

2009-2013 CORPORATE PLAN SUMMARY

OPERATING BUDGET | CAPITAL BUDGET | BORROWING PLAN

Connecting
Facilitating
Leveraging

This is a summary of the Corporate Plan that was approved by the EDC Board of Directors in October 2008 and by the Governor in Council on December 12, 2008 in accordance with the relevant provisions of the *Financial Administration Act*.

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The 2009-2013 Corporate Plan was approved by EDC’s Board of Directors on October 22, 2008. The Plan and its underlying assumptions were developed over the summer and fall of 2008, during a period of tremendous volatility in the global economy. While the Plan and its underlying assumptions were aligned with the economic environment at the time of their development, continued volatility in the global economy may alter the economic landscape and, in some cases, impact the assumptions upon which the Plan is based.

Introduction

Export Development Canada (EDC) has been facilitating the international business activities of Canadian companies for 65 years. The Corporation does this by bringing together its financial capacity, network of partners, and expertise in international trade and risk management. In putting its customers at the centre of everything it does, EDC has been able to contribute to Canadian companies' productivity, competitiveness and ultimate success and, in so doing, create prosperity for Canada.¹

Canadian exporters and investors are competing in a world that is constantly changing. In previous Plans, EDC discussed the emergence of the integrative trade model and how it is changing the way companies do business. As trade has broadened to encompass both sales and production, companies are engaging in traditional export trade and identifying opportunities to lower costs through investments abroad and the sourcing of foreign imports. While this new trade paradigm has made the global economy more competitive, it has also created real opportunities for companies to globalize their operations.

At the same time that companies are adapting to these structural changes, they are now dealing with an economic environment fraught with uncertainty. After several years of strong growth, the global economy is in a downturn where the prospects of recession in the U.S. and elsewhere are high. Today's economy is characterized by volatile oil prices, severely tightened credit conditions and falling consumer confidence.

These risks and the uncertainty around what happens next are creating significant challenges for companies and for their financial intermediaries, including EDC. Managing this unusual array of significant risks will depend heavily on both EDC's expertise in risk management and its commitment to sound financial management. This is the story of the 2009-2013 Corporate Plan.

This Plan describes how the current market uncertainty is affecting Canadian companies, their opportunities for exporting and investing, and their needs for market knowledge and financial intermediation. It also describes how the investments EDC has made in its structure, people and technology have built a strong platform from which it is helping companies navigate through these challenging times.

In recent years, EDC has placed a priority on building partnerships, relationships and its capital. This has left the Corporation well-positioned not only to understand company needs, but also to develop and deploy solutions that respond to those needs and that support the Government of Canada's international trade and investment priorities.

¹ A detailed overview of EDC's structure and services is presented in Annex I, beginning on page 59.

Executive Summary

EDC is a Crown corporation which has been facilitating the international business activities of Canadian companies for 65 years. In putting its customers at the centre of everything it does, EDC has been able to contribute to Canadian companies' productivity, competitiveness and ultimate success and, in so doing, create prosperity for Canada.

The Evolving Trade Environment

The global economy is in a period of tremendous uncertainty. Levels of risk have risen, credit is increasingly difficult to access, and confidence has fallen. As a result, growth has slowed considerably. While the origins of the slowdown reside in the U.S. and the fallout from the sub-prime crisis, the effects are being felt globally.

Looking ahead to 2009, there is a significant degree of uncertainty that is clouding the outlook for the coming year. In this challenging environment, EDC will focus on how best to use its knowledge, services and capacity to respond to the needs of its customers.

EDC's Business Strategy

EDC provides a range of financial solutions to facilitate international trade and investment. These solutions are complemented by the Corporation's network of domestic and international partners, its relationships with strategic foreign buyers and its understanding of company needs. EDC's activities are further supported by its expertise in risk management and commitment to sound financial management – areas of increasing importance today.

The goal of EDC's business strategy is to ensure that the Corporation effectively and efficiently serves Canadian companies, to position them, and by extension Canada, to succeed. This business strategy is anchored in three pillars:

First Pillar: Connect with Exporters and Investors

To reach out to Canadian companies to better understand their needs and to bring all of its expertise, relationships and solutions to serve them directly and in partnership.

EDC will enhance its representation in Canada and abroad, strengthen its account management through the use of technology and enhance partnerships with the private and public sector.

Second Pillar: Facilitate Integrative Trade

To increase the competitiveness of Canadian companies by providing a wide range of trade finance and risk management solutions aimed at export sales, foreign investments and supply chain management.

EDC will facilitate traditional trade for Canadian companies, enable Canadian Direct Investment Abroad (CDIA) and provide equity solutions for small- and medium-sized companies.

Third Pillar: Leverage the Organization

Make optimal use of EDC's capital, processes, technology and people so that it can best serve the needs of Canadian companies.

EDC will expand its risk appetite while ensuring its sustainability, enhance its processes to provide more value to its customers, deploy technology solutions to more efficiently serve its customers, and foster greater employee engagement and promote a more flexible, efficient work environment.

Financial Plan

EDC's business strategy is focused on ensuring the Corporation is positioned to serve its customers in today's challenging economic environment. The business strategy is supported by a commitment to sound financial management. Sound financial management is an operating principle at EDC. This has resulted in the development of rigorous risk assessment and management practices, and a capital adequacy policy which together support the Corporation's efforts to fulfill its mandate in a self-sustaining manner.

As we move through this period of market instability, EDC will rely on these tools and on the expertise it has developed in risk management so that it can continue to assess and respond to changing market conditions. Doing so will leave the Corporation well positioned to serve its existing customers and their partners, and respond to emerging company needs.

CHAPTER 1

An Uncertain Planning Environment

Introduction

The global economy is in a period of tremendous uncertainty. Levels of risk have risen, credit is increasingly difficult to access, and confidence has fallen. As a result, growth has slowed considerably. While the origins of the slowdown reside in the U.S. and the fallout from the sub-prime crisis, the effects are being felt globally.

For many Canadian exporters and investors, 2008 has been a difficult year. The continued strength of the Canadian dollar, record oil prices, tightening credit, and a slowdown in Canada's major export destinations have together acted as a drag on exports in many sectors.

Of course, 2008 also served to reinforce the two-track character of the Canadian economy. While sectors such as manufacturing and forestry struggled, others – notably in the commodities and agri-food sectors – have performed very well. Strong demand and sustained high prices have led to record profits. This is particularly true for companies based in western Canada.

Looking ahead to 2009, there is a significant degree of uncertainty that is clouding the outlook for the coming year. In previous plans, EDC has described access to financial intermediation as a key part of the competitiveness equation. This is perhaps more true today than at any other time in recent memory. Accessing relevant and timely financial services can help a company weather the current storm; through traditional finance and risk mitigation in support of an export sale or through the use of outward investment to globalize their operations.

EDC provides a range of financial services to facilitate international trade and investment. Importantly, EDC's solutions are complemented by its network of domestic and international partners, relationships with strategic foreign buyers, and understanding of company needs. In this challenging environment, the Corporation will focus on how best to use its knowledge, services and capacity in response to its customers' requirements. EDC's expertise in risk management and its commitment to sound financial management will play a critical role in enabling the Corporation to navigate through the current economic environment.

An Array of Risks

Put simply, economic models cannot fully account for what is happening in the market. While there is always uncertainty, economists agree that it is unusual to find so much potential for real downside risk present at one time. Nevertheless, that is the situation today, where credit and confidence have been replaced by tightening liquidity and retrenching consumers.

What do we know? First, oil prices have hit record levels and, although they have receded, they remain high by historical standards. This has increased production and transportation costs for manufacturers and food producers, and resulted in higher costs for consumers.

Second, the U.S. consumer – one of the main drivers of global growth post-9/11 – has retrenched. Falling consumer spending for goods and services (including homes) in the world's largest economy acts as a drag on export sales and economic growth. The increasing purchasing power in the emerging middle class in countries such as China and India unfortunately cannot fully counter a U.S. slowdown.

At the same time, the sub-prime crisis has led to a major, and what is expected to be a persistent, credit crunch. Over the fall of 2008, some of the largest financial institutions in the world have failed, and those that remain are declaring losses and severely restricting their lending activities. Companies of all sizes are finding that credit is increasingly becoming unaffordable or less accessible.

Market uncertainty is reflected in exporter confidence. EDC's most recent Trade Confidence Index (TCI) survey illustrates the degree to which exporter confidence has been shaken. The overall index declined to 66.1 (from 67.4 in January of 2008) – the lowest percentage on record since EDC began reporting semi-annually on trade confidence.

Finally, the Canadian dollar, buoyed by record commodity prices and a speculative overshoot, reached and then exceeded parity with the U.S. dollar in the fall of 2007. It then hovered around parity for the first half of 2008, further challenging exporters and in particular those in the manufacturing and forestry sectors. While the value of the dollar has begun to fall in the second half of 2008, it nevertheless remains high, challenging exporters and squeezing profit margins.

There is no consensus as to how deep the credit crunch will be, although it will most likely persist for at least another year given that the crunch stems from the collapse of the U.S. housing market, which has yet to bottom out. Similarly, there is no consensus on the outlook for oil prices. At the time of writing, prices had begun to recede from the record highs of early summer. However, there are a number of factors – for example, production disruptions related to weather, political uncertainty in major oil-producing regions – that could force them back up. The same holds true for other commodity prices (e.g., potash, copper), including those in the agri-food sector.

For Canada, the economic risks are high. The bulk of Canadian exports and investments are to the U.S., Japan and the Eurozone – markets forecast to experience the worst of the slowdown. If these markets fall into recession for any sustained period of time, Canadian export performance will be adversely affected. As Canada is a major exporter of commodities, its export performance will be affected by significant price changes in either direction.

The following section describes the market as we see it today. EDC's base-case forecast is for a gradual return to more normal economic conditions later in 2009 and in 2010. It does not factor in the negative, downside risks and potential economic shocks described above; rather, it is an assessment based on what we currently see.

That being said, EDC is a Crown corporation mandated to provide financial services in support of Canadian export trade. It is therefore important that, when considering future demand, the Corporation position itself to be able to react to significant changes in the economic environment. In other words, EDC must consider how market uncertainty could affect its ability to provide Canadian companies with the

services they need, directly and in partnership with Canadian and international financial intermediaries, while at the same time remaining financially self-sustaining.

To that end, the financial plan presented in Chapter 3 has incorporated the potential for the downside risks discussed in this chapter.

The Outlook for Canadian Companies

After several years of strong growth, the global economy has entered into a downturn where the prospects of recession in the U.S. and elsewhere are high. In its latest Global Economic Forecast (GEF),² EDC is forecasting that the global economy will expand by 3.9% in 2008, down from 4.9% growth in 2007. Further moderation is expected for 2009, with growth of 3.3%.

These numbers, however, tell only part of the story. Economic growth in major markets is expected to fall to 1.2% in 2009. Emerging markets are forecast to record growth of 6.0% in 2009. As has been the case in recent years, these markets continue to offer the greater potential for exporters.

Many Canadian companies are feeling the effects of a slowing global economy, particularly as a significant percentage of Canadian exports are to those markets showing the weakest growth, including the U.S. and the Eurozone. Overall, the Canadian economy is forecast to grow by only 1.4% in 2009.

In terms of exports, the story is more complex. While Canada is forecast to register export growth of 1% in 2008, this growth is being driven by strong commodity prices. When the influence of higher prices are netted out, Canadian exports are actually forecast to contract by 5% this year. For 2009, the forecast is for a further 1% drop in exports, again netting out the impact of higher prices. This drop will be the result of falling commodity prices and the continued slowdown in the U.S. and elsewhere, which will reduce overall demand for Canadian exports.

Despite the forecast for an overall contraction in exports, there are pockets of the economy that will perform well. Energy export volumes are expected to see moderate increases in spite of large price declines. Further, continuing global demand for agri-food products and fertilizer will keep shipments of these goods growing. Beyond commodities, the aerospace sector should see a sustained increase in the near term, as Canada's particular suite of products will benefit from high demand. Finally, exporters will get some additional relief from the Canadian dollar, which is forecast to trade lower.³

A complete listing of the growth forecasts for Canadian exports by sector and market is presented in Annex II on pages 69-70.

Once again, emerging market growth will outperform developed markets. While the U.S. and the Eurozone economies are forecast to each grow by 1.0% in 2009, China will record growth of 8.4%, India 7.5%, Russia 6.0%, Brazil 4.0% and Mexico 2.4%.

² Export Development Canada, Global Economic Forecast (Fall 2008). The complete forecast is available at www.edc.ca/english/docs/ereports/gef/country_information_EFindex.htm.

³ A more detailed forecast on the Canadian dollar can be found in Chapter 3, on page 41.

The Importance of Trade to Canada

Canada has long been described as a trading nation. The reasons for this moniker are not difficult to understand. With a resource-based economy and a relatively small population, exports have always been important to national prosperity. Trade maintains one out of five jobs in Canada. Together, exports and imports represent 70% of Canada's GDP – still one of the highest ratios among major economies. Overall, about 30 cents out of every dollar comes from trade.

While these numbers are impressive, a closer examination of Canada's trade performance in recent years suggests the country is falling behind its major competitors. At the same time that Canada's trade penetration – the ratio of trade to national income – has been slipping back to mid-1990s levels, G-7 competitors have seen their respective ratios improve, in some cases dramatically. The same holds true for trade penetration in emerging markets, where EDC's competitors are increasing their penetration at a greater rate than Canada.⁴

At the best of times, this trend should be a cause for concern. Today, with a global economy characterized by deep uncertainty and the 12-18 month outlook for many exports poor, the trend is cause for alarm. There is a real danger that Canada could fall further behind its competitors, both from the G-7 and from the rapidly growing emerging economies. The implications for Canadian prosperity are significant.

What can be done to reverse this trend? To start, companies can identify opportunities to diversify beyond traditional, developed markets. As noted earlier, for many years the greater export growth opportunities in many sectors has been in emerging markets. Moving beyond traditional markets such as the U.S. can enable companies to tap into the world's fastest growing economies with new, rapidly growing numbers of consumers.

At the same time, companies can benefit from globalizing their operations. In today's integrated global economy,⁵ successful global players are adopting business strategies that support the use of productivity enhancing investments. This means using Canadian Direct Investment Abroad (CDIA) to link into existing or new global supply chains.

Canadian companies' efforts to diversify markets and globalize their operations are being aided by the Government of Canada's efforts to strengthen market access and investment protection for Canadian companies. In recent months, Canada has entered into negotiations and concluded a number of bilateral and regional free trade agreements and foreign investment protection agreements.

⁴ Export Development Canada, *Anticipating Needs; Delivering Results: EDC in an Evolving Trade Environment*, pages 7-8.

⁵ The emergence of integrative trade has been described by EDC in successive Corporate Plans, and most recently in the Corporation's submission to the 2008 Legislative Review of the *Export Development Act*. The submission, entitled *Anticipating Needs; Delivering Results: EDC in an Evolving Trade Environment*, can be accessed at www.edc.ca/english/docs/LegReview_2008_e.pdf.

A willingness to export or engage in CDIA, and having the market access and security to do so are only part of the equation. Access to the financial services needed to engage in international trade and investment is critical. So is market knowledge and information about the challenges and opportunities present in markets, across sectors. This speaks to the role of EDC.

The Role of EDC

Last year's Corporate Plan described how EDC has positioned itself to respond to the evolving needs of Canadian companies. Briefly, EDC has reorganized its business structure to place the needs of its customers at the centre of all of its activities. The Corporation has also made the facilitation of CDIA a core element of its business strategy. EDC's Equity Program has been enhanced and, with the support of the Government of Canada, the program has been given greater flexibility and improved ability to respond faster to new opportunities.

EDC also recognizes that, wherever possible, it should not serve Canadian companies on its own. To that end, the development and leveraging of partnerships with private and public sector players in Canada and around the world, remains a corporate priority. Finally, EDC has continued to evolve its Corporate Social Responsibility practices, particularly in relation to human rights, so that they continue to meet the expectations of Canadians without putting those Canadian companies that rely on EDC's services at a competitive disadvantage (see Annex I). In all areas, results have been strong.

The current uncertainty in the global economy is creating challenges for companies and their financial intermediaries. This includes EDC. As the Corporation faces new and varied demands to work with companies, their foreign partners and their financial intermediaries, it will rely heavily on its expertise in risk management and its commitment to sound financial management.

EDC's ability to respond to company needs is rooted in more than just its products and services. Possessing and maintaining financial capacity is paramount. To that end, EDC has always had sound financial management as one of its operating principles. This has resulted in the development of rigorous risk assessment and management capabilities and a capital adequacy policy that supports the Corporation's efforts to fulfill its mandate in a self-sustaining manner. Importantly, embedded in this policy is the recognition that EDC's capital may be needed to help the Corporation navigate through major economic shocks such as the scenarios described earlier.

As we move through this period of market instability, EDC will rely on these tools and on the expertise it has developed in risk management so that it can continue to assess and respond to changing market conditions. Doing so will leave the Corporation well-positioned to serve its existing customers and their partners, and respond to emerging company needs.

Although the current situation is unique, past experience can provide some sense as to how EDC may be called upon as we move through the current downturn. For example, during the last global recession in 2001-2002, EDC saw a significant increase in claims under its credit insurance program (prompted by the failure of foreign buyers to pay Canadian companies). During this period, claims increased by 15-20 percentage points, with some sectors showing even greater increases.

Conclusion

The global slowdown is challenging Canadian companies. Consumer confidence, a key driver of recent growth, is falling. At the same time, although demand for capital and risk mitigation is rising, financial intermediaries are struggling to meet this demand as they cope with the fall-out from the sub-prime crisis and the increased risk profile of their customers. EDC's role in this environment is to use its knowledge, experience and capacity to work with its partners and keep its customers competitive.

CHAPTER 2

EDC's Business Strategy

Introduction

As the preceding chapter has discussed, the environment for Canadian companies is fraught with uncertainty. Navigating through such an environment requires access to relevant and timely financial services to support traditional export trade, or to enable companies to globalize their operations. It also requires information and knowledge about markets, risks and opportunities.

EDC provides a range of financial solutions to facilitate international trade and investment. These solutions are complemented by the Corporation's network of domestic and international partners, its relationships with strategic foreign buyers and its understanding of company needs. EDC's activities are further supported by its expertise in risk management and its commitment to sound financial management – areas of increasing importance today.

