2004-2008 CORPORATE PLAN SUMMARY

March 2004

Table of contents

This document is a summary of the 2004-2008 Corporate Plan, which was prepared in the Fall of 2003. As such the content dates back to that period.

Executive Summary

Corporate Mandate

Export Development Canada (EDC) was established by an Act of Parliament (*Export Development Act*) on October 1, 1969. The Corporation is accountable to Parliament through the Minister for International Trade.

As Canada's export credit agency, EDC's mandate is to:

"support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade as well as respond to international business opportunities."

Review of EDC's Mandate and Direction

A comprehensive legislative review of EDC began in 1998 and concluded in late 2001 with amendments to the Act. EDC's mandate, its strategic direction and its commercial principles were strongly endorsed during the review process. Throughout the review period and since then, EDC has adapted its practices to respond to recommendations and suggestions made during the review.

In the Fall of 2002, EDC's Board of Directors undertook a comprehensive strategic review of EDC and its activities. The stated objective of the Review was to ensure that Canadian exporters and investors have the required trade finance-related products, services and capacity available to them in order to realize their full potential in an increasingly competitive global marketplace. Based on research findings and analysis, the Board recognized the importance and value of EDC's role in delivering financing and risk management services to Canadian exporters and investors but felt that some changes may be needed to better respond to exporter needs and to increase the competitiveness of EDC's product offering, in particular with respect to bank guarantees. The Board agreed to constitute two working groups to further examine the strategic issues around the short-term credit insurance program and around bank guarantees and have asked that the working groups bring recommendations to the Board in that regard in 2004.

Global Economic Outlook

Global GDP growth of 3.1% is forecast for 2003, matching the pace set in 2002. For 2004, economic growth is expected to accelerate to 3.9%, in line with the long-term trend. While geopolitical uncertainties are receding, a number of risks remain that can derail or delay the nascent global recovery, and new ones are likely to emerge.

Trends in International Finance

In a global economic environment characterized by increased uncertainty and risk, there is a heightened demand for international trade risk management services. In recent years, a number of developments in the area of financial intermediation have occurred resulting in fewer players supplying these services.

The Continuing Role of Export Credit Agencies (ECAs)

ECAs are expected to continue to play an important role in supporting export transactions, to both developed and developing markets, as commercial institutions come in and out of the trade finance and export credit arenas. In order to respond to the changes brought about by globalization and to effectively operate in a market place that is increasingly commercial, ECAs are looking for ways to remain valued players in a complex financial environment.

The Canadian Government's Trade and Investment Priorities

Canada is a trading nation and its prosperity is linked to its ability to facilitate commerce with the world. The government plays a critical role in developing and sustaining an environment in which Canadian investors and exporters can succeed. The government promotes a trade and investment agenda that is focused on:

- Improving market access
- Exploiting the full potential of Team Canada and government trade missions
- Increasing the number of Canadian exporters
- Supporting efforts to expand to markets beyond the US
- Improving Canada's share of global investment

