Intersegment transactions are recognized at the exchange amount, which is the amount agreed to by the various legal entities. With the exception of the information technology (IT) business unit delivering shared services on a cost-recovery basis, the terms and conditions of these transactions are comparable to those offered in the marketplace. On a consolidated basis, no external customer's purchases account for more than 10% of total revenue.

For the year ended December 31, 2018, the IT business unit earned intersegment revenue of $226 million (December 31, 2017 – $218 million, restated), incurred cost of operations of $226 million (December 31, 2017 – $218 million, restated), and earned net profit of nil (December 31, 2017 – nil). As part of the IT business unit's compliance with IFRS 15, the intersegment revenue and cost of operations both decreased $6 million for the year ended December 31, 2017. The restated intersegment amounts are eliminated in the consolidated financial statements and do not impact the Group of Companies' results. Total assets and liabilities at December 31, 2018, were $117 million and $68 million, respectively (December 31, 2017 – $110 million and $60 million, respectively).

For the year ended and as at December 31, 2018

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,562	$ 1,829	$ 284	$ –	$ 8,675
Intersegment revenue	58	23	38	(119)	–
Revenue from operations	$ 6,620	$ 1,852	$ 322	$ (119)	$ 8,675
Labour and employee benefits	$ 4,882	$ 830	$ 163	$ 110	$ 5,985
Other operating costs	1,783	801	128	(224)	2,488
Depreciation and amortization	247	58	11	(5)	311
Cost of operations	$ 6,912	$ 1,689	$ 302	$ (119)	$ 8,784
Profit (loss) from operations	$ (292)	$ 163	$ 20	$ –	$ (109)
Investment and other income	$ 77	$ 2	$ 1	$ (23)	$ 57
Finance costs and other expense	(55)	(3)	–	–	(58)
Profit (loss) before tax	$ (270)	$ 162	$ 21	$ (23)	$ (110)
Tax expense (recovery)	(73)	43	6	1	(23)
Net profit (loss)	$ (197)	$ 119	$ 15	$ (24)	$ (87)
Total assets	$ 8,340	$ 1,010	$ 163	$ (316)	$ 9,197
Additions to capital assets	$ 302	$ 45	$ 35	$ 5	$ 387
Total liabilities	$ 8,889	$ 318	$ 67	$ (15)	$ 9,259

(in millions of Canadian dollars, unless otherwise indicated)

26. Segmented and Disaggregation of Revenue Information (continued)

For the year ended and as at December 31, 2017
(restated – Note 5)

	Canada Post	Purolator	Logistics	Other	Total
Revenue from external customers	$ 6,461	$ 1,615	$ 242	$ –	$ 8,318
Intersegment revenue	45	18	34	(97)	–
Revenue from operations	$ 6,506	$ 1,633	$ 276	$ (97)	$ 8,318
Labour and employee benefits	$ 4,484	$ 766	$ 136	$ 104	$ 5,490
Other operating costs	1,690	687	111	(196)	2,292
Depreciation and amortization	248	53	8	(4)	305
Cost of operations	$ 6,422	$ 1,506	$ 255	$ (96)	$ 8,087
Profit (loss) from operations	$ 84	$ 127	$ 21	$ (1)	$ 231
Investment and other income	$ 34	$ –	$ –	$ (15)	$ 19
Finance costs and other expense	(42)	(4)	–	–	(46)
Profit (loss) before tax	$ 76	$ 123	$ 21	$ (16)	$ 204
Tax expense	17	33	6	–	56
Net profit (loss)	$ 59	$ 90	$ 15	$ (16)	$ 148
Total assets	$ 7,741	$ 920	$ 142	$ (314)	$ 8,489
Additions to capital assets	$ 250	$ 46	$ 10	$ (5)	$ 301
Total liabilities	$ 8,474	$ 344	$ 58	$ (17)	$ 8,859

(b) Geographic area revenue information

Revenue reported for geographical areas outside of Canada is, for the Corporation, based on the location of the foreign postal administration hiring the service, and based on the location of the customer hiring the service for the other segments and the business unit. Individual foreign countries that are sources of material revenue are reported separately. The Group of Companies has no significant assets located outside of Canada. All intersegment revenue is domestic; therefore, revenue for geographic areas is reported net of intersegment revenue.

For the year ended December 31	**2018**	2017 (restated – Note 5)
Canada	$ 8,178	$ 7,808
United States	259	281
Rest of the world	238	229
Total revenue	**$ 8,675**	$ 8,318

(c) Products and services revenue information

Revenue reported for products and services is based on information available at the time of sale, such that stamps and meter revenue are reported separately, rather than being attributed to the lines of business.

For the year ended December 31, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Revenue attributed to products and services			
Transaction Mail	$ 1,899	$ (2)	$ 1,897
Parcels	4,596	(116)	4,480
Direct Marketing	1,098	(1)	1,097
Other revenue	451	(226)	225
	$ 8,044	**$ (345)**	**$ 7,699**
Unattributed revenue			
Stamp postage	$ 409	$ –	$ 409
Meter postage	567	–	567
	$ 976	**$ –**	**$ 976**
Total	**$ 9,020**	**$ (345)**	**$ 8,675**

(in millions of Canadian dollars, unless otherwise indicated)

26. Segmented and Disaggregation of Revenue Information (continued)

For the year ended December 31, 2017
(restated – Note 5)

	Total revenue	Intersegment and consolidation	Revenue from external customers
Revenue attributed to products and services			
Transaction Mail	$ 1,922	$ (2)	$ 1,920
Parcels	4,080	(95)	3,985
Direct Marketing	1,121	–	1,121
Other revenue	465	(228)	237
	$ 7,588	$ (325)	$ 7,263
Unattributed revenue			
Stamp postage	$ 442	$ –	$ 442
Meter postage	613	–	613
	$ 1,055	$ –	$ 1,055
Total	$ 8,643	$ (325)	$ 8,318

(d) Sales channel revenue information

Sales channel revenue is reported for domestic revenue from commercial customers and for domestic retail from sales to consumers. International revenue includes revenue from the United States and the rest of the world as defined in Note 26 (b).

For the year ended December 31, 2018

	Total revenue	**Intersegment and consolidation**	**Revenue from external customers**
Domestic			
Commercial	$ 6,135	$ (119)	$ 6,016
Retail	2,153	–	2,153
	$ 8,288	$ (119)	$ 8,169
International	$ 497	$ –	$ 497
Other	$ 235	$ (226)	$ 9
Total	**$ 9,020**	**$ (345)**	**$ 8,675**

For the year ended December 31, 2017
(restated – Note 5)

	Total revenue	Intersegment and consolidation	Revenue from external customers
Domestic			
Commercial	$ 5,821	$ (97)	$ 5,724
Retail	2,087	–	2,087
	$ 7,908	$ (97)	$ 7,811
International	$ 510	$ –	$ 510
Other	$ 225	$ (228)	$ (3)
Total	$ 8,643	$ (325)	$ 8,318

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