The goal of EDC's business strategy is to ensure that the Corporation effectively and efficiently serves Canadian companies; to position them, and by extension Canada, to succeed.⁶ This business strategy is anchored in three pillars:

- ▶ EDC will **connect with exporters and investors** by reaching out to Canadian companies to better understand their needs and to bring all of its expertise, relationships and solutions to serve them, directly and in partnership.
- ▶ EDC will **facilitate integrative trade**, increasing the competitiveness of Canadian companies by providing a wide range of trade finance and risk management solutions aimed at export sales, foreign investments and supply chain management.
- ▶ EDC will **leverage its organization** by making optimal use of its capital, processes, technology and people so that it can best serve the needs of Canadian companies.

A major element of this business strategy is the need to put our customers at the centre of everything we do. This focus on customer centricity is reflected in EDC's commitment to broaden its network, in its investment in a Customer Relationship Model, and in the priority placed on account management. EDC's drive to become a more customer-centric organization will also require us to consider how partnerships can be more effectively leveraged to bring superior value to its customers.

EDC's mandate is "to support and develop, directly and indirectly, Canada's export trade and Canadian capacity to engage in that trade, as well as respond to international business opportunities." (*Export Development Act, Section 10*)

⁶ In order to ensure alignment with government priorities, the Minister of International Trade would normally provide EDC with a Statement of Priorities and Accountabilities (SPA). The SPA presents the government's trade and investment priorities and identifies issues that should be explored in the Corporate Plan. Due to the 2008 federal election, EDC did not receive a SPA. However, in developing this Corporate Plan the Corporation was guided by both the 2007 SPA and by an ongoing engagement with officials from DFAIT and the Department of Finance to ensure alignment.

These are difficult times for many Canadian exporters. In executing its business strategy, EDC will be focused on how it can keep its customers competitive. At the same time, EDC has developed a network of partners, many of whom may also be challenged to provide the services their customers need. The Corporation must ensure that it stands behind these partners, enabling them to continue to serve Canadian companies. This will mean taking on more risk – whether it is to manage existing business commitments or to facilitate new business. In all cases, EDC will continue to be guided by its commitment to sound financial management so as to maintain its ability to serve Canadian companies today and in the future.

2.1 Connecting with Exporters and Investors

By putting the customer at the centre of its activities, EDC ensures that it has a broader and more complete understanding of company needs.

EDC's ability to serve Canadian companies benefits from the investments the Corporation has made in recent years in its structure, in Canada and around the world. By reorganizing its business structure to place its customers at the centre of all of its activities, EDC better understands the needs of companies engaged in integrative trade, and more effectively positions its services to Canadian companies, their customers and their financial intermediaries.

Understanding Sector Needs

In 2006, the Corporation realigned its existing sector-based structure by moving to six, more broadly based business teams. The six teams – Resources, Extractive, Transportation, Infrastructure and Environment, Light Manufacturing, and Information Communications and Technology – are responsible for conducting in-depth market assessments and developing sector plans highlighting the key challenges and opportunities facing companies in their respective sectors. Highlights of these plans are shared with the Business Development Committee of the Board of Directors throughout the year.

The preparation of these sector plans further benefits from EDC's integrated model, under which business development and underwriting work together to develop a 360-degree view of the customer. Through enhanced communication and collaboration, these "virtual teams" are better able to identify and understand the challenges and opportunities facing companies of all sizes, and develop solutions that will position them for success.

Companies across sectors are feeling the effects of tightening credit conditions and slower global growth. For some, the impacts are already quite severe; this is particularly true for companies in the light manufacturing sector where the high Canadian dollar, record oil prices and a major slowdown in the U.S. have made the outlook extremely challenging for these sectors in 2009-2010. While EDC's base forecast, as presented in Chapter 1, suggests some relief, there remains the possibility that the situation may worsen; that the dollar remains high, that oil prices return to the levels reached in the summer of 2008, and that global growth slows considerably.

A summary of the main challenges outlined in the sector plans is included in the following chart. EDC's strategies for responding to its customers' needs are presented in the discussion on Facilitating Integrative Trade, beginning on page 20.

SECTOR PLANS – OVERVIEW		
SECTOR	EDC ACTIVITY (2007)	SECTOR ISSUES
Resources (Bulk agriculture, meat, fisheries, forestry and all related machinery, equipment and services)	Customers Served: 1,096 EDC Penetration: 24.2% Multiple Program Users: 93	<ul style="list-style-type: none"> ▶ The industry is mature, capital intensive, extremely cyclical ▶ Slowing or declining demand growth, especially in the U.S. ▶ Competitive and price pressures ▶ Industry consolidation (grain and forestry sectors)
Transportation (Aerospace, rail, auto and other ground vehicles and all related machinery, equipment, components and services)	Customers Served: 826 EDC Penetration: 23.2% Multiple Program Users: 139	<ul style="list-style-type: none"> ▶ Reduced competitiveness due to high Canadian dollar and oil prices ▶ Tightening liquidity ▶ Shifting markets away from the U.S. (e.g., auto "Big 3")
Extractive (Mining, petrochemicals, fertilizers, oil and gas and all related machinery, equipment and services)	Customers Served: 457 EDC Penetration: 21% Multiple Program Users: 101	<ul style="list-style-type: none"> ▶ High levels of foreign takeovers ▶ Tightening liquidity ▶ High level of mergers and acquisitions in the sector
Light Manufacturing (Consumer and secondary goods, life sciences and all related machinery, equipment and services)	Customers Served: 2,552 EDC Penetration: 17.9% Multiple Program Users: 165	<ul style="list-style-type: none"> ▶ Slowing global growth ▶ Continued strength of the Canadian dollar ▶ Tightening liquidity
Information and Communications Technologies (Media and telecom, knowledge technologies and all related machinery, equipment and services)	Customers Served: 1,149 EDC Penetration: 15.6% Multiple Program Users: 151	<ul style="list-style-type: none"> ▶ Continued movement of R&D to low-cost centres ▶ Limited access to venture capital ▶ Small scale of export activity relative to the global market
Infrastructure and Environment (Utilities, construction projects, environmental, alternative and renewable energy technology projects and all related machinery, equipment and services)	Customers Served: 1,382 EDC Penetration: 30.5% Multiple Program Users: 192	<ul style="list-style-type: none"> ▶ The financial competitiveness of Canadian companies compared to foreign competitors ▶ Focus on serving Canadian market limiting export activity ▶ Collapse of U.S. housing market

Strengthening Account Management through C3

Improved account management has been identified as an important tool in support of EDC's efforts to better connect with Canadian companies. EDC has therefore invested in the development of a customer relationship model, or CRM. This technology tool, called C3 (Connect, Communicate, Collaborate), provides employees with an organized way to capture, share and ultimately translate customer information and corporate knowledge to develop relevant solutions. It will enable employees to better connect with companies by creating a central repository of customer information, and will contribute to the development of a 360-degree view of the customer.

The rollout of C3 began in 2008 and has already resulted in greater transparency with respect to customer information, which in turn has strengthened account management. Internal communications related to customers and prospects are also being streamlined and standardized, creating greater efficiencies. The phased roll-out of C3 will continue in 2009.

Overall, C3 will result in coordinated management of customer needs, increased customer retention and higher customer satisfaction. EDC expects that the benefits associated with C3 will translate into improvements in the Corporation's Net Promoter Score over time (see Section 2.4). Additional performance measures will be developed in conjunction with a wider corporate initiative around customer service standards, with a focus on timing, efficiency and quality of service. EDC has engaged an external consultant to assist in its research of customer expectations and the subsequent development of appropriate standards. An update on both C3 and the standards initiative will be provided in the 2010-2014 Corporate Plan.

Strengthening Representation

EDC's ability to understand and respond to company needs is greatly enhanced by its network of representatives. By being where companies are and where they are going, EDC is better able to connect with companies here in Canada and with foreign buyers, financial intermediaries and other stakeholders around the world.

EDC's Canadian Network

EDC maintains a broad regional network in Canada, with offices in 14 major cities. Through this network, EDC is better able to interact with Canadian companies directly, thereby gaining valuable perspective on their business, and plans for growth and success. At the same time that this formal network enables direct contact with Canadian companies, the Corporation is also able to use its strong network of partners, and in particular banks, to connect with and serve customers.

In last year's Corporate Plan, EDC indicated that it would enhance its representation in Canada in two ways. First, the Corporation would concentrate the growth of customer-facing roles in its regional offices across Canada. Second, EDC would identify opportunities to grow its underwriting capacity in its Canadian regional offices.

EDC's customers benefit through the Corporation's network of offices across Canada. In addition to its head office in Ottawa, EDC has offices in St. John's, Halifax, Moncton, Montreal, Quebec City, Toronto, Mississauga, London, Winnipeg, Calgary, Edmonton and Vancouver. In 2008, this network was strengthened with the addition of offices in Windsor and Regina.

Over the course of 2008, EDC has taken a number of steps to both widen and deepen its Canadian network. New offices were opened in Windsor and Regina earlier in the year. In 2009, the Corporation will be further expanding its network with the opening of an office in Ville St. Laurent, with other locations in Quebec, Ontario and British Columbia also being considered.

In terms of regional underwriting capability, the Corporation has slowly been building up this capacity in recent years. Underwriting was introduced in Calgary in 2002 and in Halifax in 2006 (credit insurance) and 2007 (contract insurance and bonding). In 2008, EDC expanded this capability with the selection of regional underwriting teams (credit insurance, contract insurance and bonding, and financing) in Montreal, Mississauga and Vancouver. These new positions will help to address the needs expressed by customers for local service delivery.

More generally, EDC remains committed to further regionalizing its operations over the planning period, with an aim to having 20% of its employees located outside of Ottawa by the end of the planning period (versus the current 10%).

EDC's Foreign Representatives

Since 1997, EDC has maintained representatives in key emerging markets. The first representative was established in Beijing. Today, the Corporation has a network of 13 representations located in nine countries. All of EDC's representatives are co-located in the Canadian Embassy and work closely with members of DFAIT's Trade Commissioner Service.

As part of EDC's International Business Development Group, the regional representatives are responsible for developing and maintaining value-added financial relationships with the Corporation's international customers – foreign buyers of Canadian goods and services. By developing relationships with these customers, learning about their needs and exposing them to EDC and its solutions, the Corporation can identify opportunities to use its financial capacity to bring together foreign players and Canadian exporters and investors. EDC is also able to share its on-the-ground perspective gained in these markets and regions with Canadian companies, particularly SMEs, thereby strengthening their understanding of the global market.

EDC's focus on growing its international network in key emerging markets reflects the increasing prominence of markets such as China, Russia, India, Brazil and Mexico. As noted in Chapter 1, these markets continue to offer the greatest growth potential for Canadian exporters and investors. While established markets such as the U.S. and the Eurozone struggle in the face of the credit crunch, emerging markets represent real opportunities as both export and investment destinations for Canadian companies.

The enhancement of this international network has been a corporate priority for a number of years. EDC's overall objective is to have 20 foreign representatives in place by 2010. In 2008, the Corporation announced the establishment of new representatives in Mumbai, Santiago and Abu Dhabi. EDC also established a representative in Singapore and closed its representation in Kuala Lumpur. This shift

EDC has been expanding its network of foreign representatives for over 10 years: China (Beijing in 1997 and Shanghai in 2007), Mexico (Mexico City in 2000 and Monterrey in 2002), Brazil (Sao Paulo in 2000 and Rio de Janeiro in 2004), Chile (Santiago in 2008), Russia (Moscow in 2006), Poland (Warsaw in 2002), the United Arab Emirates (Abu Dhabi in 2008), India (New Delhi in 2005 and Mumbai in 2007) and Singapore in 2008.

was made following a review under the Corporation's Foreign Representation Framework which concluded that EDC would more effectively serve Canadian companies in this region from Singapore.

Also in 2008, EDC established a representative based in Beijing and focused exclusively the equity program. This representative is also co-located in the Canadian Embassy and will focus on EDC's portfolio of equity investments in China, India and South East Asia. Further, the position will enable EDC to develop and enhance its networks in this critical region and identify opportunities for Canadian companies.

In addition to growing its international network through the establishment of new representations, EDC is taking steps to deepen its capacity in its existing representations in order to sustain service standards and growth. Growing and strengthening capacity in the network will position EDC to further develop its international strategic account program. The Corporation will continue to work closely with DFAIT to strengthen Canada's overall foreign representation strategy.

Finally, as part of the ongoing review of the *Export Development Act*, EDC has identified a need for greater flexibility with respect to representatives. Currently, EDC cannot open offices outside of Canada. This makes the current representation model – whereby EDC looks to serve a foreign market from Canada, through its foreign representations and through the embassy's locally engaged staff – the only effective model. Looking ahead, EDC will be engaging with the Government of Canada on possible amendments to the *Export Development Act* which would give EDC the authority to open offices. In all cases, future decisions on EDC's international network will be made in consultation and collaboration with DFAIT.

A Strong Network of Partners

Over the years, EDC has built extensive relationships with a wide range of partners – both private and public sector – to better serve the needs of its customers. By leveraging its network of partners, EDC is able to enhance market capacity in support of trade and investment, and share information and expertise related to international business.⁷

Partnering with the Private Sector

EDC works with private sector financial institutions to provide Canadian exporters and investors with the financial services they need, in a manner that best fits their business. The Corporation's partnership activities are supported by the work of its Canadian Financial Intermediaries Group, which was created in 2006 with the responsibility to better understand the needs of these partners and how EDC can work with them to serve their customers.

⁷ A more detailed discussion about EDC's partnership activities can be found in *Anticipating Needs; Delivering Results: EDC in an Evolving Trade Environment*, pages 46-50. The document can be accessed at www.edc.ca/english/docs/LegReview_2008_e.pdf.

EDC's relationship with the banking community is multi-faceted. First, through its various risk-sharing solutions, EDC works with the banks to enhance capacity in the market. This form of partnership enables the private sector to extend support to Canadian companies that it would not be able to provide fully on its own for a variety of reasons. These solutions will be even more critical as credit conditions worsen. Second, EDC is also a customer of the banks through its Treasury operations, working with them to raise the funds necessary to support its activities.

Third, as noted in the last Corporate Plan, Canadian banks are increasingly looking to globalize their own operations in order to generate revenue. In so doing, they are exposed to many of the same risks facing a traditional exporter, and therefore require access to a range of trade finance and risk mitigation services to facilitate their investments – services which EDC is well positioned to provide. By bringing together its understanding of markets and risks, and its financial capacity to lend and insure, EDC is able to work with banks in the execution of their global strategies. Their investments in overseas markets (in many cases emerging markets) ultimately strengthen and position them to have the financial capacity to assist Canadian companies here in Canada, and in the foreign markets in which they are based.

Finally, looking to add more value to its banking relationships, EDC is in the process of reviewing its documentary credit (DC) products, in collaboration with the banking community. Most international trade transactions are conducted using one of two trade finance products: open account terms or inter-bank credits, such as letters of credit, avalized drafts and other bank-to-bank instruments. EDC's various DC products play an important role in facilitating (via insurance cover) Canadian banks' role in inter-bank credits. In 2007, EDC supported close to \$3.0 billion in documentary credits for Canadian banks and exporters.

In the coming months, the Corporation will be looking at simplifying its product offering in this area by consolidating three distinct insurance products into one single insurance policy – the Trade Finance Obligation product. In the process, EDC will also look to incorporate necessary changes to assist Canadian banks in managing the new regulatory environment resulting from BASEL II, while seeking process improvements. Together these changes should allow the Canadian banks to take full advantage of EDC's support, in a more cost-efficient fashion, thus allowing them to consider even more international trade business for their Canadian exporting customers.

In addition to the banking sector, EDC is continuing to identify opportunities to work more closely with private sector credit insurers operating in Canada. EDC already partners with Coface to support the domestic credit insurance needs of Canadian companies. Looking ahead, EDC is continuing to engage with the private sector to identify additional opportunities where the Corporation's financial capacity can be used to enhance their offering to their Canadian exporting clients.

The Corporation will also look to expand its outreach into the marketplace via partnerships with primary insurance providers and re-insurers alike. EDC will seek to enter into global reinsurance treaties to strengthen market capacity, while offering transaction-specific capacity to the private sector. Finally, EDC will look to engage the private sector in joint promotional activities, intended to generate more awareness

Following an announcement in Budget 2008, EDC recently introduced enhancements to its Export Guarantee Program aimed at further encouraging financial institutions to advance loans to SMEs. Based on feedback from the banks, a number of changes have been made to facilitate the use of the program, including more extensive coverage to financial institutions from EDC on loans valued at \$500,000 or less.

about both the value of credit insurance and the options available to exporters from both EDC and the private sector.

Strengthened Collaboration within the Public Sector

As noted in Chapter 1, for all its success in international trade Canada is falling behind many of its international competitors. One step being taken by the Government of Canada to address this slide is to strengthen market access and investment protection for Canadian companies through the negotiation of bilateral and regional free trade agreements and foreign investment protection agreements.

Beyond these measures, it is recognized that partnership among government departments, Crown corporations and other bodies can benefit Canadian companies looking to engage in international trade. These partnerships can provide companies with valuable information, perspective, business leads and financial services in support of exports and investment in markets around the world.

EDC works closely with its public sector partners, and in particular with DFAIT, to leverage resources and align business strategies to serve Canadian companies. One area that has been given priority in recent years is collaboration within the International Trade portfolio, made up of DFAIT, EDC and the Canadian Commercial Corporation (CCC).

Following from the MOU, a joint Cooperation Plan is developed and monitored by the DFAIT portfolio partners. This Plan identifies areas of collaboration and is reviewed at each meeting by senior management. A progress report is provided to the Minister on an annual basis.

Last year's Corporate Plan noted how the portfolio members had signed a Memorandum of Understanding (MOU) aimed at strengthening business cooperation. Under the MOU, senior management meetings are held three times a year. These meetings provide an opportunity for members to discuss the trends affecting Canadian companies and possible areas of collaboration (e.g., the partnership between DFAIT and EDC on a study of Canada-EU trade liberalization; EDC-CCC partnership on the development of a Market Opportunity Matrix for CCC).

In addition to the portfolio engagement, EDC also collaborates extensively with DFAIT's Trade Commissioner Service (TCS). As noted earlier, EDC foreign representatives are co-located in Canadian embassies and work closely with members of the TCS to identify opportunities for Canadian companies. In 2008, EDC continued to strengthen its partnership with DFAIT's TCS through training sessions. The training program provides information about EDC, its solutions and how they can benefit Canadian companies. Based on positive feedback and excess demand, the training program was expanded and ultimately benefited 70 outbound Trade Commissioners.

EDC, working in partnership with the TCS and other Government of Canada partners such as the CCC and the Business Development Bank of Canada (BDC), also hosted an outbound Heads of Mission training session in 2008. This event included 44 outbound Heads of Mission and focused on generating awareness and identifying potential areas for collaboration to promote international trade.