Export Environment for Canadian Companies

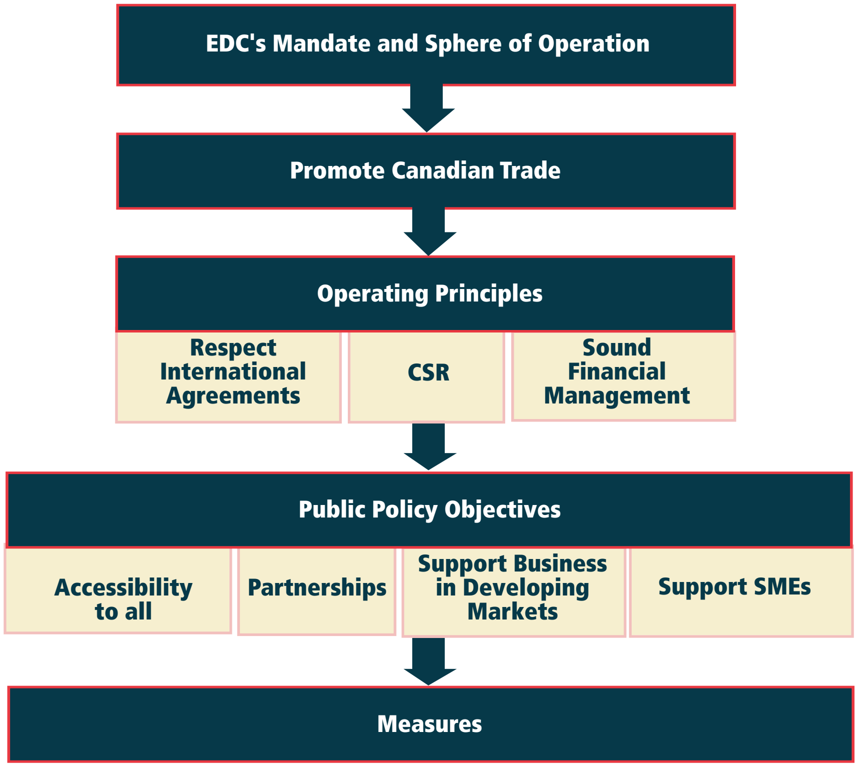
The stronger Canadian dollar, mad cow disease, high energy prices and SARS have all taken a toll on Canadian exporters in 2003. Canadian exports are poised to grow by 4% in 2004, after three difficult years of sub-par performance. The US will continue to be the export destination of choice for the majority of Canadian exporters and economic conditions are already improving in that market. Highest export growth rates are forecast for China, Eastern Asia, Mexico and Eastern Europe, where economic development will offer interesting opportunities for exporters and investors.

The Evolving Needs of Canadian Companies

Canadian exporters know all about the challenges of doing business internationally. New risks and greater uncertainty have surfaced, operating costs have increased, access to capital has been limited or sometimes non-existent, international competition has increased and capacity in the insurance industry has declined or come at a much higher cost. Finding the right financial partner has become more difficult, especially for small- and medium-sized enterprises (SMEs).

Corporate Strategy

The following diagram depicts the various components of EDC's Corporate Strategy.



EDC's Mandate and Sphere of Operation

As Canada's official export credit agency, EDC contributes to the competitiveness of Canadian exporters and investors of all sizes. EDC's mandate is broader than that of other export credit agencies (ECAs) in that it covers a wider scope of international trade activities. EDC has a distinct commercial approach which allows it to operate in both the commercial and consensus markets and be financially self-sustaining. EDC has been a constant source of financial support throughout the good and bad times since its sphere of operation extends beyond the traditional arena of serving risky markets and smaller companies which, in themselves, remain core to its business strategy.

Promote Canadian Trade

EDC is an integral component of Canada's international trade and investment policy. EDC has representatives abroad to identify and develop incremental business opportunities for Canadian companies. EDC actively participates in trade missions, seminars and other activities led by government players, both in Canada and abroad, that are aimed at increasing trade in developing markets. EDC is an Executive Member of Team Canada Inc.

Operating Principles

EDC conducts its business in a manner that is respectful of international agreements to which Canada is a party; that is consistent with its Corporate Social Responsibility commitments; and that ensures the sound financial management of its activities.

Respect International Agreements

EDC is committed to having in place the necessary policies and practices to ensure that it respects the terms of international agreements to which Canada is a party.

EDC's Corporate Social Responsibility Program

EDC conducts its activities in a socially responsible manner, recognizing that norms in this area continue to evolve through international agreements and emerging practices in the private sector. In 2003, EDC is completing work on its framework for Corporate Social Responsibility (CSR) that will link its many CSR practices within an overarching statement. For the first time, an annual report on CSR activities and achievements is being prepared for internal use by EDC management. EDC anticipates that subsequent reports will be made available publicly.

Sound Financial Management

EDC conducts its operations on a self-sustaining basis, generating sufficient income to protect its assets and to support future business. EDC has in place an Enterprise Risk Management Framework that provides a comprehensive view of key risks the Corporation faces and tools and methods to measure, monitor and manage these risks.

PUBLIC POLICY OBJECTIVES

Four public policy objectives have been articulated to define and guide EDC's activities in the application of its mandate. They are the backbone of EDC's strategy and determine what actions and goals EDC sets in the service of Canadian exporters and investors.