Also in 2008, EDC launched the Trade Commissioner Service Partner website. This customized website strengthens EDC's strategic partnership with the TCS. The site provides a more streamlined process for Trade Commissioners to access information

about EDC's products and services while receiving priority service on their requests. It is expected that the TCS Partner Site will become a powerful collaboration tool that will help overcome barriers associated with a geographically dispersed workforce.

In addition to partnership activities within the International Trade Portfolio, EDC is continuing to play a proactive role in working with partners across the Government of Canada to create awareness and provide clarity about the services available to Canadian companies. For example, EDC participated in the Online Trade and Investment Services initiative, sponsored by DFAIT, which supports the development of a single portal that companies can access to learn about all Government of Canada services (financial, information, documentation) in support of international trade and investment. Following an initial feasibility study, a business case and governance model has been developed. A Government of Canada decision on implementation and next steps will be made in the coming months.

EDC will also continue to engage with government partners about how best to provide companies with information about and access to the Government of Canada's trade and investment services. EDC will also continue to use its own communications tools (publications, seminars, website, etc.) to transfer information and build awareness.

One area where EDC has been working to provide clarity and strengthen collaboration is in its activities with BDC. Like EDC, BDC has been responding to the needs of Canadian companies – including many exporters – for over 60 years. Focused mainly on SMEs, BDC's reach and expertise with this market is an important complement to EDC. This is particularly true today, in a global economy where the distinction between domestic and international activities is becoming blurred.

This issue of collaboration between the two organizations was highlighted for EDC by the former Minister of International Trade in his Statement of Priorities and Accountabilities. Further to that guidance, EDC has been engaging with BDC at both the senior management and operational level throughout 2008. This engagement is critical, given the important and long-standing role that BDC plays in providing Canadian SMEs, including exporters, with financial services such as term loans and venture capital, as well as consulting services.

To date, EDC's engagement with BDC has focused on potential collaboration opportunities, including referral potential, strengthening product awareness and regional meetings. In-depth discussions on co-operation to support global market development strategies for SME exporters and investors have been a particular focus of both BDC's and EDC's management. EDC and BDC have also discussed various options to complement respective offerings and leverage core competencies for the benefit of more Canadian companies, including:

- ▶ identifying how EDC's relationships with large foreign buyers may benefit BDC's SME customer base;
- ▶ ensuring Canadian exporters and investors are aware of the products and services of both EDC and BDC;
- ▶ working with BDC's consulting network to support Canadian exporters; and

- ▶ collaborating in specific sectors such as automotive and information communication and technology.

The two organizations have also worked together on the development and launch of a small business loan in support of Canadian SMEs. The “Market Xpansion Loan” that was developed by BDC, responds to the needs of SMEs, including the Minister of International Trade’s SME Advisory Board, for funding to support market development. The loan may be used for a variety of activities, including participation in trade shows, conducting business development overseas, and developing export and marketing plans. The loan will be delivered and administered by BDC and will be marketed jointly with EDC and DFAIT.

Finally, EDC continues to look for opportunities to partner with other federal government agencies and provincial government to provide Canadian exporters with information and financial services. For example, EDC and the Atlantic Canada Opportunities Agency have signed an MOU to develop trade and investment opportunities in Atlantic Canada. Similarly, EDC is partnering with the Saskatchewan Trade and Export Partnership to assist Saskatchewan’s exporters to develop new opportunities for exports and investments. Over the planning period, EDC will build on these initiatives and look for new opportunities for similar partnerships.

2.2 Facilitating Integrative Trade

EDC translates its understanding of company needs into relevant, innovative solutions that enhance the competitiveness of Canadian exporters and investors.

EDC facilitates the export and investment activities of Canadian companies competing in a globalized and highly competitive economy. Its solutions facilitate traditional export trade and enable CDIA, for companies of all sizes and in markets across the globe. It also improves companies’ access to risk capital through its Equity Program. Finally, the Corporation continues to invest in new areas of activity that respond to changes in the way companies engage in trade. EDC’s activities and deployment of its solutions are guided by its understanding of company needs across sectors.

This section will discuss EDC’s high-level strategies to respond to the issues raised in the sector plans. As mentioned in Chapter 1, in considering how to respond to customer needs, the Corporation must remain mindful of market risks and how changes in the economic environment could affect its ability to provide Canadian companies with the services they need, while at the same time remaining financially self-sustaining. To that end, the Corporation will continue to be guided by its discipline in risk management and its commitment to sound financial management. Doing so will ensure that EDC retains the capacity to meet the needs of companies it is already serving, and has sufficient flexibility to respond to new demands for its services.

Responding to Sector Needs

As previously discussed, EDC’s integrated business structure – with its focus on industry sectors – provides employees with a more complete understanding of challenges and opportunities facing Canadian companies. The table presented on page 13 has highlighted some of the issues companies currently face in each sector.

An overview of EDC's strategies to respond to the issues identified in the sector plans is presented in the following table.

2009 BUSINESS DEVELOPMENT AND OPERATIONS PRIORITIES	
BUSINESS OBJECTIVE	CORPORATE STRATEGIES
Improve relevance through the design, delivery and execution of value-added solutions	<p>Improve business processes to increase ease and timeliness of doing business:</p> <ul style="list-style-type: none"> ▶ Extend Process Management across business teams ▶ Better align product offering with the strategic needs of financial institutions <p>Fully integrate C3 into business processes</p> <p>Embed the concept of customer centricity into all aspects of the business:</p> <ul style="list-style-type: none"> ▶ Establish Net Promoter Score as the principal measure of customer value ▶ Finalize and implement EDC's customer service standards
Leverage partnerships to better fulfill customer needs	<p>Deepen relationships with financial institutions to better serve customers:</p> <ul style="list-style-type: none"> ▶ Deliver improved communication channels via launch of the web-based "bank portal" ▶ Grow and manage relationships with high potential players among niche financial institutions, particularly credit unions <p>Expand EDC's visibility, profile and reach through the leveraging of partnerships:</p> <ul style="list-style-type: none"> ▶ Use webinars and utilize partnership opportunities to improve awareness of international trade ▶ Expand relationships with private insurance companies and brokers to deepen penetration in the retail segment and create opportunities for re-insurance ▶ Integrate EDC's value proposition and grow awareness of the Corporation's solutions with public sector partners (TCS, BDC, CCC, Farm Credit Canada)
Increase Canadian capabilities to expand into regional and global supply chains	<p>Expand support and deepen mid-market penetration:</p> <ul style="list-style-type: none"> ▶ Increase the number of account managers and open new regional offices closer to customer clusters (Quebec, Ontario and British Columbia) ▶ Explore new product applications in carbon trading, mezzanine debt and early commercialization sub-debt for small technology companies ▶ Examine mid-market to identify future Canadian export leaders and develop relationship plans and targeted engagement <p>Expand market presence:</p> <ul style="list-style-type: none"> ▶ Grow international representations to 20 by end of 2010 ▶ Further expand underwriting capacity in the regions with the deployment of up to nine additional insurance and financing underwriters by end of 2010 ▶ Grow relationships with key international buyers in targeted supply chains <p>Expand CDIA support:</p> <ul style="list-style-type: none"> ▶ Expand overall risk appetite on CDIA transactions across all product lines

EDC and Traditional Export Trade

The majority of Canadian export activity is what can be described as traditional trade.⁸ In these instances, companies are seeking solutions that facilitate an export sale. EDC's solutions⁹ are extremely responsive to such demands. For example, EDC:

- ▶ protects exporters against non-payment through the use of credit insurance;
- ▶ provides working capital through lines of credit, guarantees to financial institutions, pre-shipment financing, credit insurance (which allows banks to increase the margins available on accounts receivable), and through bonds (which guarantee performance thereby enabling banks to free up capital);
- ▶ supports foreign buyers of Canadian goods and services through guarantees and buyer financing;
- ▶ supports the equity needs of Canadian companies through direct investments and investments in sector- and market-specific funds (see page 24); and
- ▶ issues bonds that assist Canadian companies guarantee bids, performance and other export trade-related obligations.

Canada's auto sector is weathering increased input costs, a sharp rise in the Canadian dollar, and more recently, receding demand for its products. The industry faces lean conditions in 2009 as slower production and shutdowns crimp output. Difficulties encountered by the industry three years ago led to the introduction of coverage which protects parts suppliers from exposure to their purchasers in the event of insolvency. EDC has also increased ARI coverage in support of the auto parts industry. EDC is continuing to support the auto industry with financing and insurance to the tune of \$3.6 billion, and will continue to support the industry as it continues to restructure.

These solutions are continually being reviewed and refined, based on feedback from exporters, their customers and their financial partners. For example, the recent enhancements to EDC's Export Guarantee Program (see page 17) were developed based on feedback from bank partners. EDC continues to use such feedback to strengthen the relevance and responsiveness of its offering.

As global growth slows and exporters face increased risks, their need for many of these services will increase. For EDC, responding to the needs of exporters and their financial intermediaries will require the Corporation to draw on its extensive expertise in risk management and its commitment to sound financial management.

Enabling Canadian Direct Investment Abroad (CDIA)

While traditional export trade services continue to constitute the bulk of EDC activity, the facilitation of CDIA and other activities which use trade as a tool of production are growing in prominence. By adopting strategies that can better position them along a supply chain, companies will have greater success navigating the challenges they face in the current economic environment.

As EDC has discussed in recent Corporate Plans, Canadian companies are using CDIA in an attempt to lower costs, improve productivity and enhance competitiveness. Larger companies are using CDIA to globalize their operations in order to: serve

⁸ In 2007, Canadian exports of goods and services were valued at \$530.3 billion while the flow of CDIA was valued at \$57.8 billion.

⁹ A detailed overview of EDC's solutions can be found on pages 65-68 in *Anticipating Needs; Delivering Results: EDC in an Evolving Trade Environment*. The document can be accessed at www.edc.ca/english/docs/LegReview_2008_e.pdf.

markets directly, lower their production costs, reduce or minimize logistics challenges, and ultimately enhance their productivity. For smaller companies, CDIA is being used to position them as suppliers or as links in established supply chains.

In response to the growing importance of CDIA and the shifting needs of Canadian companies, EDC implemented a strategy to facilitate the investment activities of Canadian companies in 2005. The Corporation does this through its financing program, which can be used to finance acquisitions or Greenfield investments in overseas markets. Companies may also choose to use EDC's political risk insurance to protect their investments. Unless restricted by market-specific legal restrictions, EDC will also facilitate the trade and investment activities of foreign affiliates of Canadian companies, or provide cover to them through its credit insurance policies.

Looking ahead, EDC has identified a growing demand from institutional investors, such as pension funds, for investment facilitation solutions. Investment activity of Canadian private-equity players is in keeping with the integrative trade trends in the Canadian economy and international marketplace at large. Moreover, their activities are creating wealth which flows back to Canada, and export opportunities for Canadian companies.

EDC continually looks for opportunities where its financing support can be used to encourage procurement from Canada, thereby increasing the existing presence of Canadian companies as well as pulling additional Canadian companies into the global market.

As noted earlier, the Corporation has put a priority on strengthening account management. In this regard, EDC has looked to develop and strengthen its relationships with key private-equity players. In so doing, EDC has been approached to assist private-equity players, such as pension funds. These institutions are looking for reliable and knowledgeable partners to support them in their international business activities. By demonstrating itself as being a value-added partner and by not displacing the market but rather operating alongside it, EDC is able to act as a catalyst in developing interest among investors and attracting financing from other sources to support the entry of Canadian businesses into the more challenging markets for such investors, notably emerging markets. This is an area where EDC has and will continue to identify and promote opportunities for investment.

Importantly, EDC does not support passive investments by such private-equity players. Rather, the Corporation looks to support investments in which the Canadian investor(s) are looking to exercise true ownership and management responsibilities and have established expertise in certain Canadian sectors (e.g., infrastructure). This enables these investors not only to identify opportunities and acquire and oversee the management of acquisitions, but also to influence procurement decisions. Many of the Canadian pension funds have acquired or created platforms to develop Greenfield business, thereby transforming themselves from pure acquisition players to project developers. This creates an opportunity to further increase Canadian market presence by opening new business opportunities to Canadian companies. By supporting these Canadian Financial Investors, EDC is helping Canada develop into a world-class owner of assets, thereby facilitating long-term benefits to Canada.

In Budget 2007, the Government of Canada announced that it would be working with EDC to amend EDC's equity regulations. The amendments, which came into force in February 2008, give the Corporation greater flexibility to invest in international partnerships, creating opportunities for Canadian firms to expand the scope of their international business, and eventually to transition into global companies.

An Enhanced Equity Program

The current credit environment makes it difficult for exporters and investors to maintain access to the capital they need in order to stay in business and succeed. In today's environment as the availability of credit diminishes, the need for alternative forms of capital tends to stand out. More and more Canadian companies will need to access quasi-equity and equity, particularly start-ups and small- and mid-sized enterprises (SMEs). The call from technology start-ups will be particularly pronounced due to a general retrenchment from, and structural issues associated with, the Canadian venture capital asset-class, a specialized sub-set of private equity. Furthermore, given the backdrop of globalization and large emerging markets forces, such as China, India and Brazil, there is a requirement for "smart" capital, a supply of private equity that can bring creativity, experience and international networks to bear. It is therefore more important than ever to grow and fortify the pools of capital that are needed to help finance innovation, sustainability and growth. Growing and diversifying Canada's private-equity market in order to help Canadian entrepreneurs, innovators and exporters diversify Canada's economy is a priority.

Consistent with the foregoing and continuing with the five-year strategic plan approved by the Board of Directors in 2006, EDC's Equity program focuses on developing small- and mid-sized companies that want to grow their business, "next generation" exporters and exporters that are seeking to go global.

EDC's equity portfolio – which consists of direct investments and indirect investments via funds – is growing. The Corporation is expecting the portfolio of commitments to be in the range of \$500 million by the end of 2008, with an estimated growth to \$1.2 billion by the end of 2012, tracking to the Board-approved strategic plan.

Building Next Generation Exporters

A major focus has been placed on helping to build the next generation of Canadian exporters. The limited venture capital support available in Canada is creating a gap in available funding. Public sector players like EDC and BDC are appropriately moving in to fill this gap – often in partnership.

Working with the Middle Market

The lion's share of the Canadian economy is comprised of small- and mid-sized companies. In good times, these companies are worrying about their competitiveness and sustainability. Today, these concerns are even more pressing. Equity solutions can play a key role in ensuring Canadian SMEs survive by bringing the following crucial elements to the table: capital, networks, strategic thinking, company building skills, and motivation to generate returns. EDC further assists these companies by using its established international relationships, particularly through the equity program's emerging market initiatives.

The Corporation is continuing to build out its portfolio of investments in the middle market with a pan-Canadian approach. As well, EDC kicked off its direct investing

activities in the middle market in 2008, with the purpose of assisting small- and mid-sized exporting companies with their expansion plans.

Going Global

Making international connections for exporters is crucial. These connections can help a company expand beyond the U.S. and into markets with high growth potential – a key priority given the current slowdown underway in the U.S. This is the objective of EDC's international fund strategy, with its focus on emerging markets. This network of funds covers India, China, South East Asia, Turkey, Mexico, Latin America and the Caribbean and provides EDC with a line of sight into small- and mid-sized companies in emerging markets. Through this involvement, EDC gains a proprietary understanding of each foreign company's strategic objectives and trade requirements. This intelligence is then brought back to Canadian companies and investors to connect them to potential opportunities.

Global Trade Management

At the same time that EDC continues to facilitate traditional trade and use its capacity and expertise to facilitate CDIA, the Corporation is also focusing on innovation and how trends in the global market may require it to develop new solutions that go beyond traditional financial services.

Over the past two years, EDC has been reviewing how Global Trade Management (GTM) is impacting the way Canadian companies do business. GTM refers to the coordination of people, processes and technology across all stages and facets of a global supply chain operation (procurement, contract management, logistics, compliance, trade financing and settlement). Wherever a company sits within global supply chains, productivity and competitiveness are enhanced by facilitating and automating the flow of information, money and goods with international buyers, sellers and intermediaries such as customs agencies, financial institutions and freight forwarders.

EDC has identified GTM as a major R&D area. A Global Trade Management Innovation Centre (GTMIC) has been established at EDC, the focus of which is to research Canadian gaps and needs with respect to supply chain management.

The GTMIC has been supporting EDC's sector teams to strengthen their understanding of supply chains. For example, during 2008 GTMIC has prepared supply chain analyses on the specialty vehicles, information and communications technology, construction and apparel sectors. Additionally, during 2008, GTMIC also expects to launch joint supply chain dynamics studies in the aerospace and oil and gas sectors with Industry Canada. These are targeted for conclusion in the first quarter of 2009. These in-depth analyses provide sector teams with a better understanding of the dynamics of buyer-supplier relationships in different parts of the supply chain and identify opportunities to respond to the supply chain needs of their customers through new product innovations (e.g., reverse factoring). The GTMIC will continue to support the business teams to further develop their thinking in this area.

EDC's success in developing and deploying its solutions is driven by its commitment to excellence in capital, processes, technology and people.

2.3 Leveraging the Organization

EDC's ability to serve Canadian companies depends on more than just its knowledge of the market and its customers, or its ability to develop and deploy innovative solutions. The continued relevance of the Corporation is also rooted in its commitment to ensuring its viability over the long term; to ensuring that EDC is run efficiently as a business so that it can continue to meet the expectations of its customers, its partners and its shareholder, the Government of Canada.

EDC is therefore committed to effectively leveraging its resources. This means leveraging its capital, processes, technology and people to facilitate the global business of Canadian companies at a time when risks are on the rise and competition is increasing.

Leveraging Capital¹⁰

Companies require timely and predictable access to capital or other financial instruments in order to develop, produce, market, ship and get paid for their goods and services. Without question, then, financial intermediation is a key part of the competitiveness equation. This is particularly true today, in an environment where growth has slowed and capital is increasingly difficult to access.

Expanding Risk Appetite

Over the past several years, EDC has made the effective use of its capital a corporate priority. This has meant identifying ways to leverage the Corporation's strong capital position and expanding its risk appetite.

One way in which the Corporation can track its risk appetite is in the profile of new signings under its financing program. In the 2008-2012 Corporate Plan, EDC noted that in 2006, the risk profile of such signings was 55-45% investment grade to non-investment grade. In 2007, the ratio had moved to 48-52%. For 2008, the ratio is forecast to be 44-56%. Over the planning period this ratio is forecast to be 46-54%. The Corporation has seen a similar trend in its credit insurance program. From June 2007 to June 2008, the number of watch-list buyers has increased by 17%, while the Corporation's estimated exposure for these buyers has increased by 43%.

In support of its efforts to take on more risk, EDC has also allocated a portion of its capital as Strategic Risk Capital (SRC). SRC is designated for supporting higher-risk business opportunities of strategic importance to its customers and their industries, but which are outside of EDC's typical operational norms. Importantly, it is also used to address unforeseen or unexpected changes in EDC's existing portfolio emanating from, for example, market instability. The creation and promotion of EDC's capacity to support higher-risk business is addressed through the SRC Operational Framework, which was approved by the Board of Directors in 2007. In 2007, the volume of SRC transactions stood at \$2.3 billion (signed and committed exposure). In 2008, EDC

¹⁰ In the November 27th, Economic and Fiscal Update, the Government of Canada announced it would invest an additional \$350 million in share capital to EDC in response to the economic crisis.

facilitated \$605 million of trade and investment through the use of SRC (as of July 31). Looking ahead to 2009, the Corporation is forecasting an allocation of SRC of \$1.4 billion.

The outlook for the demand for EDC's capital over the planning horizon is subject to a number of uncertainties. In the near term, a deteriorating credit environment will lead to automatic increases in provisioning against existing loans. By way of illustration, EDC estimates that a one-notch downgrade (e.g., AA to AA-) in all existing exposures would absorb capital in the range of an additional \$800 million to \$1.2 billion.

Looking beyond those near-term risks, however, two major developments are looming that might result in a significant draw on EDC's capital base. The first is the announcement by Bombardier that it will produce the C-Series aircraft and begin deliveries in 2014. Based on past experience, EDC would be making financing commitments approximately one year ahead of those delivery dates. A second development stems from the increasing global demand for nuclear energy, which could result in increased reactor sales by AECL and its partners. Accordingly, it is very important that EDC continue to be mindful of its capital base and ensure that it has a sufficient cushion to meet future needs such as these.

Managing Capital in an Uncertain Environment

This Plan has described an environment characterized by a multitude of risks and a high degree of uncertainty. As a Crown corporation that is mandated to provide financial services in support of Canadian export trade, EDC must position itself to be able to react to significant changes in the economic environment. In other words, EDC must consider how market uncertainty could affect its ability to provide Canadian companies with the services they need, while at the same time remaining financially self-sustaining.

As market conditions grow more challenging, EDC expects that credit migration will require the Corporation to allocate additional capital to manage the risks EDC is already supporting. This means that the expansion of risk appetite and the overall growth in EDC's activities will need to be balanced against managing existing financial obligations. The Corporation's strengthened asset management capacity and its expertise in risk assessment and management will be critical tools in support of the twin objectives of managing risks and expanding appetite.

Additional information on EDC's approach to risk management, its commitment of sound financial management and EDC's capital adequacy policy can be found in the financial plan.

Leveraging Processes to Strengthen Performance

Financial intermediaries around the world continuously refine and adapt their service offerings and processes in an effort to improve value for their customers. EDC is also re-shaping how it does business to ensure continued value to its customers. A key determinant of customer value is how well the Corporation can execute on its service delivery processes.

Building on a foundation of solid transactional execution, EDC implemented a major initiative in 2007 designed to enhance the delivery of loans to its customers. Specifically, EDC has redesigned the loans process through the introduction of “Lean Process Methodology.” A key element in leveraging EDC resources, this process redesign or transformation will ensure operational excellence across the loans process and foster a culture that is continuously improving and innovating in response to the dynamic needs of its customers.

Transformation of the loans process is the first step in a corporate-wide initiative to streamline all service delivery processes encompassing loans, guarantees and insurance. To date the results have been very encouraging, most notably in reduced processing times on loan transaction completion by as much as 70%, resulting in faster response times to customers. Further enhancements at the front end of the underwriting stage in the loans process means earlier determination of EDC’s ability to provide support for a transaction. In 2009, EDC will be introducing Lean Process Methodology to the delivery of its insurance products.

To ensure sustainability of the redesigned loans processes, a portfolio of improvement initiatives, each with Executive sponsorship, has been identified with clear deliverables for the balance of 2008. Further, EDC is working towards the establishment of a Process Management Office with a mandate to develop and strengthen process expertise in the Corporation. This expertise will be available to analyze processes within the organization, thereby facilitating the redesign or transformation of not only service delivery processes but also the many internal processes that enable and guide EDC’s activities.

These initiatives are integral to leveraging the organization’s people, processes and technology. Operational excellence in all process execution with continuous improvement and innovation in these processes will ensure EDC remains positioned to quickly adapt to the inevitable changes in the needs of its customers.

Leveraging Technology – EDC’s IT Strategy

Technology is a critical force changing the global marketplace. EDC must optimize its use of technology in order to help Canadian businesses face today’s dynamic market and to ensure its employees can respond with agility.

As in past years, EDC’s Corporate Information Technology (IT) Strategy demonstrates close alignment with its business goals and objectives, supported by a strong

governance framework. Based on the objectives set out in this Corporate Plan, EDC's IT Strategy in 2009-2013 will focus on initiatives that:

- ▶ enhance its online service offering and connectivity with external stakeholders;
- ▶ promote innovation with more collaboration tools and knowledge networks;
- ▶ support more rapid decision making through reliable, accessible information;
- ▶ promote operational efficiency through the integration of business processes and applications; and
- ▶ effectively and securely support an increasingly mobile and distributed workforce.

Financial projections of technology investment expenditures are presented as part of capital expenditures in Chapter 3.

Online Service Offering – External Connectivity and Internal Collaboration

Guided by its web channel strategy, the Business Solutions and Technology Group (BS&T) will work closely with business teams to build online portals that personalize EDC's interaction with its customers and partners, improving their accessibility to the full range of EDC's solutions and intelligence in a coordinated and secure way. Focusing internally, learning and process portals will also provide an innovative approach to allow EDC employees to enhance their knowledge sharing and work more collaboratively.

At the same time, BS&T will work with business teams to identify other opportunities to strengthen connectivity between EDC, its external stakeholders and their supply chains.

Reliable, Accessible Information – Enterprise Information Management

Over the planning period, BS&T will continue to help EDC leverage its information assets to support business decisions. Initiatives in this area will include launching an enterprise data quality program, delivering an enterprise document management system, and leveraging the use of existing business intelligence tools.

Integration of Business Processes and Applications – Business Process Management

With C3 and the loans transformation initiative both well underway, EDC has an opportunity to strengthen the integration of its business processes across functions and business applications. Along with the implementation of lean practices, business

process management will help embed accountability for continuous process improvement. Benefits of this approach will include:

- ▶ streamlining critical business processes from end to end for responsive delivery of EDC services;
- ▶ facilitating continuous improvement as part of EDC's business process management;
- ▶ enabling the corporate reuse of common business services; and
- ▶ simplifying BS&T's ability to make future improvements to business applications, including migration from its legacy systems.

An Increasingly Mobile and Distributed Workforce – Wireless Strategy

EDC is leveraging new wireless technologies to allow its staff to connect and conduct work in new ways. The current mobile workforce initiative has allowed customer-facing sales staff to access corporate systems from virtually anywhere in the world. Over the planning period, BS&T will extend this initiative to provide all employees the ability to access corporate systems from anywhere on or off EDC premises, and provide visiting clients the ability to access their own systems through EDC-sponsored Internet access. The benefits of the wireless-mobile workforce initiatives are:

- ▶ enabling more responsive and productive client interactions;
- ▶ creating a more flexible work environment that promotes team collaboration in a distributed workforce environment, whether in the regions or at home; and
- ▶ optimizing technology investments for the future head office to ensure they are as "green" and efficient as possible.

EDC's People: A Critical Resource

Human capital is EDC's most important asset. It is the stock of knowledge and experience that exists at the individual level in an organization. In recent years, EDC has strengthened human resources practices through, for example, changes to the performance management system and compensation framework. In 2009, EDC will continue to introduce improvements intended to strengthen service delivery, foster greater employee engagement, and support the development of a more flexible and efficient work environment.

E-HR

HR is revising and refreshing its e-HR strategy and roadmap. This will enable HR to continue to move forward with the shared vision of continued high-quality HR service

delivery, supported by a five-year systems strategy to achieve this vision. The timely and successful completion of this strategy and roadmap will enable EDC to move forward in improving service delivery, processes and tools.

A series of workshops and informal consultations have been held as part of the process, to ensure a collaborative approach to development. The purpose is to iteratively develop and gain consensus within the HR management team and with BS&T for a renewed long-term HR Systems Strategy.

Developing an Employment Value Proposition

An Employment Value Proposition (EVP) is the set of attributes that the labour market and employees perceive as the value they gain through employment in the organization. The benefits of a well-managed EVP include increasing the size of EDC's talent pool, increasing the likelihood of fit between candidates and EDC, improving the level of employee effort and performance, and improving retention.

In 2008, EDC surveyed approximately half of its employees to gauge their perception of EDC's job offer. Using the survey results, Human Resources is crafting an EVP and examining the opportunities that exist to reinforce it to both potential and current employees. Already, EDC is using the information and perspective gained from its engagement with employees to strengthen its recruitment activities. The implementation of the EVP will continue in 2009.

Fostering Employee Engagement

An engaged workforce is a more productive workforce. EDC measures employee engagement through its employee survey, which is conducted every two years. The results of these surveys have consistently ranked EDC among Canada's high-quality organizations.

The most recent Employee Opinion Survey was conducted in 2007. While EDC achieved a high ranking, the results did identify three key drivers of engagement that are vulnerabilities for EDC. They are:

- ▶ career development;
- ▶ enabling environment; and
- ▶ value of work and contribution.

Over the course of 2008, EDC has been working to build these drivers into key strengths, rather than vulnerabilities. Looking ahead, the Corporation will develop specific leadership development measures to reflect the fact that leaders create the conditions for a positive work climate. EDC will also develop specific employee engagement and perception measures.

Telework: Enabling a Flexible Workforce

As discussed in the IT Strategy, the goal of the telework program is to enable EDC employees to flexibly, securely, and efficiently interact with each other, customers and third parties, irrespective of location. EDC is currently in the pilot phase, whereby almost 200 participants have been identified, including existing teleworkers, participants in the Mobile Work Force Project, and new candidates selected from the three sponsor groups: Insurance, BS&T and Human Resources. The next steps after the pilot phase is complete are to evaluate and refine the policy in light of the pilot, expand the pilot, and finalize program design for a corporate program that will be launched in 2009. The 2010-2014 Corporate Plan will provide an update on this initiative.

2.4 Measuring Success

This business strategy has presented how EDC intends to respond to the needs of its customers in a challenging and complex economic environment. A major element of this business strategy is the need to put customers at the centre of everything EDC does.

In assessing its performance in implementing this strategy, the Corporation employs a number of performance measures. These are explained below.

Connecting with Exporters and Investors

EDC is committed to putting its customers at the centre of everything it does. This focus on customer centricity will be supported by the investments the Corporation has made in recent years in its structure, in Canada and around the world.

In the 2008-2012 Corporate Plan, EDC indicated that it would measure success under this pillar through the following measures: Customers Served; the number of Multiple Program Users; Customer Service; and the Net Promoter Score.

Customers Served

Customers Served tracks the number of Canadian companies currently benefiting from or being served through one of EDC's solutions. A forecast of 3% growth, or 7,685 customers was set for 2008. EDC is forecasting that it will serve 7,690 customers this year, due to high demand in the mid-market for EDC's credit insurance solutions. The expansion of underwriters into the regions also contributed to success this year.

The expected customer base is an important plan variable, depicting expected utilization of EDC products and services. Owing to a slowing global economy and its impact on Canadian markets, EDC is planning for only modest growth or potential declines in the exporter population and therefore relatively flat growth in its customer base.

Multiple Program Users

A measure of EDC's success in expanding coverage of individual customer needs is the number of Multiple Program Users (MPUs). MPU was first introduced as a corporate measure in 2007. A forecast of 15% growth, or 967 MPUs was set for 2008. EDC is forecasting that it will fall short of this target, with 904 MPUs, representing 7.5% growth. This shortfall is attributed to slower export growth and challenging market conditions.

In 2009, EDC is forecasting growth of 10% in the number of MPUs. Success under this measure is significantly affected by the Financing program and whether existing customers (typically credit insurance customers) require financing support from EDC. The continued roll-out of C3 is expected to drive performance under this measure.

Customer Loyalty

In 2008, EDC introduced changes to the way it measures customer satisfaction. A new measure – the Net Promoter Score (NPS) – was introduced. NPS measures EDC's reputation and the likelihood that its customers would recommend the Corporation to business colleagues. EDC also measures the views its customers have about the Corporation's products and services.

EDC forecast an improvement in its scores under both measures for 2008. While EDC expects to show improvement under the Product and Service component, it is less likely to do so for the NPS. Research suggests that the economic climate can have a significant impact on how customer scores. This research corresponds with EDC's results, where companies in some of the harder hit sectors (e.g., Light Manufacturing) provided the lowest scores.

For 2009, NPS will serve as the principal measure of customer loyalty and satisfaction. Forecasting results under this measure is difficult, particularly in light of extremely challenging economic conditions. In the current environment, the Corporation expects that maintaining current results will prove challenging, although employees will continue to work towards improving results. Therefore, a maintain/improve result is planned for 2009.

Facilitating Integrative Trade

EDC solutions are used to facilitate the export and investment activities of Canadian companies competing in a globalized and highly competitive economy. These solutions facilitate traditional export trade and enable CDIA, for companies of all sizes and in markets across the globe.

In the 2008-2012 Corporate Plan, EDC indicated that it would measure success under this pillar through the following measures: Total Business Volume; Volume in Emerging Markets; Investment Volume and Transactions; and Partnership Volume.

Total Business Volume

Total business volume refers to the aggregate of business facilitated by EDC across its Credit Insurance, Financing (including Equity), Political Risk Insurance, and Contract Insurance and Bonding programs.

Business volume is a planning variable, that can be affected by a number of factors. For example, as the majority of EDC's business is conducted in U.S. dollars, foreign exchange fluctuations can have a significant impact on business volumes. Similarly, export sales can be driven up or down by price changes. For example, as noted in Chapter 1, significant increases in commodity prices (e.g., oil and potash) in 2008 have driven up export volumes, as the value of these shipments increased. Finally, volume results are affected by large transactions and insurance policies.

EDC is forecasting that it will facilitate \$78.6 billion of trade and investment in 2008, representing 12% growth. This exceeds the projected 7% growth described in the 2008-2012 Corporate Plan. EDC's performance was driven by stronger than expected growth in volume in the Extractive sector, as higher commodities prices have driven up the value of exports. For 2009, EDC is forecasting an 8% decline in business volume. A detailed discussion on EDC's volume assumptions for 2009 is included in the financial plan.

Volume in Emerging Markets

As noted in Chapter 1, exports to emerging markets are growing faster than those to developed markets. While this creates greater opportunities for growth for Canadian companies, the risks are often higher. EDC's trade finance and risk mitigation solutions are important tools for companies looking to sell beyond their traditional export destinations.

For 2008, EDC forecast 8% growth in its business volume in emerging markets (VEM). The Corporation is forecasting that it will facilitate \$19.1 billion of VEM, representing nearly 15% growth over 2007. This increase is mainly attributed to stronger than expected growth in both the Extractive and the Infrastructure and Environment (I&E) sectors – two sectors which account for 70% of VEM.

For 2009, the Corporation is forecasting more moderate growth of 5% which is attributed to a significant decline in export volume from the Extractive sector due to falling commodity prices.

Facilitating Canadian Direct Investment Abroad

Canadian companies are using CDIA to enhance their competitiveness and improve service to their foreign customers. EDC measures its facilitation of CDIA in two ways: number of transactions and volume.

For 2008, the Corporation forecast growth of 12% in the number of transactions.¹¹ EDC expects to fall slightly short, facilitating 364 transactions representing nearly 11% growth.

Due to changes in the way EDC records its PRI volume (see Chapter 3), the CDIA volume forecast for 2008 was 5% lower than 2007 results. EDC is now forecasting a decline in CDIA volume to slightly less than \$5.1 billion, or -9%. This shortfall is attributed to slower global growth.

For 2009, EDC is forecasting growth of 5% in the number of transactions and 3% growth in volume. Although global growth will continue to slow, the Resources and I&E sectors each forecast an increase in CDIA. As well, EDC expects its customers will benefit from a recently signed Master Guarantee Agreement with Scotiabank's Mexican subsidiary Scotiabank Inverlat S.A. to support Canadian affiliates based in Mexico, as well as provide loans to their Mexican clients doing business with Canadian exporters.

Partnering to Serve Canadian Companies

Since 2003, EDC has tracked the amount of contracted risk it assumes on behalf of financial institutions under a number of programs. These programs provide credit enhancements to banks and sureties, making it more attractive for them to extend coverage or financing to customers.

EDC planned 8% growth for 2008 and is forecasting that it will fall short of this target, facilitating \$12.3 billion representing just over 5% growth. For 2009, EDC is forecasting 7% growth.

The Corporation will also be measuring the number of Partnership Transactions it facilitates. A transaction measure will support greater focus on mid-market customers, where volumes may not be significant but where there are a number of opportunities to partner with the private sector. A plan of 6% growth has been set for 2009.

Leveraging the Organization

The objective under this pillar is to optimize the allocation and use of resources. Putting in place the right policies and processes with respect to capital, technology and employees will ensure that EDC is well-positioned to respond to its customers.

¹¹ The 12% growth rate in the number of transactions incorporates the original Corporate Plan 30% growth targeted for transactions under the Financing and PRI programs, as well as 5% growth under the ARI program.

Leveraging Technology to Support the Business Strategy

A measure used by some organizations is to gauge the allocation of IT dollars between what is known as “Value for Money” initiatives (VfM) and “Total Cost of Ownership” (TCO). VfM refers to discretionary technology investments that drive business value, whether by enhancing customer service, corporate efficiency, employee satisfaction or revenue. TCO refers to technology investments that are either non-discretionary in nature or relate to maintaining core technology assets and infrastructure. Such organizations regularly review their optimal investment allocation based on their technology requirements at the time.

Over the last several years, EDC's expenditures on VfM initiatives have been growing as a percentage of total IT investment. In 2003, the VfM to TCO ratio was 23:77. Conceptually, EDC sets a target ratio of 50:50 to reflect its commitment to focusing its technology investments in support of business initiatives.

The 2008 forecast of 48:52 versus plan of 43:57 is the result of slightly higher spending on business-value-driven projects than anticipated, along with the planned deferral of some infrastructure expenditures.