Accessibility to All

A key goal of EDC is to ensure that Canadian companies of all sizes have access to the financing and risk management services they need to compete in the international marketplace. To accomplish this, EDC uses a variety of distribution channels and works collaboratively with a large number of partners in the exporting and financial communities to reach and serve these companies.

In the pursuit of this objective, EDC ensures that its business development efforts are well coordinated; that its service delivery is efficient and effective; and that its tool kit is updated to meet the evolving needs of exporters and investors.

Partnerships

EDC has developed an extensive network of partners which allows it to combine its expertise and risk capacity with that of other players in the exporting and financial communities for the purpose of reaching out to Canadian companies and ensuring that they have the financial services they need to compete internationally. Partnership activity has grown over the years and has become essential in meeting customer needs.

EDC partners in three key areas: first, to reach out to Canadian exporters and investors via various forms of marketing or reach initiatives; second, to engage other players in participating in the provision of financial and risk management solutions in support of customer transactions; third, to manage its portfolio of business.

Support Business in Developing Markets

Core to EDC's mandate is our long-standing commitment to the expansion of Canada's trade and investments in developing markets. EDC has embarked on a number of initiatives to increase business in developing markets, with the full knowledge that these would take time to produce the growth desired. Of particular note is the good collaboration that exists between EDC and government departments in the pursuit of this important public policy objective.

Support SMEs

SMEs represent over 90% of EDC's customer base. They face the greatest challenge in finding the financial services they need to grow their export business. An extensive program to increase awareness of EDC and of products available to SMEs continues to be a priority as well as improving the efficiency and quality of our service delivery to that important customer segment.

Resourcing to Deliver Results

As a knowledge-based organization, EDC's success is primarily accomplished through the quality and performance of its people. EDC's people strategy reflects our commitment to create and sustain a desirable work climate, principally through two broad components: enhancing EDC's reputation as a compelling career choice for high potential candidates; and the deployment of talent management strategies targeting career development, succession planning and learning and development.

Performance Measures

The core corporate measures that support the achievement of our public policy objectives are found in the table below, as well as our forecast for 2003 and targets for 2004.

	2002	2003	2003	2004
Public Policy Objectives	**Actual**	**Plan**	**Forecast**	**Plan**
Accessibility to All				
Business Volume ($B) – Export only	51.2	54.5	52.4	55.1
Number of Customers Served	7,223	8,000	7,600	8,000
Customer Satisfaction	81.8	80.0	80.0	80.0
Customer Value Index	-	-	-	TBD
Partnerships				
Total Volume with Banks and Sureties ($B)	6.9	N/A	7.5	7.8
Number of MLTFS Transactions with Partners	-	N/A	1,200	1,300
Support Business in Developing Markets				
Volume of Business ($B)	9.9	11.8	10.4	11.0
Number of MLTFS Transactions	1,080	N/A	1,250	1,350
Number of Customers	1,370	N/A	1,450	1,520
Support SMEs				
Number of SMEs served	6,575	7,200	6,800	7,200
	2002	**2003**	**2003**	**2004**
Other Corporate Objectives	**Actual**	**Plan**	**Forecast**	**Plan**
Sound Financial Management				
Net Income ($M)	122	190	100	102
Return on Equity (%)	5.9	8.4	4.6	4.5
Gross Efficiency Ratio (%)	17.4	19.8	18.1	19.6
Financial Sustainability Ratio (%)	13.9	13.0	13.5	12.8
Resourcing to Deliver Results				
Voluntary Turnover Rate	4%	<10%	<6%	<6%
Average number of training days per employee	5	5	5	5
Rank above high quality organizations in our employee survey	N/A	50%+	50%+	N/A

Financial Plan

The assumptions used to develop the Financial Plan suggest that EDC will have sufficient capital to service both existing and new business during the planning period. Total business volume, excluding domestic, is currently forecast to be $52.4 billion in 2003 and $55.1 billion in 2004. Cash flow is expected to remain strong while net income is forecast to come in at $100 million in 2003 and $102 million in 2004. Net administrative expenses are expected to increase by $17 million in 2004 compared to our 2003 forecast due primarily to investments in technology which result in higher systems maintenance and depreciation costs, as well as a larger average workforce.