A target VfM to TCO ratio of 52:48 is being set for 2009, reflecting the investments planned according to the IT strategic objectives outlined above, thereby optimizing the use of technology to achieve EDC's business goals and objectives.

Leveraging our People

EDC's people strategy aims to secure employee engagement and to retain the resources needed to successfully implement the business strategy today and in future years. How well this is accomplished is measured by employee feedback on their engagement to the organization and by an employee retention rate.

EDC conducts an employee survey every two years on a wide range of issues affecting the work environment and employee engagement. The next survey will be conducted in 2009. EDC's goal is to rank above high quality organizations on the key drivers of employee engagement.

EDC has had success in employee retention but the market conditions are expected to remain competitive for the skills that EDC has in-house. EDC's 2007 retention rate was 96.2% and a target of being equal to or exceeding the Conference Board retention rate for financial institutions was set. EDC expects to meet this target in 2008 and 2009.

The Creation of Benefits for Canada

EDC is committed to creating economic benefits for Canada – to help Canadian companies generate employment and income for Canadians. To do this, EDC facilitates the exports and investments of these companies thereby contributing to Canada's standard of living.

For some time, EDC has estimated the benefits to Canada's economy of the exports and investments it facilitates. Some of these benefits are quantifiable – like the Canadian content or jobs supported by an export sale or foreign investment – while others are more subjective in nature. Indeed, as more Canadian companies participate in integrative trade, the nature of the Canadian benefits generated by their activity is changing. For example, securing a world product mandate or participating in the supply chain of a multinational company can be key to a company's ongoing business. These benefits are not readily quantifiable today.

Other less tangible benefits derived from EDC's role fall under the objective of enhancing Canada's export capacity. This means helping small companies participate in integrative trade and using its financial capacity to support riskier business, often in new emerging markets. The Canadian benefits scorecard for the past three years is presented below.

CANADIAN BENEFITS SCORECARD

<i>(\$ in Billions)</i>	2005	2006	2007
Total Business Volume Facilitated	57.4	66.1	77.7*
SME – Number Served	6,203	5,800	5,827
SME – Business Volume	15.5	15.2	18.8
Business Volume in Emerging Markets	13.3	15.2	20.8
Estimated Contribution to Canada's GDP	37.4	44.6	55.6
Estimated Contribution to Canada's GDP (%)	3.4	3.9	4.5
Number of Jobs Supported	438,000	457,000	546,700
Percentage of National Employment	2.7	2.8	3.3

* This result is based on the methodology used to report volume in 2007. In 2008, EDC introduced changes to how it reports volume.

The following depicts EDC's scorecard for 2009. It presents the Corporation's key measures of success and planning performance for the coming year.

EDC'S 2009 PERFORMANCE SCORECARD ¹²

Performance Measures (\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan
Connecting with Exporters and Investors				
Planned Customers Served	7,462	3% growth	7,690	maintain
Number of Multiple Program Users	841	15% growth	904	10% growth
Net Promoter Score	62.1	improvement	58.6-61.5	maintain/improve
Facilitating Integrative Trade				
Planned Total Volume of Business	70,242	7% growth	78,600	8% decline
Volume in Emerging Markets	16,721	8% growth	19,100	5% growth
Foreign Investments Facilitated:				
Volume	5,547	5% decline	5,084	3% growth
Number of Transactions	329	12% growth ¹	364	5% growth
Partnership Volume	11,738	8% growth	12,330	7% growth
Partnership Transactions	-	-	4,272	6% growth
Leveraging the Organization				
VfM to TCO Ratio ²	58:42	43:57	48:52	52:48
Employee Engagement	rank same as high-quality organizations ³	n/a ⁴	-	rank same as high-quality organizations ³
Employee Retention	96.2%	≥ CB rate ⁵	meet	≥ CB rate ⁵

¹ The 12% growth rate shown in the table incorporates the original Corporate Plan 30% growth targeted for transactions under the Financing and PRI programs, as well as 5% growth under the ARI program.

² The Value for Money:Total Cost of Ownership ratio is an indication of IT investments in business-enabling initiatives as opposed to maintenance and support costs.

³ Measured on the climate assessment independently reported by Hay.

⁴ The next survey will be conducted in 2009.

⁵ Conference Board data for financial institutions suggests a rate of 90.4%.

¹² Volumes have been adjusted to account for the way EDC began reporting volume in 2008. The adjustments were made to allow for an appropriate year-over-year comparison. Information about the adjustments will be presented in the financial plan. In addition, EDC introduced a new customer measure in 2008 (customers served). This measure has replaced customer acquisition and retention in the table.

CHAPTER 3

Financial Plan

Introduction

This Corporate Plan has described a highly uncertain economic environment. This uncertain environment requires a more prudent approach to financial planning and as a result, a level of conservatism has been built into this Plan. To that end, the financial plan and its underlying assumptions have been developed by taking into account the potential downside risks.

EDC's business strategy, as presented in Chapter 2, is focused on ensuring that the Corporation is positioned to effectively serve Canadian companies in this environment. The financial implications of this business strategy coupled with the economic risks are reflected in this chapter. This includes EDC's volume projections, projected consolidated statements of income and comprehensive income, balance sheet, economic capital, performance ratios and cash flow statements, as well as the Corporation's anticipated capital expenditures for 2008-2013. Both the projected consolidated income statement and balance sheet are provided for the Corporation's subsidiary, Exinvest Inc.

3.1 Assumptions

The financial plan is based on a series of assumptions, all of which have an impact on the Corporation's business activity and financial performance. First, as 2008 results are not yet available, EDC prepares a forecast of its expected business activity and, based on that forecast, develops projected financial statements. The 2007 actual results are also included for information purposes.

Second, the 2009 Plan is based on the current business strategy employed by the Corporation and on certain key assumptions, including those with respect to business volumes, foreign exchange, risk profile, interest rates and administrative expenses. As is the case with any assumptions, these assumptions are subject to volatility. This potential for volatility is amplified given the current economic climate and related uncertainties. The assumptions most likely to be impacted are those related to business volumes, foreign exchange, interest rates and the risk profile of EDC's loan portfolio.

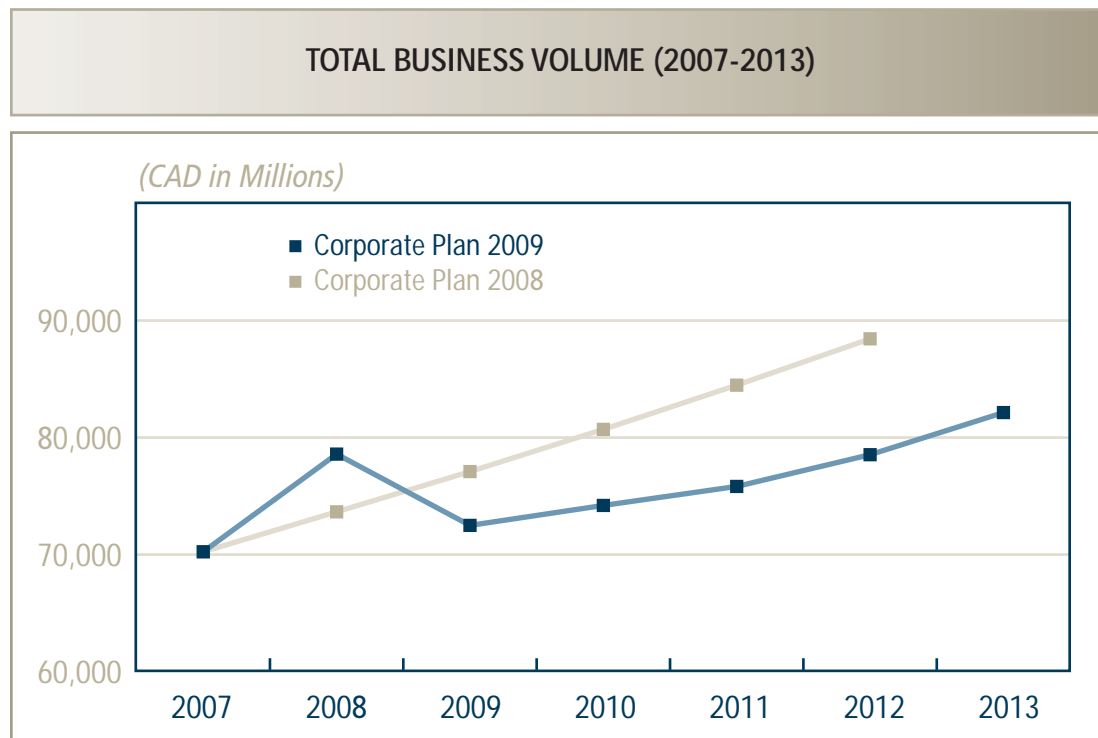
2009-2013 Volume Assumptions

As discussed in Chapter 1, the global economy has changed direction after several years of growth. Now the prospect of a recession in the U.S. and elsewhere is high with severely tightened credit conditions, falling consumer confidence and volatile oil prices. This uncertainty has added a level of complexity associated with forecasting the Corporation's business volumes.

As noted earlier, the assumptions relating to business volumes have been developed taking into account the downside risks – oil price volatility, strong Canadian dollar, and recession – to the base forecast. In light of this uncertain economic environment, EDC is forecasting a slowdown in the volume it facilitates in the near term. In 2009, the Corporation is forecasting that business volume will decline by 8% to \$72.5 billion.

Table 1 summarizes EDC's Business Volume projections for 2007 through to 2013.

TABLE 1



Foreign Exchange Assumptions

As the majority of EDC's business transactions are conducted in U.S. dollars, it is important to consider the impact that fluctuations in the U.S. exchange rate may have on Canadian companies and, by extension, EDC.

An appreciation of the Canadian dollar affects Canada's exports in two ways. The first is mechanical. As much as 70% of Canada's exports are priced in U.S. dollars. Canadian companies receiving U.S. dollar revenues for their exports will receive fewer Canadian dollars when converted at a higher exchange rate. So even if there is no change in physical volume shipments, the stronger Canadian dollar automatically translates into lower export receipts in Canadian dollar terms.

The second impact involves a more dynamic process whereby Canada's export sales in physical volume terms are affected by the stronger Canadian dollar. Since most exports are priced in U.S. dollars, a higher Canadian dollar results in decreased revenues once payments are converted back into Canadian dollars. The result is a

squeeze on profit margins. Exporters are therefore faced with a choice: they can raise their U.S. dollar prices to account for the falling revenues, but this would make their exports more expensive and could slow sales; or they can look to lower their production costs through, for example, restructuring or the use of CDIA.

In this financial plan, the assumption for the U.S. exchange rate is that U.S. dollars are converted to Canadian dollars at an average rate of CAD 1.03 for Forecast 2008, CAD 1.10 for Plan 2009 and CAD 1.12 for subsequent years. As noted above, fluctuations in this rate may significantly impact EDC.

By way of example, at the time of writing the 2008 Corporate Plan, it was assumed that in 2008 the average exchange rate for converting U.S. dollars to Canadian dollars would be CAD 1.15. The actual strengthening of the Canadian dollar to an average exchange rate of CAD 1.03 for 2008 would have the effect of reducing EDC's reported Canadian dollar business volume, for a given volume of transactions in U.S. dollars. The estimated effect in 2008 would be on the order of \$5.5 billion, all other things being equal.

Extending this example forward to 2009, this Plan has been based on an assumed average exchange rate of CAD 1.10 per U.S. dollar for 2009, which represents a sizeable depreciation in the Canadian dollar from 2008 levels. Given that the majority of EDC's business volumes are recorded in U.S. dollars, the projected depreciation of the Canadian dollar has a significant effect on the Corporation's reported volumes. In fact, while the business volumes presented in the previous section show an overall reduction in volumes from 2008 to 2009 of 8%, the actual reduction in volume is much higher when the effect of foreign exchange translation is removed. After removing the impact of foreign exchange, there is a 13% reduction in volumes in 2009 with little or no growth in most programs in 2010.

To provide an additional perspective on how movements in the Canada/U.S. exchange rate impact EDC and its results, a \$0.01 change in either direction in the value of the Canadian dollar in relation to its U.S. counterpart translates into an approximate \$6 million change to the Corporation's Net Financing and Investment Income, all other things being equal.

3.2 Financial Management Strategy

General Principles

EDC's operations are supported by the Corporation's expertise in risk management and its commitment to sound financial management. Both of these areas are of increasing importance in today's highly uncertain economic environment.

The key principles underpinning the financial plan are EDC's commitment to operate in a financially self-sustaining manner by managing risk effectively in this challenging environment and its commitment to sound financial management. EDC's financial management strategy is focused on ensuring that the Corporation has at all times sufficient financial capacity to support the ongoing fulfillment of its mandate and respond to the evolving needs of Canadian exporters and investors. Key elements of this strategy are:

- ▶ obtaining returns for risk taken;
- ▶ maintaining operational efficiency through the management of costs; and
- ▶ managing risks appropriately.

In addition, EDC manages its capital in order to be able to support new and existing business, and to sustain the Corporation. EDC manages its capital capacity through its board-approved Capital Adequacy Policy (CAP). The CAP measures the capital required to support the credit, market, operational and business risks of the Corporation. Additional capital is made available beyond that which is required to support these core risks and is designated as Strategic Risk Capital. It is deployed to support EDC's strategy of broadening risk appetite in response to customer needs as well as allowing for volatility in core risk capital demand.

Sound Financial Management

Sound financial management at EDC comprises three aspects:

- ▶ Measurement of its financial performance, which forms the cornerstone of sound financial management at EDC. The measures are consistent with other strong measurements used in the financial services sector. The definitions and projected results and analysis of these measures are discussed in Section 3.7.
- ▶ A capital adequacy policy, as discussed in Section 3.6.
- ▶ Asset/Liability Management and Borrowing Strategies, as discussed in Section 3.10.

3.3 Accounting Policies and Future Accounting Changes

The accounting policies used in the preparation of this financial plan are in accordance with Canadian Generally Accepted Accounting Principles (GAAP) and are consistent with those noted in the Corporation's Annual Report. The policies, which are similar in approach to those of other financial institutions, reflect the long-term nature of EDC's business and are prudent in light of the risks associated with its unique portfolio. The earnings of the Corporation and its subsidiary are not subject to the requirements of the *Income Tax Act*.

Future Accounting Changes

In 2006, the Accounting Standards Board (AcSB) of Canada announced its intention to adopt International Financial Reporting Standards (IFRS) as Canadian GAAP for publicly accountable entities. In early 2008, the AcSB confirmed that the changeover date for full adoption of IFRS will be January 1, 2011. EDC is currently assessing the impact of the transition to IFRS, and accordingly the projected financial results included within this Corporate Plan do not reflect the impact of these new standards.

3.4 Projected Consolidated Statements of Income and Comprehensive Income

Table 2 summarizes EDC's Projected Consolidated Statement of Income through to the year 2013.

TABLE 2

PROJECTED CONSOLIDATED STATEMENT OF INCOME (2007-2013)

(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Financing and Investment Revenue								
Loan	1,395	1,496	1,271	1,502	1,687	1,834	1,905	1,972
Capital Lease	8	9	9	9	9	8	7	6
Operating Lease	37	49	42	32	35	45	41	36
Debt Relief ¹	1	124	-	8	1	1	2	2
Investment Portfolio	123	104	81	73	84	76	76	76
	1,564	1,782	1,403	1,624	1,816	1,964	2,031	2,092
Interest Expense	717	839	577	783	924	1,015	1,067	1,110
Leasing and Financing Related Expenses	46	37	37	47	52	46	41	38
Net Financing and Investment Income	801	906	789	794	840	903	923	944
Insurance Premiums and Guarantee Fees	163	199	180	179	180	183	189	198
Other Income (Expense)	56	(4)	(148)	(15)	-	-	-	-
Provisions for Credit Losses	328	314	197	552	303	289	207	291
Income After Provision for Credit Losses	692	787	624	406	717	797	905	851
Administrative Expenses	219	244	241	258	272	286	300	315
Net Income	473	543	383	148	445	511	605	536

Note 1: Debt relief is subject to uncertainty. For planning purposes, the amounts included represent management's best estimate of the amounts EDC is likely to receive over the planning period (2009-2013).

The Corporation is forecasting net income in 2008 of \$383 million which represents a reduction of \$160 million from the 2008 Corporate Plan.

- ▶ Net financing and investment income for 2008 is forecast to decrease by \$117 million (13%) to \$789 million compared to the 2008 Corporate Plan. This is due to a decrease in loan revenue of \$225 million, a decrease in debt relief revenue of \$124 million, a decrease in investment revenue of \$23 million and a decrease in net operating lease revenue of \$7 million offset by a decrease in interest expense of \$262 million.
- ▶ Other Income (Expense) in 2008 is forecast to be an expense of \$148 million or \$144 million higher than planned due primarily to foreign exchange translation losses (\$73 million) which is offset by foreign exchange translation gains of \$78 million recorded in Other Comprehensive Income, combined with fair

value and mark-to-market adjustments (\$46 million) and realized losses on financing assets and marketable securities (\$29 million).

- ▶ Provisions for 2008 are forecast to be an expense of \$197 million versus \$314 million in the 2008 Corporate Plan. This decrease of \$117 million can be attributed mainly to a decrease in provisions in respect of portfolio growth (\$109 million), a decrease due to 5 year average default rate adjustments (\$54 million), an increase in the estimated reversal of provision expense as a result of the loan provisioning review (\$111 million) and a decrease in the insurance provision (\$26 million), offset by increases in provision expense from migration (\$175 million) and other adjustments (\$8 million).

In 2009, it is planned that net income will be \$148 million representing a decrease of \$235 million from the 2008 forecast.

- ▶ Net financing and investment income for 2009 is forecast to increase by \$5 million to \$794 million, a 1% increase from the 2008 Forecast. Other Income (Expense) decreases by \$133 million to an expense of \$15 million in 2009. Forecasts of mark-to-market adjustments on long-term debt and foreign exchange translation gains/losses on available for sale investments are not projected in the Corporate Plan beyond 2008.
- ▶ Provision expense increases by \$355 million to \$552 million in 2009 primarily as a result of the non-recurring loan provisioning review adjustment of \$323 million in 2008.
- ▶ As noted in the footnote to the Consolidated Statement of Income, the amount included for debt relief reflects management's best estimate of the amount that the Corporation is likely to receive. Although not currently anticipated, the total debt relief could be as high as \$134 million in 2009 and \$76.5 million in 2010.

Table 3 summarizes EDC's Projected Consolidated Statement of Comprehensive Income through to the year 2013.