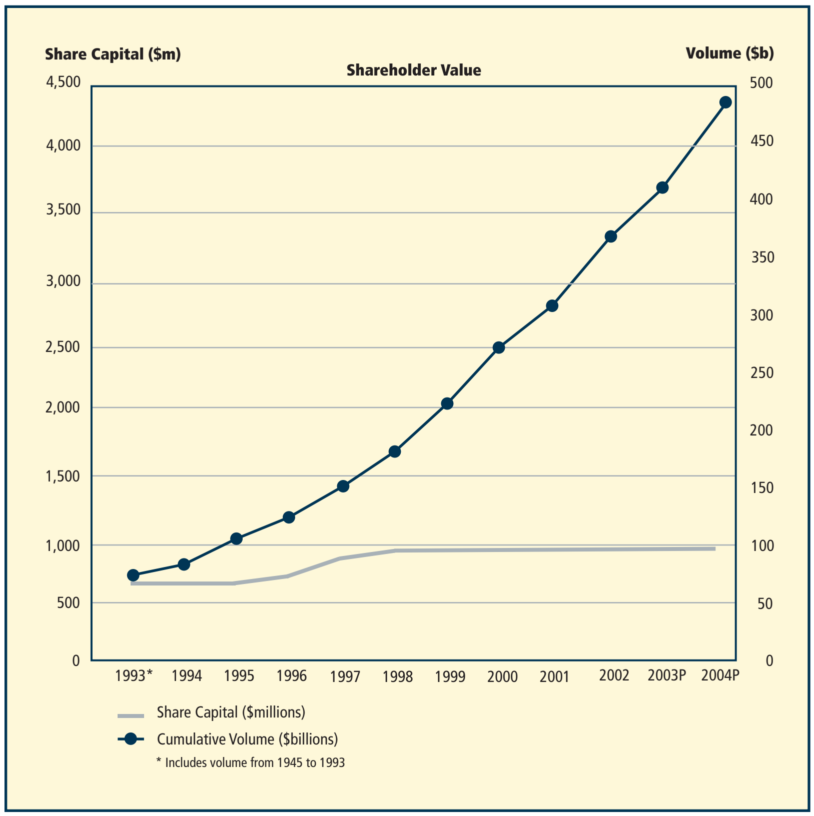
1. Introduction

1.1 CORPORATE MANDATE

Export Development Canada (EDC) was established by an Act of Parliament (*Export Development Act*) on October 1, 1969. The Corporation is accountable to Parliament through the Minister for International Trade. As Canada's export credit agency, EDC's mandate is to:

"support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade as well as respond to international business opportunities."

EDC is an integral component of Canada's foreign trade and international business development initiatives, working with other government departments and agencies to enhance the visibility and success of Canadian companies abroad. As a financial Crown corporation, EDC provides a wide range of financing and risk management services to Canadian exporters and investors, often in partnership with the private sector, to help them compete and succeed internationally.



EDC conducts its activities in a socially responsible manner and carefully balances the need to operate in a sound financial manner with its enduring public policy values to create prosperity for Canada. As a recognized centre of excellence for trade finance in Canada, EDC's breadth of talent distinguishes the organization internationally, a competency which is fundamental to achieving its mandate.

Over the years, the funds invested by the Shareholder into EDC have supported an increasing level of exports and investments, thereby producing a significant leveraging effect on the shareholder's equity as illustrated in the graph located above.

The dotted line that follows the scale on the right-hand side of the graph represents cumulative volume supported by EDC since it began operations in 1945. The solid line that follows the scale on the left-hand side of the graph represents the total shareholder investment in EDC over the same period. By 1993, EDC had cumulatively supported $95 billion of volume, which is projected to increase to $497 billion by 2004, while using virtually the same share capital base.

1.2 LEGISLATIVE POWERS

The legislative basis for EDC to undertake **Corporate Account** business is identified in Section 10 of the *Export Development Act* (the Act).

Certain business and investment transactions undertaken by the Corporation are subject to regulations made by the Governor in Council, pursuant to subsection 10(6), or conditions of general application of the Minister of Finance, pursuant to subsection 10(5) of the Act.

The Corporation may, under subsection 10(3) of the Act, have contingent liabilities not exceeding, at any time, an amount equal to ten times the authorized capital of the Corporation or such greater amount specified in an appropriation Act. During 1999, this ceiling was increased pursuant to an appropriation Act, from $15.0 billion to $17.5 billion. A further increase to $20 billion was approved in 2003 as projections indicated that contingent liabilities would exceed the ceiling.

The Corporation may, with the approval of the Minister of Finance, borrow money by any means, including issuing and selling bonds, debentures, notes or other evidences of indebtedness. In addition, the Minister of Finance may, at the request of EDC, lend money to EDC out of the Consolidated Revenue Fund on such terms and conditions as are fixed by the Minister. The Corporation has not borrowed from the Consolidated Revenue Fund for a number of years. A borrowing limit equal to fifteen times the aggregate of paid-in capital and retained earnings is established under Section 14 of the Act.

Pursuant to Section 23 of the Act, the responsible Minister, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions which the responsible Minister considers to be in the national interest. For transactions larger than $50 million, Cabinet approval is required. These transactions and the legislative authorities that underlie them have come to be known as the **Canada Account**.

Any transaction which the Corporation is empowered to undertake under the Corporate Account may also be supported under the Canada Account, except for equity investments, the incorporation of subsidiaries and investments relating to the financial management of the Corporation.

All monies required by the Corporation to discharge its obligation under Canada Account transactions must be paid to the Corporation by the Minister of Finance out of the Consolidated Revenue Fund. The Corporation must remit all receipts and recoveries in respect of Canada Account transactions to the Government of Canada, less amounts which it is authorized to retain to meet expenses and overhead related to these transactions.

Pursuant to Section 24 of the Act in respect of the Canada Account, outstanding loans and commitments to lend and outstanding contingent liabilities must not exceed $13 billion.

1.2.1 LEGISLATIVE REVIEW

Section 25 of the *Export Development Act* requires that the responsible Minister, in consultation with the Minister of Finance, initiate an independent review of the provisions and operation of the Act five years after the coming into force of this section and every ten years thereafter. A comprehensive mandate review of EDC began in 1998 and concluded in late 2001 with amendments to the Act.

A new name, Export Development Canada in English and Exportation et développement Canada in French, and a legal requirement to review the environmental effects of projects were the key amendments to the Act governing EDC that have been proclaimed into law.

EDC's mandate, its strategic direction and its commercial principles were strongly endorsed during the review process. Throughout the review period and since then, EDC has adapted its practices to respond to recommendations and suggestions made during the review.

1.3 PRODUCTS AND SERVICES

In order to fulfill its mandate, EDC has a wide range of financial services available to Canadian companies. With an emphasis on flexibility, its financial services fall into four general categories as depicted in the following table.

PRODUCTS	FEATURES & BENEFITS
Insurance	**Protects policyholder against various types of risks.**
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 simplified to meet the needs of SMEs (small- & medium-sized enterprises).
EXPORT *Protect*	See *Online Products and Tools*
Documentary Credits Insurance	Protects banks in Canada confirming, negotiating, accepting, or paying 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 reimburse the insured bank for payments made 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.
Specific Transaction Insurance (STI)	Tailored coverage used for one-off goods, services and project contracts (typically with longer exposure periods).
Political Risk Insurance	Available to support Canadian companies with investments in foreign countries and/or to support lenders who finance transactions 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 investors or banks to leverage additional financing for projects. EDC has recently expanded the political risk insurance program to include the non-honouring of a sovereign payment obligation to a lender or the non-payment to an investor of an arbitral award against a sovereign entity.