TABLE 3

PROJECTED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (2007-2013)

(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Net Income	473	543	383	148	445	511	605	536
Other Comprehensive Income								
Net Unrealized Gains (Losses) on Available-for-Sale Marketable Securities	(72)	(6)	66	(14)	-	-	-	-
Reclassification of Losses on Available-for-Sale Marketable Securities to Income	2	-	-	-	-	-	-	-
Other Comprehensive Income (loss)	(70)	(6)	66	(14)	-	-	-	-
Comprehensive Income	403	537	449	134	445	511	605	536

3.5 Projected Consolidated Balance Sheet and Statement of Changes in Shareholder's Equity

Forecast 2008 loans receivable are tracking close to the 2008 Corporate Plan at \$25.8 billion versus \$25.9 billion, a difference of \$0.1 billion. A decrease in the 2008 opening balance of \$2.2 billion, when compared to the 2008 Corporate Plan, is offset primarily by a \$1.6 billion foreign exchange impact due to a stronger Canadian dollar and a \$0.4 billion increase in net disbursements.

The planned 2009 loans receivable of \$29.8 billion is \$4.0 billion higher than the 2008 forecast of \$25.8 billion, a 16% increase. This is mainly due to net disbursements in 2009 of \$3.7 billion and an increase of \$0.3 billion due to the forecast weakening of the Canadian dollar.

EDC's Equity program is reflected on the balance sheet as Equity Financing. Total equity commitments are divided between the fair market value of funded transactions that are included on the balance sheet and unfunded commitments that are not recorded on the balance sheet. The unfunded commitments are expected to be advanced over timeframes of up to 12 years, in accordance with the investment terms per each investment commitment. Overall commitments (funded and unfunded) are forecast to be approximately \$500 million, with the funded portion in the range of \$180 million, at the end of 2008. In 2009, the overall commitments are projected to grow to approximately \$700 million, with a funded portion of \$306 million.

Table 4 (on page 46) summarizes EDC's Projected Consolidated Balance Sheet through to the year 2013.¹³

¹³ EDC may effect transactions involving its acquisition of interests in other entities either directly or indirectly through Exinvest or newly created subsidiaries. In any such event, EDC's investment in Exinvest may be increased and its operations expanded accordingly, and this Corporate Plan, in respect of both EDC and its subsidiaries, shall be deemed amended accordingly. As well, any resulting additional operating expenses shall be deemed to be included in a revised Operating Budget of Exinvest Inc., which Operating Budget shall be deemed to be amended accordingly.

TABLE 4

PROJECTED CONSOLIDATED BALANCE SHEET (2007-2013)

(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
ASSETS								
Cash and Investments								
Cash and Cash Equivalents	173	-	503	503	503	503	503	503
Marketable Securities – Held-for-Trading	1,600	1,542	793	781	998	781	781	781
Marketable Securities – Available-for-Sale	755	881	819	814	1,248	814	814	814
	2,528	2,423	2,115	2,098	2,749	2,098	2,098	2,098
Financing and Leasing Assets								
Loans Receivable	18,519	25,878	25,784	29,762	33,114	35,520	36,948	38,668
Allowance for Losses on Loans	(1,316)	(1,306)	(1,680)	(2,117)	(2,343)	(2,541)	(2,665)	(2,853)
Risk Mitigation Insurer's Share of Loan Allowance	-	22	45	45	45	45	45	45
Equity Financing Designated as Held-for-Trading	95	254	180	306	460	624	780	888
Net Investment in Capital Leases	122	116	129	121	111	101	90	79
Equipment Available for Lease	372	390	297	254	242	230	217	205
Accrued Interest and Fees	229	323	230	323	339	359	364	361
	18,021	25,677	24,985	28,694	31,968	34,338	35,779	37,393
Other								
Recoverable Insurance Claims	27	37	40	40	40	40	40	40
Reinsurer's Share of Allowance for Claims	88	78	109	109	109	109	109	109
Derivative Instruments	2,242	1,801	1,849	1,849	1,849	1,849	1,849	1,849
Other Assets	183	145	146	146	146	146	146	146
	2,540	2,061	2,144	2,144	2,144	2,144	2,144	2,144
Total Assets	23,089	30,161	29,244	32,936	36,861	38,580	40,021	41,635
Liabilities								
Loans Payable – Designated as Held-for-Trading	14,408	21,787	19,980	23,641	27,469	28,934	31,176	32,572
Loans Payable – Other	1,175	207	1,309	1,323	1,146	1,146	22	22
	15,583	21,994	21,289	24,964	28,615	30,080	31,198	32,594
Accounts Payable and Other Credits	278	298	249	219	203	187	191	196
Derivative Instruments	166	222	317	317	317	317	317	317
Allowance for Losses on Loan Commitments and Guarantees	564	784	615	647	612	596	568	557
Allowance for Claims on Insurance	474	546	551	580	599	611	623	634
Total Liabilities	17,065	23,844	23,021	26,727	30,346	31,791	32,897	34,298
Shareholder's Equity								
Share Capital	983	983	983	983	983	983	983	983
Retained Earnings	5,121	5,415	5,254	5,254	5,560	5,834	6,169	6,382
Accumulated Other Comprehensive Income	(80)	(81)	(14)	(28)	(28)	(28)	(28)	(28)
	6,024	6,317	6,223	6,209	6,515	6,789	7,124	7,337
Total Liabilities and Shareholder's Equity	23,089	30,161	29,244	32,936	36,861	38,580	40,021	41,635
Position Against Statutory Limits								
Section 10(3), 10(4)								
Contingent Liability Limit ¹	27,000	27,000	30,000	30,000	30,000	30,000	30,000	30,000
Position Against Limit	20,576	23,866	25,399	23,974	24,540	25,918	27,476	29,009
Percent Used	76%	88%	85%	80%	82%	86%	92%	97%
Section 14								
Loans Payable Limit	89,790	92,460	91,560	93,555	93,555	98,145	102,255	107,280
Position Against Limit	15,583	21,994	21,289	24,964	28,615	30,080	31,198	32,594
Percent Used	17%	24%	23%	27%	31%	31%	31%	30%

Note 1: A Supplementary Estimates B was submitted in August 2008 to increase the Contingent Liability Limit to \$33 billion.

Note 2: The 2008 Corporate Plan Balance Sheet has been reclassified to conform with the presentation adopted for the 2009 Corporate Plan.

Table 5 summarizes EDC's Projected Consolidated Statement of Changes in Shareholder's Equity through to the year 2013.

TABLE 5

PROJECTED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY (2007-2013)

(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Share Capital	983	983	983	983	983	983	983	983
Retained Earnings								
Balance Beginning of Year	5,003	5,256	5,121	5,254	5,254	5,560	5,834	6,169
Transitional Adjustment on Adoption of Financial Instruments Standards	(5)	-	-	-	-	-	-	-
Net Income	473	543	383	148	445	511	605	536
Dividends Paid	(350)	(384)	(250)	(148)	(139)	(237)	(270)	(323)
Balance End of Year	5,121	5,415	5,254	5,254	5,560	5,834	6,169	6,382
Accumulated Other Comprehensive Income								
Balance Beginning of Year	-	(75)	(80)	(14)	(28)	(28)	(28)	(28)
Transitional Adjustment on Adoption of Financial Instruments Standards	(10)	-	-	-	-	-	-	-
Other Comprehensive Income	(70)	(6)	66	(14)	-	-	-	-
Balance End of Year	(80)	(81)	(14)	(28)	(28)	(28)	(28)	(28)
Retained Earnings and Accumulated Other Comprehensive Income	5,041	5,334	5,240	5,226	5,532	5,806	6,141	6,354
Total Shareholder's Equity at End of Year	6,024	6,317	6,223	6,209	6,515	6,789	7,124	7,337

3.6 Economic Capital

Capital Adequacy Policy and Dividends

As mentioned in Section 3.2, the CAP is a fundamental component in EDC's overall capital management framework. The goal of the Policy is to support EDC's Business Strategy by ensuring that EDC has adequate capital to support its current and future business.

At its foundation, the CAP has a guiding philosophy and set of principles that balance the requirement for EDC to fulfill its public policy mandate while remaining financially self-sufficient. The CAP also contemplates the need for EDC to maintain sufficient capital to protect the Corporation from global shocks.

Capital refers to the capacity of EDC to fulfill its public policy mandate and sustain the Corporation into the future. A key principle is the establishment of a target solvency standard or credit rating that determines the level of demand for capital that is required to cover EDC's exposures in exceptional circumstances. The established standard of a solvency level consistent with an AA credit rating aligns with strong practices of leading financial institutions and with the key principles of financial self-sufficiency.

EDC's capital supply is the sum of total shareholder's equity and allowances, as determined in accordance with GAAP. Under the capital management framework, EDC determines whether it has adequate capital by comparing its supply of capital to its demand for capital. Demand for capital arising from credit, market, operational and business risk is quantified using rigorous practices. In addition, in keeping with rigorous practices, a portion of available capital is also designated for strategic risks and market volatility.

EDC's capital is first and foremost available to support Canadian exporters and investors for the benefit of Canada and it is EDC's express intention to maximize the utilization of its capital in support of its mandate. The CAP does, however, recognize that there may be situations in which EDC's Board of Directors may authorize a dividend payment. Therefore, the CAP includes a potential eligible dividend methodology to guide the Board of Directors in determining the dividend amount that the Corporation can afford to pay.

The amount of the eligible dividend is determined based on the net income and the capital base of the Corporation. In 2008, EDC paid a dividend of \$250 million to the Government of Canada for the 2007 fiscal year. Since 2002, EDC has paid a total of \$695 million in dividends to the Government of Canada.

Material risk decisions will be measured by their capital consumption and EDC's capital demand will be allocated across two dimensions: Core Risk Capital (capital for exposures under current risk frameworks) and Strategic Risk Capital (capital for strategic enhancements to expand EDC's risk capacity). Credit, Market, Operational and Business Risk Capital represent capital that is already attributed and together form Core Risk Capital. Strategic Risk Capital is capital set aside and designated for future business opportunities of a higher-risk nature and volatility in Core Risk Capital. Both EDC's Demand for Capital and its Supply of Capital (i.e., accounting capital based on EDC's financial statements) are calculated using methodologies that are consistent with the Basel II framework.

The continuing development of enhanced capital modeling and analytical capabilities to enable the Corporation to better manage and leverage its capital is currently underway to support EDC's capital management practices. Broader scenario analysis and stress testing capabilities provided in the technology tool presently under implementation will provide the ability to conduct forward-looking/predictive modeling, under different economic environments, as inputs into the decision-making process. Advancing capital management policies and practices will enable the Corporation to implement its business strategy while maintaining its commitment to financial self-sustainability.

3.7 Projected Consolidated Cash Flow Statement

Table 6 summarizes EDC's Projected Consolidated Cash Flow Statement through to the year 2013.

TABLE 6

PROJECTED CONSOLIDATED CASH FLOW STATEMENT (2007-2013)

(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Cash Flows from (used in)								
Operating Activities								
Net Income	473	543	383	148	445	511	605	536
Provision Expenses	328	314	197	552	303	289	207	291
Change in Derivative Instruments Receivable ¹	(283)	-	372	-	-	-	-	-
Change in Derivative Instruments Payable ¹	1,270	-	(2,339)	-	-	-	-	-
Other Items not Affecting Cash	(213)	(148)	454	-	35	1	(16)	(19)
Net Cash from (used in)								
Operating Activities	1,575	709	(933)	700	783	801	796	808
Cash Flows from (used in)								
Investing Activities								
Financing Disbursements	(9,972)	(8,712)	(11,815)	(11,408)	(8,894)	(9,497)	(9,513)	(9,754)
Financing Repayments	7,184	4,290	6,950	7,722	5,495	7,049	8,052	8,006
Disposal of Equipment Available for Lease	-	-	41	-	-	-	-	-
Net Equity Disbursements	(53)	(150)	(90)	(126)	(154)	(164)	(156)	(108)
Net Cash from (used in)								
Investing Activities	(2,841)	(4,572)	(4,914)	(3,812)	(3,553)	(2,612)	(1,617)	(1,856)
Cash Flows from (used in)								
Financing Activities								
Issue of Long-Term Loans Payable	5,321	5,319	6,270	6,343	7,008	4,372	8,208	8,647
Repayment of Long-Term Loans Payable	(2,681)	(653)	(3,051)	(2,316)	(4,124)	(3,083)	(7,234)	(7,286)
Change in Short-Term Loans Payable	(1,063)	(349)	629	(784)	676	108	117	10
Change in Derivative Instruments Receivable ¹	(477)	-	1,909	-	-	-	-	-
Change in Derivative Instruments Payable ¹	(23)	-	(73)	-	-	-	-	-
Dividends	(350)	(384)	(250)	(148)	(139)	(237)	(270)	(323)
Net Cash Flows from Financing Activities	727	3,933	5,434	3,095	3,421	1,160	821	1,048
Effect of Exchange Rate Changes on Cash and Marketable Securities	(286)	-	-	-	-	-	-	-
Increase (Decrease) in Cash and Marketable Securities	(825)	70	(413)	(17)	651	(651)	-	-
Cash and Marketable Securities								
Beginning of Year	3,353	2,353	2,528	2,115	2,098	2,749	2,098	2,098
End of Year	2,528	2,423	2,115	2,098	2,749	2,098	2,098	2,098
Increase (Decrease) in Cash and Marketable Securities	(825)	70	(413)	(17)	651	(651)	-	-

Note 1: Amounts based on actual results YTD – derivatives are not forecast in the model, they are simply held constant at YTD amounts throughout the entire planning period. As such, there is no change in these items beyond 2008.

3.8 Capital Expenditures

Table 7 summarizes EDC's Projected Capital Expenditures from 2007 to 2013.

TABLE 7

PROJECTED CAPITAL EXPENDITURES (2007-2013)

(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Facilities	1.3	3.3	3.3	2.5	1.2	2.6	1.2	2.0
Future Head Office	0.5	1.0	1.0	6.2	13.5	39.0	0.1	-
Information Technology	17.1	23.7	23.7	21.8	19.0	18.0	20.0	20.0
Total Capital Expenditures	18.9	28.0	28.0	30.5	33.7	59.6	21.3	22.0

Capital expenditures are forecast to be \$28 million in 2008, consistent with Plan. In 2009 these expenditures increase \$2.5 million to \$30.5 million. This increase is entirely attributed to costs associated with EDC's future head office. Increases in future head office costs are partially offset by reductions in costs related to existing facilities and information technology.

For facilities, the 2008 forecast is on plan. Future head office costs in 2009-2011 represent EDC's planning for the expiration of its current head office leases. EDC's lease for 251 Laurier Avenue expires on September 30, 2011 and the lease for 151 O'Connor Street expires on December 31, 2011. To plan for the expiration of these leases a Request for Proposal (RFP) was issued for future premises. The RFP process identified the proponent that most closely met EDC's requirements and Board approval was received to enter into a lease for a new building. This will consolidate all EDC staff into one building and completion is scheduled for the end of 2011. Future head office capital costs to the end of 2009 are expected to total \$7.7 million. Future costs to be incurred in 2010 through 2012 are forecast to total approximately \$53 million.

Information technology expenditures for 2008 are forecast to be on plan. In 2009, EDC will complete an upgrade of the network infrastructure to maintain reliability and security and to support the expanded wireless capability to mobile and remote workers. Over the planning period, however, further such investment will be modest in anticipation of EDC's relocation to new head office premises, while still ensuring technology risks are appropriately addressed. There will be significant planning required as part of the head office project to ensure that the infrastructure in the new building is as efficient and "green" as possible and that services are maintained throughout the relocation phase.

In 2009, a major project will be the completion of C3, a Customer Relationship Management solution that will be a key enabler of EDC's new customer-centric business strategy. With the establishment of this solution, all major business operating systems will be in place and, therefore, future focus will be to integrate and leverage existing business applications across the customer value chain. Growing emphasis on the end-to-end optimization of business processes affords an opportunity to reduce

system complexity and costs through the enterprise-wide deployment of common business services (known as Service-Oriented Architecture) as well as through reduced reliance on mainframe legacy applications.

Other initiatives over the planning period will focus on leveraging existing collaboration and business intelligence tools, advancing the implementation of an electronic records and document management system and strengthening data quality governance. As noted in Chapter 2, EDC will also focus on enhancing its online service offering to personalize its interaction with customers and other stakeholders to improve accessibility to the full range of trade services from EDC as well as from its private and public sector partners.

There is a well-developed governance structure to plan, authorize and monitor the portfolio of technology capital expenditures. The Business Architecture Review Committee, comprised of senior management representatives, is responsible for ensuring that projects with a strong connection to EDC's goals and objectives are given first priority. The approval of specific technology initiatives is provided by the Board of Directors, EDC executive or management level, depending on the project cost. Assessment of the benefits realized is to be conducted by the business owner upon project completion. Finally, an enterprise portfolio management office has been created to reinforce project management disciplines and manage the portfolio of technology projects from the perspective of value for money, resource scheduling, and the balancing of demand and capacity.

3.9 Asset Liability Management and Borrowing Strategies

In accordance with the *Export Development Act* and the *Financial Administration Act* (FAA), EDC funds its capital requirements in international and domestic capital markets through borrowings by any appropriate means, including issuing bonds, debentures, notes and other evidence of indebtedness, having considered risk management policies and corporate goals. EDC attempts to minimize the cost of borrowing and maximize investment returns while prudently managing interest rate, foreign exchange and credit risks.

Asset Liability and Market Risk Management

EDC manages its exposures to interest rate, foreign exchange and treasury-initiated credit risks utilizing a policy framework inclusive of risk and liquidity limits, consistent with industry practices and approved by the Corporation's Board of Directors. The policy framework is compliant with the Minister of Finance Financial Risk Management Guidelines for Federal Entities (FRMG).

Market risk is the potential for loss as a result of movements in interest and foreign exchange rates. Through its policies and procedures, EDC ensures that market risks are identified, measured, managed, and regularly reported to management and the Board of Directors. EDC's Market Risk Management Policy sets out interest rate and foreign exchange risk limits, and exposure to market risk arising from any mismatch between assets and liabilities is managed within these limits. EDC believes that

prudent funding and risk management at the portfolio level, rather than the matching of individual assets with specific liabilities, provides management with the flexibility to achieve minimal funding costs while managing market risks within EDC's policy requirements.