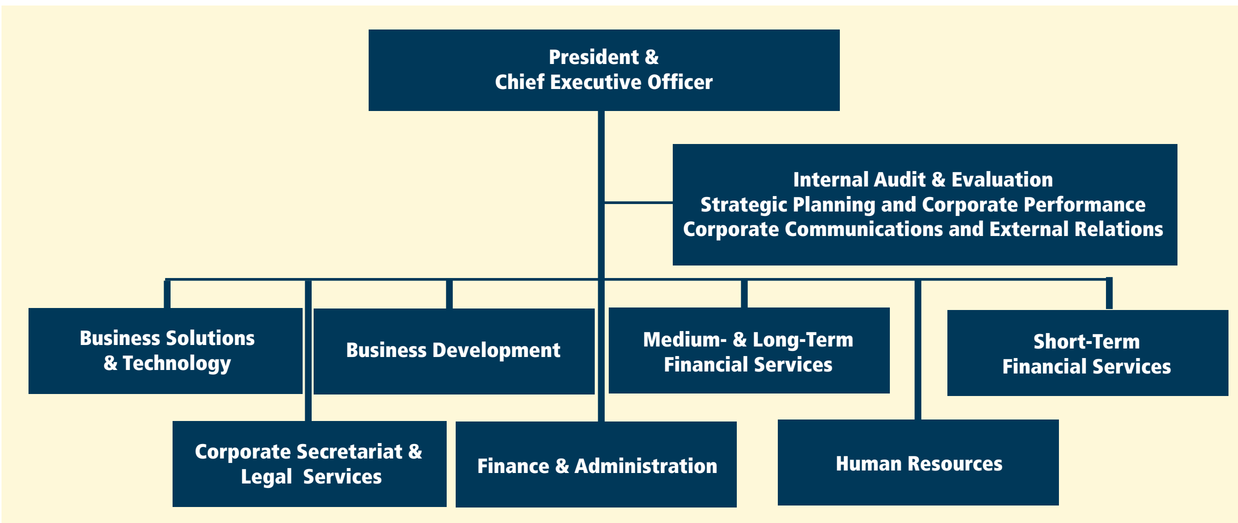
PRODUCTS	FEATURES & BENEFITS
Online Products & Tools	**The Web provides another channel to inform, contact, transact with and serve Canadian companies.**
EXPORT *Protect*	Provides online single transaction insurance coverage on a foreign buyer.
EXPORT *Check*	Provides a credit profile of a foreign buyer and/or a Dun & Bradstreet business information report.
EXPORT *Able*	Helps potential exporters assess their company's overall readiness to export.
EXPORT *Market Insight*	Provides comprehensive market intelligence assisting subscribers to stay on top of risks and opportunities when selling overseas.
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.**
Line of Credit	Provides a fast and inexpensive means by which exporters can conclude sales via pre-arranged financing facilities set up between EDC and foreign banks or corporations. EDC lends to a foreign financial institution who in turn lends to several buyers for subsequent transactions with several Canadian exporters, or to a major local corporation for subsequent transactions with several Canadian exporters.
Loan	Loans between EDC and a buyer/borrower can be arranged for any export transaction, but usually apply to transactions having repayment terms that exceed two years. Two basic types of loans are available: ***Buyer Credit*** involves a financing arrangement between EDC and the buyer (or a separate borrower on behalf of the buyer) to finance Canadian exports related to a specific export contract. Such a loan normally involves larger transactions with longer repayment terms. ***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.
Project Finance	Provides limited recourse financing to fund the construction of 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 such project finance transactions in cooperation with other lenders.

PRODUCTS	FEATURES & BENEFITS
Guarantee	EDC may issue a guarantee to a financial institution to secure a loan made by it to foreign borrowers for the purchase of Canadian exports or an exporter to provide pre-shipment financing for costs directly related to an export contract.
Equity and other Forms of Related Investments	Provides equity risk capital predominantly to small- and medium-sized Canadian companies with strong export prospects, within three general industry sectors: high technology; industrial technology; and clean technology. In addition, on a case-by-case basis, EDC may consider investments in (i) foreign entities involving Canadian investors and/or exporters, which may be structured as part of a project financing; and (ii) investment fund partnerships. These activities allow EDC to offer broader support to Canadian firms, serve as a catalyst to attract additional financing sources, and foster partnerships on a value-added basis.
Bonding	**Contract bonds assist Canadian companies to post or secure surety, guaranteeing their bid, performance and certain other obligations related to an export contract. They are issued in the form of a letter of guarantee by banks or as surety bonds by licensed sureties.**
Performance Security Guarantee	Provides a bank with coverage against any calls pursuant to the guarantee issued 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.
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.