EDC continually monitors its exposure to movements in interest rates and foreign exchange rates and manages those exposures consistent with the Asset Liability strategy. Positions against policy limits are monitored on a monthly basis and any policy breach is immediately reported directly to the Board of Directors. EDC's Asset Liability Committee meets at least quarterly to review current and future compliance with the Corporation's Market Risk Management policies. EDC's risk positions are reported quarterly to the Risk Management Committee of the Board of Directors.

Treasury-initiated credit risk arises from two sources: investments and derivatives where there is a risk that the counterparty will not repay in accordance with contractual terms. The Market Risk Management Policy establishes minimum counterparty credit rating requirements and maximum exposure limits for the management of credit risk. In addition to limits, EDC utilizes other market-based credit mitigation techniques to assist in credit exposure management.

Borrowing Strategies

Statutory borrowing authorities

The *Export Development Act* permits the Corporation to borrow and have outstanding loans payable up to a maximum of 15 times the aggregate of its current paid in capital and retained earnings which is determined in accordance with the Corporation's previous year's audited financial statements. Based on the 2008 forecast, the maximum limit for 2009 is estimated at \$93.6 billion, compared to loans payable at year end of \$25.0 billion.

Borrowing Approach

EDC funds its cash requirements in international capital markets through borrowings by any appropriate means, including issuing bonds, debentures, notes and other evidence of indebtedness.

The borrowing strategy necessitates balancing the cash and asset-liability management requirements of the Corporation with the need to remain flexible in order to accommodate market conditions and investor sentiment, as well as promoting diversification to ensure access to funds during times of market stress.

As a constant presence in the markets, EDC is interested in the successful performance of its issues from launch until maturity. Consequently, the secondary market performance of its bonds is closely monitored. EDC works closely with its dealers to ensure the requirements of its institutional and retail investors, in terms of currency, maturity, structure and liquidity, are being met.

The tactical borrowing strategy is influenced by external market conditions. The execution of the funding strategy takes into consideration, among other factors, prevailing and forecasted interest rates, credit conditions, market liquidity and the risk appetite of the investor community. In addition to the external environment, internal factors such as projected loan disbursements and repayments and the desired maturity profile of liabilities impact the development of the strategy.

As a back-stop to the borrowing strategy, EDC maintains a liquidity portfolio that allows the Corporation to bridge unfavourable market conditions or respond to rapid changes in demand for asset funding. EDC manages liquidity by diversifying its liquidity sources. The Corporation monitors its liquidity levels on a daily basis to determine if the amount of liquidity available is consistent with that required per the Risk Management Guidelines. This ensures that EDC has the appropriate level of liquidity to meet its needs. EDC manages its liquidity position prudently, with an emphasis considering both short- and long-term liquidity needs, as well as the market landscape. EDC solely manages the liquidity position to support the Corporation's capacity to fulfill its mandate.

Derivatives are used to achieve reduced fixed rate or sub-LIBOR funding levels, as well as for asset liability purposes. EDC does not enter into any Derivatives or Structured Notes transactions whose value and hence financial risk it is unable to calculate, monitor and manage internally on a timely basis.

The Treasury management team monitors the execution of the borrowing and liquidity strategies on a daily basis and provides a monthly report to senior management, as well as on a quarterly basis to the Audit Committee of the Board.

Borrowing Tactics

Treasury uses a variety of funding sources. EDC operates a Commercial Paper (CP) Programme with an international reach. This Programme currently has an approved authority of USD 4.0 billion. The Corporation issues short-term paper on an ongoing basis to manage its cash requirements. Commercial Paper is the primary tool that the Corporation uses to meet operational cash requirements.

The outstanding amount under the CP Programme fluctuates. It is typical for the CP Programme to grow in size as loan disbursements occur and then to be reduced when EDC issues securities in the Capital Markets. The outstanding amounts under this Programme typically range from USD 1.5 billion to USD 3.5 billion. EDC usually keeps a buffer, in line with Market Risk Management's liquidity policies, against the authorized amount of USD 4.0 billion to ensure that it has the flexibility to respond quickly to cash requirements.

Markets are evaluated on an ongoing basis to achieve an appropriate balance of short- and long-dated funding, as well as to address the asset-liability position of the Corporation (in line with FRMG and predefined internal risk limits for interest rate and foreign exchange exposure) while attaining funding at favourable rates. Decisions concerning timing of issuance and the tenor of liabilities are based upon relative costs, general market conditions and forecasted balance sheet growth.

Diversification of funding is an important component of EDC's funding strategy. EDC's ability to generate funding from a broad range of sources in a variety of geographic locations enhances financial flexibility and limits dependence on any one source.

The long-term funding requirements are projected to be met in the international marketplace using the following instruments:

- ▶ Benchmark transactions
- ▶ Public bonds
- ▶ Medium term notes
- ▶ Private placements

EDC will continue to maintain a flexible and diversified approach to borrowing by monitoring international capital markets for opportunities to enhance its borrowing program.

Borrowing Requirements and Link to Corporate Activity

The total long-term borrowing requirement for the Corporation is projected to be USD 5.8 billion for 2009. The long-term borrowing requirement is expressed in U.S. dollars as EDC's borrowing authorities are established in U.S. dollars.

Net loan disbursements (loan disbursements less loan repayments) continue to be the primary component of the borrowing requirements followed by combined short- and long-term debt maturities, which are reflective of past borrowing activities. Loan disbursements are a function of financing volumes. For 2009, the financing volume is projected to be CAD 11.8 billion (see section 3.1 Volume Assumptions).

With the establishment of a Global U.S. Benchmark Programme, Treasury is considering a debt buyback program in 2009. The aim of this program would be to try to lower and smooth debt maturities or to take advantage of lower interest rates. This may potentially reduce the vulnerability of its public debt to unexpected market shocks and would lead to accelerated funding requirements.

In the short-term markets, EDC has proven that it can quickly and cost-effectively access CP markets during periods of flight to quality. Treasury expects this trend to continue and thus will look to increase the CP Programme to USD 6.0 billion to accommodate EDC's growing business requirements and also to buffer against the increased uncertainty in the markets. The increase in the size of the Programme gives EDC more flexibility in meeting its growing liquidity requirements to accommodate expanded borrowing and lending volumes. The CP Programme was last increased in February 2002, from a level of USD 3.0 billion to USD 4.0 billion. Since that time, financing volumes have increased from CAD 5.9 billion in 2003 to CAD 12.5 billion in 2007.

Table 8 summarizes EDC's Long-Term Borrowing Requirement Projection for 2009.

TABLE 8

LONG-TERM BORROWING REQUIREMENT PROJECTION FOR 2009

<i>USD (millions)</i>		2009 Plan
Increase in Cash from Operations	(637)	
Net Loan Disbursements	3,468	
Eligible Dividend	135	
Activity from Operations		2,966
Decrease in Short-Term Payables	713	
Refinancing of Debt Maturities	1,257	
Buybacks	580	
Callable Debt	270	
Activity from Liabilities		2,820
Forecast Borrowing Requirements for Corporate Plan¹		5,786
Potential Increases to Cash Requirements		
Changes to Assumption on Callable Debt		270
Changes to Assumption on Lending Activity		389
Changes to Assumption on Revolving Facilities		750
Reduction of Outstanding Commercial Paper		400
Pre-Funding of 2010 Volumes		500
Potential Additional Borrowing Requirements		8,095

Note 1: See Table 6 – Cash Flow Statement – Issue of long-term loans payable CAD 6.343 billion (FX rate \$1.10).

Risk Factors to Borrowing Strategy Resulting in Increased Borrowing Requirements

As discussed earlier in Chapter 1, the global economic uncertainty has extended to the capital markets and is expected to continue into 2009. For Treasury, the global financial crisis has a two-pronged effect: 1) increased borrowing requirements as banks reduce capacity and EDC utilizes its strong balance sheet; and 2) reduced global liquidity.

Treasury expects the markets will be volatile over the course of 2009 as the U.S. grapples with a looming recession and further credit events within the banking community. Overall, as long as uncertainty exists about the banking sector, we expect investors to maintain a preference for shorter-dated securities with little to no embedded optionality thus putting pressure on our ability to diversify our sources of funding.

The Corporate Plan uses the historic trend to forecast redemptions on callable debt. This rate has averaged 50% for 2008 and has previously ranged from approximately 20-80%. The forecast volatility in market conditions, particularly in a rising and flattening interest rate environment, could result in an increase in the number of transactions called, which could further increase borrowing requirements. An increase to 80% would increase cash requirements by USD 270 million.

Similarly, loan disbursements may differ from forecast levels and we have included an adjustment for 10% of the forecast volume to accommodate fluctuations.

Tightening global liquidity may result in increased requests for revolving facilities, thus increasing cash requirements on the Corporation. EDC currently has commitments to undrawn revolving facilities of approximately USD 4.0 billion with a typical drawdown notification of two days. Within the current market environment, it is possible that the Corporation could experience increased consumption under these types of agreements. During the fourth quarter of 2008, EDC approached the Department of Finance with a request for an increase in the 2007 Short-Term Authority to USD 6.0 billion in anticipation of increased demand under these facilities. EDC will incorporate fourth quarter activity and its view for market conditions to determine the appropriate short-term authority level for 2009. Given the typical maturity profile of these lines of credit, using EDC's CP capabilities to fund these requirements is preferred from an asset liability management perspective.

As market conditions change and investor demand fluctuates, EDC may reduce the amount of CP outstanding, bringing it closer to the lower end of its targeted operating range, which requires the Corporation to have sufficient LT authority to execute its strategy. Based on current market dynamics, a request to the Minister of Finance to increase the Corporation's Long-Term Authority to an amount not exceeding USD 8.0 billion will be made in the fourth quarter of 2008.

Finally, as market conditions are continuously evolving, EDC is looking to create capacity to permit the pre-funding of part of 2010's requirements should market conditions be conducive.

Given the sensitivity of the assumptions and the current market environment, 2009 cash requirements could increase to over USD 8.0 billion.

Table 9 summarizes EDC's Projected Borrowing Plans through to 2013.

TABLE 9

PROJECTED BORROWING PLANS (2007-2013)

<i>(\$ in Millions)</i>	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Loans Payable Limit	89,790	92,460	91,560	93,555	93,555	98,145	102,255	107,280
Position Against Limit	15,583	21,994	21,289	24,964	28,615	30,080	31,198	32,594
Percent Used	17%	24%	23%	27%	31%	31%	31%	30%
Long-Term Borrowing Limit¹	5,641	6,012	6,454	-	-	-	-	-
Position Against Limit (USD 6.0 Billion)	5,321	5,319	6,270	6,343	7,008	4,372	8,208	8,647
Percent Used	94%	88%	97%	-	-	-	-	-
Short-Term Debt Limit¹	3,952	4,580	4,444	-	-	-	-	-
Position Against Limit (USD 4.0 Billion)	2,638	3,452	3,297	2,483	3,159	3,267	3,384	3,393
Percent Used	67%	75%	74%	-	-	-	-	-

Note 1: The limits are set each year in consultation with the Department of Finance, and accordingly there are no limits set for 2009 to 2013.

3.10 Operation of Subsidiary

EDC incorporated Exinvest Inc. in 1995. It acquired shares of Exinvest Inc. in accordance with the applicable provisions of the FAA and the *Export Development Act*. The authorized objectives of Exinvest Inc. are to establish and/or invest in corporations, partnerships, joint ventures or any other form of unincorporated bodies (financing vehicles), all of which will provide financial assistance for or to the benefit of sales or leases of goods, or the provision of services, or any combination thereof.

During 2008 and over the planning period, no new financing vehicles and no potential business transactions are anticipated as spare capital in this organization was returned to the Shareholder in 2002. The financial projections for Exinvest Inc. are therefore based upon the servicing of its existing business commitments. The following tables set out the consolidated financial results of Exinvest Inc. for the planning period. No Capital Expenditure Plan is provided, as Exinvest Inc. does not anticipate entering into any such expenditure over the planning period.

Table 10 summarizes the Exinvest Inc. Projected Consolidated Income Statement through to the year 2013.

TABLE 10

EXINVEST INC. PROJECTED CONSOLIDATED INCOME STATEMENT (2007-2013)								
(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Revenue								
Interest Income	5	5	4	4	5	3	3	3
Expenses								
Provision for (Reversal of)								
Credit Losses	(3)	1	-	1	(5)	(3)	-	(1)
Admin and Other	6	(3)	(2)	(2)	-	(1)	-	-
	3	(2)	(2)	(1)	(5)	(4)	-	(1)
Net Income	2	7	6	5	10	7	3	4
Retained Earnings at Beginning of Year	6	10	8	14	19	29	36	39
Retained Earnings at End of Year	8	17	14	19	29	36	39	43

Table 11 summarizes the Exinvest Inc. Projected Consolidated Balance Sheet through to the year 2013.

TABLE 11

EXINVEST INC. PROJECTED CONSOLIDATED BALANCE SHEET (2007-2013)								
(\$ in Millions)	2007 Actual	2008 Plan	2008 Fcst	2009 Plan	2010 Proj	2011 Proj	2012 Proj	2013 Proj
Assets								
Loans Receivable	33	41	38	35	30	-	-	-
Allowance for Losses	(3)	(4)	(3)	(3)	(3)	-	-	-
Net Loans Receivable	30	37	35	32	27	-	-	-
Cash and Marketable Securities	38	40	40	49	59	95	98	101
Accrued Interest and Other	3	5	2	2	2	-	-	-
Total Assests	71	82	77	83	88	95	98	101
Liabilities and Shareholder's Equity								
Allowance for Call of Indemnity	11	13	11	12	7	7	7	6
Other Liabilities	6	6	6	6	6	6	6	6
	17	19	17	18	13	13	13	12
Capital	46	46	46	46	46	46	46	46
Retained Earnings	8	17	14	19	29	36	39	43
	54	63	60	65	75	82	85	89
Total Liabilities and Shareholder's Equity	71	82	77	83	88	95	98	101

Corporate Overview

EDC is a Crown corporation that provides trade finance and risk management services to facilitate the trade and investment activities of Canadian companies.

This reference guide is intended to complement the information provided in the Business Strategy by providing additional background on EDC. More specifically, this guide includes information relating to EDC's:

- ▶ **Legislative Powers and Obligations** – as prescribed under the *Export Development Act* and the *Financial Administration Act*.
- ▶ **Managerial and Organizational Structure** – the executive team manages the operations of EDC within the strategic goals and objectives as laid out in the Corporate Plan.
- ▶ **Board and Committee Structure** – the Board plays a pivotal role in setting the strategic direction of EDC and in ensuring public policy objectives are met by EDC in the most effective manner. The Board also reviews the development and refinement of the various financial services, approves certain loans, insurance and guarantee contracts, authorizes funding transactions, and monitors EDC's performance.
- ▶ **Products and Services** – the solutions which are structured to facilitate the needs of Canadian exporters in an ever changing global trade environment.

This information has been provided in accordance with the Treasury Board of Canada's Guidelines for the Preparation of Corporate Plans.

MANDATE AND OPERATING PRINCIPLES

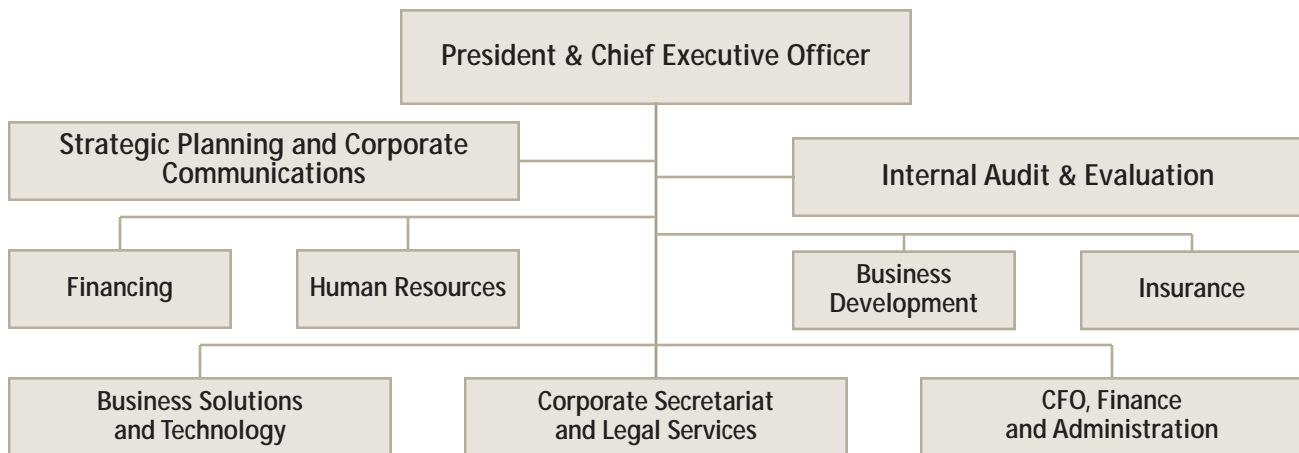
Operating Principles	<p>EDC conducts its business in a manner that: is respectful of applicable international agreements to which Canada is a party; is consistent with its Corporate Social Responsibility (CSR) commitments; and ensures the sound financial management of its activities.</p>
Respect International Agreements	<p>Canada is party to many international obligations. While the vast majority of these are declaratory or a subscription by Canada to a set of principles to guide domestic law-making and behavior, some are formalized in international agreements. Among the key agreements for EDC are the following:</p> <ul style="list-style-type: none"> ▶ the OECD Consensus; ▶ the WTO Agreement on Subsidies and Countervailing Measures; ▶ the Berne Union General Understanding; ▶ Anti-Corruption initiatives and legislation; ▶ Anti-Terrorism legislation; and ▶ the Recommendation on Common Approaches on Environment and Officially Supported Export Credits.
Corporate Social Responsibility (CSR)	<p>Carrying out the mandate in a socially responsible manner consistent with its corporate values has been a priority at EDC for several years. This is achieved by:</p> <ul style="list-style-type: none"> ▶ upholding our business ethics; ▶ being conscientious about the environmental impacts of our business; ▶ being transparent about our business; ▶ investing in our communities; and ▶ creating a stimulating and supportive organizational climate. <p>At EDC, Corporate Social Responsibility (CSR) is more than just compliance with legal standards; it is the integration of values such as honesty, respect, fairness and integrity into our daily business practices. EDC believes that good business, adopting and embracing these principles while EDC facilitates trade for Canadian investors and exporters is good for business.</p> <p>EDC is continuing to evolve its CSR practices to ensure that the Corporation is well-positioned within the range of practices used by its peers. In 2007, EDC undertook a thorough review of the current context for CSR which included an examination of future stakeholder expectations. From this, a benchmarking exercise was developed to help position EDC in relation to its peers. The benchmarking exercise reaffirmed that EDC should continue to lead in the area of environmental review. In other areas, EDC aligns its initiatives with those of its Export Credit Agency peers.</p> <p>In 2007, EDC continued to adapt its CSR practices to reflect the benchmarking exercise and new realities of its business, particularly an increased level of activity in emerging markets. It is in those markets that the support of socially responsible business poses the greatest challenges. For private sector financial institutions, the Equator Principles are the acknowledged standard of measurement of CSR in</p>