1.4 MANAGERIAL AND ORGANIZATIONAL STRUCTURE

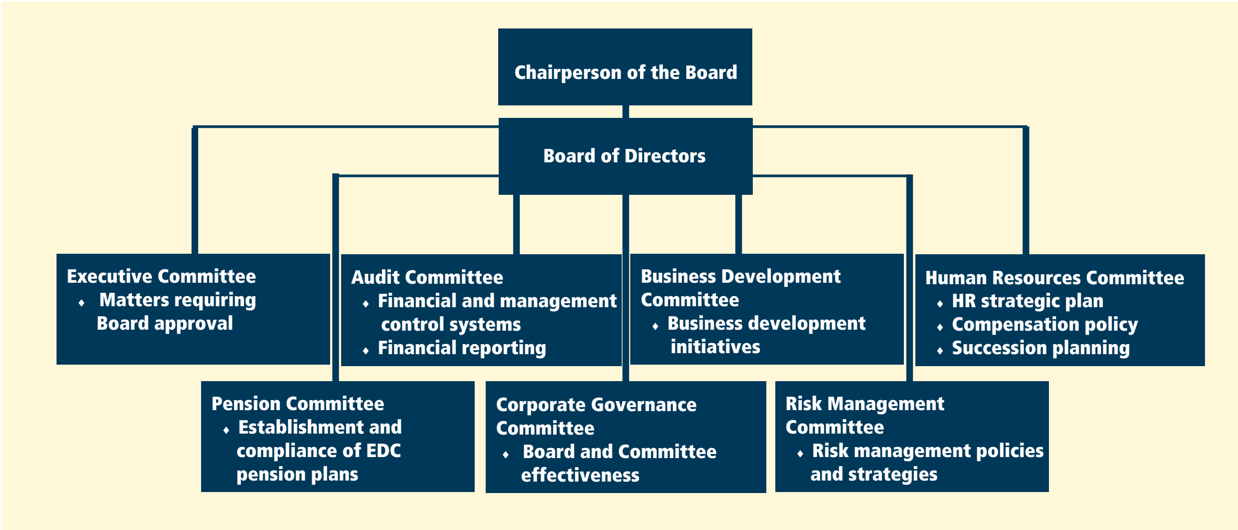
EDC's head office is located in the nation's capital region, as prescribed by the Act. A strong regional presence is maintained with offices in St. John's, Halifax, Moncton, Montreal, Quebec City, Toronto, London, Winnipeg, Calgary, Edmonton and Vancouver. To better serve our customers and help bring more business to Canadian exporters, EDC maintains representation in China, Brazil, Mexico and most recently, Poland with offices co-located in the Canadian Embassy.

The Corporation delivers Short-Term Financial Services and Medium- and Long-Term Financial Services through business teams that have been aligned with specific industry sectors or customer segments. The business teams are directly supported by the Business Development Group and the Centres of Expertise, including country and product specialists whose knowledge is greatly valued by our customers.



1.5 BOARD AND COMMITTEE STRUCTURE

A fifteen-member Board of Directors, the majority of whom are from the private sector, oversees the Corporation's activities. Thirteen members are appointed by the Minister responsible for EDC with the approval of the Governor in Council, while the Chairperson of the Board and EDC's President are appointed by the Governor in Council. The Board plays a pivotal role in setting the strategic direction of EDC and in ensuring that 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 offered to Canadian companies, approves certain loans, insurance and guarantee contracts, authorizes funding transactions, and monitors the Corporation's performance.



An Ad Hoc Strategic Review Committee was constituted in the Fall of 2002 to develop a work plan for, and oversee, the carrying out of, a strategic review, the objective of which is to determine if Canadian exporters and investors have the required trade finance related products, services and capacity available to them in order to realize their full potential in an increasingly competitive global marketplace. Details of the strategic review are found in Chapter 3.

EDC's financial management, reporting and auditing are governed by the *Financial Administration Act* (FAA), as amended from time to time, which establishes a basic system of controls over certain Crown corporations.

2. Planning Environment

2.1 THE GLOBAL CONTEXT

The international flow of goods, services and capital provides the basic building blocks for world economic growth. The primary factors bringing national economies closer together are liberalization and technological change. Trade liberalization is promoting increasing specialization of production through widespread and aggressive foreign sourcing of inputs. The products we buy today are often produced in several countries, with only the location of the final assembly explicitly indicated on the package.