	<p>funding of projects in emerging markets. In 2007, EDC formally adopted the Equator Principles, an international financial industry benchmark for assessing and managing social and environmental risk in project financing.</p> <p>In April 2008, EDC issued a public Statement on Human Rights that sets out the principles that guide its consideration of potential impacts on the human rights of individuals affected by the transactions it has been asked to support. Throughout the world, there is growing interest in protecting human rights and EDC believes financial institutions should be considering human rights as part of their business processes. As Canadian exporters and investors expand their international reach into emerging markets, EDC supports their efforts to incorporate human rights into their broader CSR practices.</p> <p>As part of EDC's commitment to account for and reduce the environmental impacts of its internal operations, EDC is reporting on its environmental footprint for 2007. With the help of the EDC Green Team, a cross-corporate group to help facilitate the measurement of EDC's footprint, EDC will identify key areas of focus for implementation of initiatives to reduce consumption.</p> <p>EDC is committed to contributing to the communities in which it operates, both domestically and internationally. Domestically, it does so primarily through its Education and Youth Employment Strategy and its support for community volunteers. By assisting educational institutions and other stakeholders to prepare Canadian students for careers in international trade, EDC forges relationships, opens channels of communication and helps tomorrow's business leaders discover the global opportunities available to them.</p> <p>A new domestic initiative is the funding of an EDC Chair in Environmental Finance at the University of Waterloo. This new research Chair will help identify financial tools and practices that will help businesses develop "green" technologies, services and market opportunities, including emerging markets. Internationally, EDC is developing a partnership initiative with a Canadian charity to support community investment in emerging markets.</p> <p>Finally, stakeholder engagement is a key feature of EDC's CSR practices. More than ever, the Corporation recognizes the need to understand the challenges of conducting business in a socially responsible manner. To that end, EDC uses its position and relationships to play a unique role in bringing together often diverse stakeholders to discuss key issues (e.g., EDC's Industry Stakeholder Panel, mining roundtables).</p>
<p>Sound Financial Management</p>	<p>EDC conducts its operations on a self-sustaining basis, generating sufficient income to protect its assets, to manage market volatility and to support future business. In this regard, self-sustainability is dependent on obtaining adequate returns for risks taken, containing costs and appropriately managing risk.</p> <p>Additional details on EDC's approach to sound financial management are included in Chapter 3.</p>

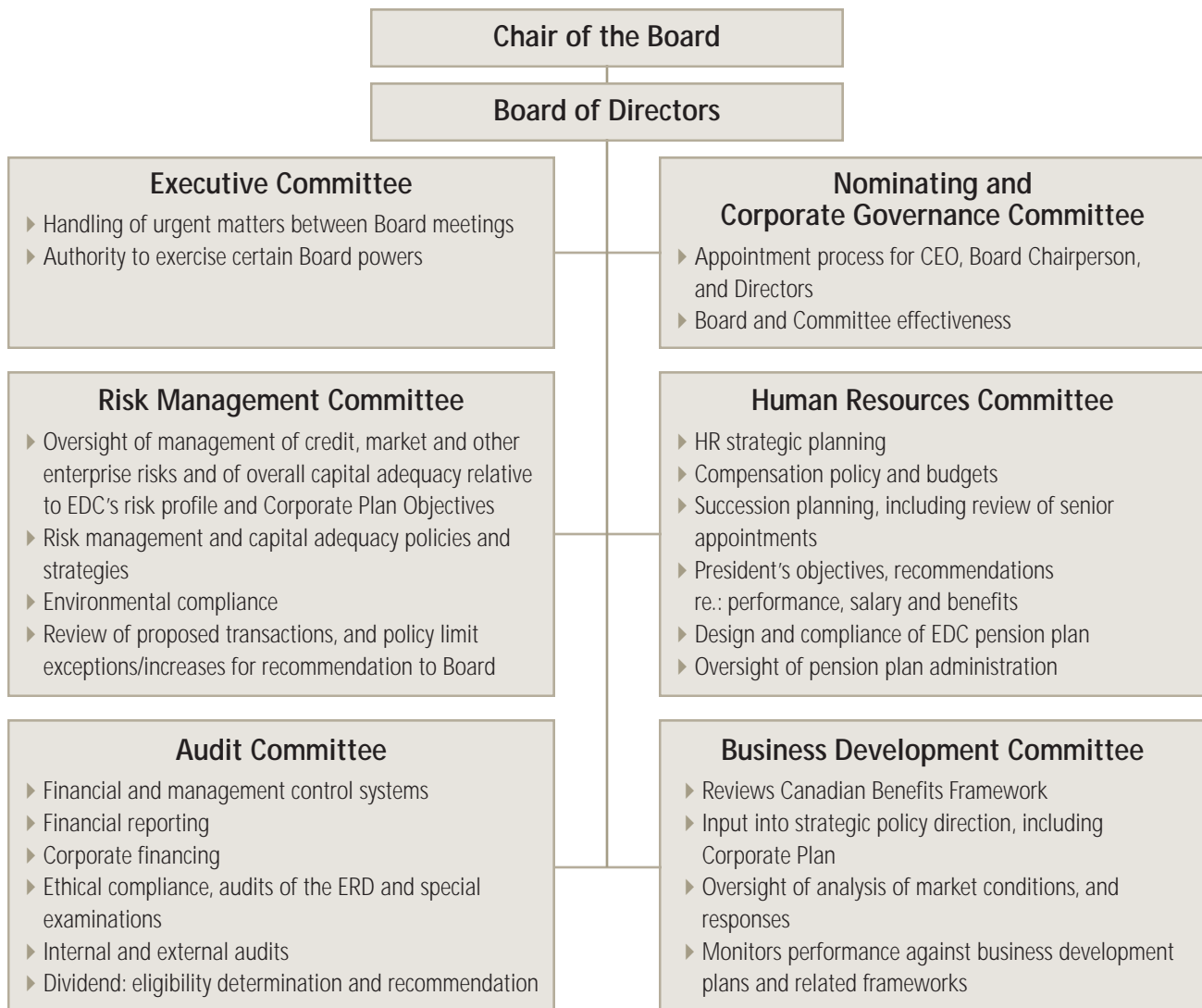
LEGISLATIVE POWERS AND OBLIGATIONS

Legislative Powers	<p>The <i>Export Development Act</i> (The Act) and subsequent regulations provide the legislative basis for EDC's activities. Section 10 of the Act outlines the powers that EDC may exercise in pursuit of its mandate. Transactions supported under Section 10 are considered to be Corporate Account transactions as they are funded and supported by the corporation's own balance sheet and income generating capacity, and not through annual appropriations.</p> <p>In addition to its Corporate Account activities, under Section 23 of the Act, EDC may be authorized by the Minister for International Trade, with the concurrence of the Minister of Finance, to undertake certain transactions of a financial nature to support and develop Canada's export trade. While EDC strives to find ways to structure transactions under its Corporate Account, there are a number of factors that might lead EDC to refer a transaction to Canada Account. For instance, the transaction could exceed EDC's exposure guideline for a particular country or involve markets or borrowers representing exceptionally high risks, amounts or financing terms in excess of what EDC would normally undertake. The monies required to discharge Canada Account transactions are made available from the Consolidated Revenue Fund.</p> <p>The Act limits Canada Account's outstanding commitments to borrowers and liabilities under contracts of insurance and other agreements to an aggregate of \$13 billion. As of March 31, 2008 such commitments and liabilities totalled \$3.3 billion.</p> <p>Finally, under certain circumstances, the Regulations under the Act permit EDC to undertake domestic financing or insurance transactions with the approval of the Minister for International Trade and the Minister of Finance.</p>
Legislative Obligations	<p>Section 25 of the Act requires that the Minister for International Trade, in consultation with the Minister of Finance, initiate an independent review of the provisions and operation of the Act every 10 years. The 2008 review is currently underway.</p> <p>A Special Examination is mandated every five years under the <i>Financial Administration Act</i> (FAA) and a report on the findings must be submitted to the Board of Directors. The 2008 review is currently underway.</p> <p>The Act also stipulates that an audit of the design and implementation of EDC's Environmental Review Directive (the Environment Audit) must be undertaken by the OAG every five years. The 2008 review is currently underway.</p>
Accountability To Parliament	<p>The Government of Canada primarily regulates Crown corporations through their enabling legislation and through the FAA. EDC is currently listed under Part I, Schedule III to the FAA, and as such is required to:</p> <ul style="list-style-type: none"> ▶ submit an Annual Report, a Corporate Plan and an Operating Budget to the responsible Minister; and ▶ undergo regular audits by the Auditor General of Canada.

MANAGERIAL AND ORGANIZATIONAL STRUCTURE



BOARD AND COMMITTEE STRUCTURE



EDC'S FINANCING AND INSURANCE SOLUTIONS

INSURANCE <i>Protects policyholder against various types of risks.</i>	
PRODUCTS	CUSTOMER APPLICATIONS
Accounts Receivable Insurance	Protects policyholders against commercial credit risk such as non-payment by their buyers, whether due to insolvency, default, repudiation of goods or termination of contracts, as well as against political risks such as difficulty in converting or transferring currency, cancellation of export or import permits, and war-related risks. Coverage is available for companies of all sizes and some products have been streamlined to meet the needs of SMEs.
Export <i>Protect</i>	See Online Products and Tools.
Documentary Credits Insurance	Protects banks in Canada confirming or negotiating irrevocable letters of credit (ILCs) issued by foreign banks to exporters of Canadian goods and services. The policy provides insurance against the risk that the foreign bank may fail to pay the insured bank for payments due to the exporter under the ILC. This enables the exporter to look to a bank in Canada for payment rather than the buyer's bank abroad.
Contract Frustration Insurance	Tailored coverage used for one-off goods, services and project contracts.
Political Risk Insurance	Protects Canadian companies with investments in foreign countries and/or lenders that finance investments pursued by Canadian companies abroad. Traditional policies cover investors or lenders against currency conversion and/or transfer difficulties, expropriation by the host government, and political violence. Availability of political risk insurance can also allow companies to leverage additional financing for projects. The political risk insurance program includes the non-honouring of a sovereign payment obligation to a lender; the nonpayment to an investor of an arbitral award against a sovereign entity; and coverage of the rights associated with mobile assets. In addition, EDC has made a number of changes to the program to accommodate small business transactions.

BONDING

Contract bonds assist Canadian companies to post or secure surety, guaranteeing their bid, performance and certain other obligations related to an export trade. They are issued in the form of a letter of guarantee by banks or as surety bonds by licensed sureties.

PRODUCTS	CUSTOMER APPLICATIONS
Performance Security Guarantees	Provides banks with a guarantee against any calls pursuant to the guarantees issued by the bank on an exporter's behalf and frees up working capital for the exporter.
Performance Security Insurance	Protects exporters from wrongful calls made on their bank letters of guarantee and is also available online under the Wrongful Call Program.
Foreign Exchange Facility Guarantee	Provides a second demand guarantee to the financial institution (FI) for 100% of the collateral provided to the FI with respect to the exporter's forward contracts facility, in the event that the exporter does not close the forward contract on the "settlement date".
Financial Security Guarantee	Provides the bank with a second demand guarantee to secure exporters' obligations in respect of suppliers and offshore working capital facilities.
Surety Risk Sharing	When an exporter with existing but limited surety lines is required to post surety bonds instead of bank letters of guarantee, EDC offers surety capacity in the form of Surety Re-Insurance to licensed sureties to increase capacity to facilitate the issuance of such bonds.
Surety Fronting Services	Available to exporters when financial profiles or volume of business does not meet normal surety underwriting guidelines. Surety bonds are thus issued by licensed sureties with the full support of EDC. This allows smaller exporters to access a surety market that is not typically available to them.

FINANCING

Enables Canadian companies to provide their customers with flexible, medium- or long-term financing. EDC offers a variety of structures that can be tailored to meet today's evolving market conditions the world over.

PRODUCTS	CUSTOMER APPLICATIONS
Lines of Credit	Provides a fast and inexpensive means by which exporters can promote sales via pre-arranged financing facilities between EDC and foreign banks or corporations. That is, EDC may lend to a foreign bank for on-lending to buyers of Canadian exports, or EDC can establish a line with a major foreign corporation that is purchasing from one or more Canadian exporters.
Loans	<p>Loans between EDC and a buyer/borrower can be arranged for any export transaction. Two basic types of loans are available:</p> <ul style="list-style-type: none"> ▶ Buyer Credit involves a financing arrangement between EDC and the buyer (or a separate borrower on behalf of the buyer) to finance Canadian exports generally related to a specific export contract. ▶ Supplier Credit transactions are structured to provide the exporter (supplier) with the ability to provide its buyer with extended payment terms. EDC can also provide pre-shipment financing to exporters, in conjunction with their bank, to finance costs directly related to an export contract. <p>EDC may also provide financing to Canadian companies to support their export business or their foreign investments.</p>
Project Finance	Provides limited recourse financing to fund the construction of industrial and infrastructure projects across various sectors in support of Canadian exports to, or Canadian sponsor investment in, such projects. Project sponsors can additionally benefit from EDC's considerable expertise in arranging project finance transactions in cooperation with other lenders.
Guarantees	EDC may issue a guarantee to a financial institution to cover loans to foreign borrowers for the purchase of Canadian exports, or to exporters to provide financing to support their export business or foreign investments.
Equity and Other Forms of Related Investments	EDC may provide equity and/or other forms of related investments (including fund investments) in support of next generation Canadian exporters and to facilitate globalization of existing Canadian companies. This allows EDC to offer broader support to Canadian firms, leverage additional sources of financing, foster cooperation among Canadian firms and their partners, and assist Canadians to compete globally.

ONLINE PRODUCTS AND TOOLS

Provides another channel to inform, contact, transact with and serve Canadian companies.

PRODUCTS	CUSTOMER APPLICATIONS
EXPORT <i>Protect</i>	Provides online single transaction insurance coverage on a foreign buyer.
EXPORT <i>Check</i>	Provides a credit profile of a foreign buyer and/or a Dun & Bradstreet business information report.
EXPORT <i>Able?</i>	Helps potential exporters assess their company's overall readiness to export.
EXPORT <i>Finance Guide</i>	Centralizes information about the wide range of solutions for an exporter's financing needs based on their location in the transaction cycle.
Country Information	Provides comprehensive market intelligence on a variety of regions and countries enabling the user to assess business opportunities outside of Canada.
Online Solutions Advisor	A diagnostic tool that helps to identify the appropriate EDC product or service based on the exporter's need(s).
Currency Converter	Provides conversions into and from a variety of world currencies, for both current day and past dates (provided by the Bank of Canada).



ANNEX II

Canadian Export Forecast by Market and Sector

CANADIAN EXPORT FORECAST BY MARKET

TOP MARKETS	CAD bn 2007	% Share of Total Exports 2007	Export Outlook (% growth)		
			2007	2008	2009
NAFTA					
US	333.3	79.4	-1.0	-0.5	-2.5
Mexico	4.3	1.0	7.0	5.6	8.3
Western Europe					
UK	11.4	2.7	23.5	-3.1	-2.1
Eurozone	18.2	4.3	16.4	-3.5	-3.2
Other Western Europe	5.9	1.4	61.1	-5.5	0.8
Central and Eastern Europe	2.0	0.5	10.6	37.7	9.9
Russia	1.1	0.3	33.1	21.2	16.2
Asia and Pacific					
Japan	8.9	2.1	-3.0	10.3	4.3
China	8.8	2.1	22.5	15.5	5.3
Asia NIEs	6.4	1.5	0.0	13.0	10.0
ASEAN-4	2.5	0.6	18.3	42.3	14.3
India	1.7	0.4	10.0	16.8	16.8
Other Asia	1.4	0.3	29.2	24.6	17.1
Oceania	2.0	0.5	-1.0	13.9	7.4
South America (ex. Brazil)	2.7	0.6	23.8	10.1	22.7
Brazil	1.4	0.3	9.8	61.8	10.7
Central America	1.8	0.4	8.2	15.7	5.9
Middle East	3.3	0.8	28.5	26.8	15.2
Africa	2.8	0.7	25.4	22.7	9.9
Total Goods Exports	419.9	100.0	2.1	1.5	-0.7
Total to Developing Markets	33.8	8.1	18.5	21.4	11.2
Total to Industrialized Countries	386.1	91.9	0.9	-0.2	-2.0

Source: EDC Economics. 2007 is actual data, 2008 and 2009 are forecasted. The Asian Newly Industrialized Countries (NIEs) are Hong Kong, Singapore, South Korea and Taiwan. ASEAN-4 are Malaysia, Thailand, Indonesia and Philippines.

CANADIAN EXPORT FORECAST BY SECTOR

SECTORS	CAD bn 2007	% Share of Total Exports 2007	Export Outlook (% growth)		
			2007	2008	2009
Agri-food	35.3	7.2	10.7	11	7
Energy	93.3	19.2	7.1	36	-9
Forestry	34.8	7.1	-11.9	-15	6
Chemicals and Plastics	38.0	7.8	5.4	-11	-6
Fertilizers	4.6	1.0	16.7	69	10
Ores and Metals	60.1	12.3	13.6	-3	-4
Aircraft and Parts	11.2	2.3	9.6	-4	12
Rail and other Transportation Equipment	2.1	0.4	8.5	-2	2
Advanced Technology	19.5	4.0	-4.7	-8	-4
Industrial Machinery and Equip.	27.3	5.6	2.4	-3	3
Motor Vehicles and Parts	70.6	14.5	-6.7	-25	11
Consumer Goods	8.5	1.7	-11.8	-16	-5
Other*	14.6	3.0	-4.9	-14	2
Total Goods Sector	419.9	86.2	2.1	2	-1
Total Service Sector	67.3	13.8	0.1	-1	1
Total Exports	487.2	100.0	1.8	1	0
Memorandum					
Total Volumes		100.0	1.0	-5	-1
Total Goods (ex. Energy)	326.6	67.0	0.7	-8	3
Total Goods (ex. Autos and Energy)	256.0	52.5	3.0	-4	1

Source: EDC Economics. 2007 is actual data while 2008 and 2009 are forecast. *Other includes other industrial goods and special transactions.