The foundation of globalization is foreign direct investment (FDI). Building a global supply chain where all the parts fit together is causing companies to invest in foreign economies in record numbers. During the 1990s, global FDI grew at a rate nearly three times that of the world Gross Domestic Product (GDP). In turn, international trade grew at nearly twice the rate of world GDP. This represents a significant change from the past, when FDI was typically done in order to circumvent international trade barriers.

Greater access to global markets creates opportunities for Canadian companies but at the same time brings more challenges. Companies everywhere face increasing competition in selling their goods and services. In addition, firms and governments must now take greater responsibility to ensure investments meet international and sustainable development requirements. Participating in this integrated, yet more competitive and demanding global economy contributes to the prosperity of a nation, especially Canada that depends so heavily on foreign trade.

2.1.1 GLOBAL ECONOMIC OUTLOOK

The global economy endured a number of shocks over the past few years. The bursting of the technology bubble in 2000 was followed by the horrible events of September 11, 2001. Since then, the economy has had to deal with corporate malfeasance, weak equity markets, the war in Iraq, high oil prices and SARS. These shocks and the resulting uncertainty combined to bring global economic activity to a standstill in the first half of 2003 – essentially an interruption in the global recovery. The end result is that 2003 will be the third consecutive year of sub-par growth for the global economy.

Leading indicators suggest this slowdown in the world economy has largely been restricted to the first half of 2003. Despite the current wavering over global economic prospects, the foundation for economic recovery has already been laid, largely in the form of monetary and fiscal stimulus.

Global GDP growth of 3.1% is forecast for 2003, matching the pace set in 2002. For 2004, economic growth is expected to accelerate to 3.9%, in line with the long-term trend.

World economic growth will continue to be led by developing Asia over the planning period. US consumer spending should hold steady, both because the threat of terrorism makes people more inclined to spend, and the switch from equity to housing investment promotes consumption. Investment appears to have already bottomed and is expected to recover further through 2003 and 2004, but new capital outlays will focus on equipment designed to boost productivity and reduce costs.

Economic growth in most **Asian countries** will remain strong in 2003 and 2004, the major exception being Japan. Led by China, growth in non-Japan Asia is projected to average around 6% in both 2003 and 2004. While the region still exports a sizeable share of its output to North America and Western Europe, the connection with outside markets is becoming less important as much of Asia's economic growth is being generated internally. More than 50% of Asian trade is now carried out within the region. Greater regional integration is reducing Asia's reliance on economic conditions in the rest of the world and, more importantly, making the region a key contributor to the global economy.

Economic growth in **South America** was weak again during 2003 as the region's economies struggle to overcome financial and political difficulties. However, the outlook for 2004 is much more promising and improvement is already being seen in major countries like Brazil. South American GDP is expected to rise by around 1% on average in 2003 followed by a much stronger growth of 3.8% in 2004.

Eastern Europe held up fairly well during the past couple years of sluggish global growth. EU accession has helped sustain investment flows and restructuring. Economic growth in Eastern Europe is projected to average between 4 and 5% in both 2003 and 2004. On the other hand, the **Eurozone** will again be a growth laggard in 2003 and 2004.

2.1.2 TRENDS IN INTERNATIONAL FINANCE

In a global economic environment characterized by increased uncertainty and risk, there is a heightened demand for international trade risk management services. However, a number of developments in recent years have resulted in fewer players supplying international risk management services. This makes it more challenging for all but the largest international companies to secure the services they need to conduct their business amidst ongoing globalization.

Three dominant forces are at play in the international financial services industry: **consolidation** of financial intermediation providers; **convergence** of financial intermediation pillars; and **specialization** in financial intermediation services. The coming implementation of the **Basel II Capital Adequacy Accord** will promote even further realignment as firms active in the financial services industry seek out opportunities to align their economic capital with the new regulatory environment, further increasing the possibility of intermediation gaps.

These forces also apply to the insurance industry, whose recent difficulties include declining investment income from lower bond yields and falls in equity prices. The lower investment returns have been particularly problematic for these general insurers that have been operating for some years with sizeable losses.

2.1.3 THE CONTINUING ROLE OF EXPORT CREDIT AGENCIES (ECAs)

ECAs are expected to continue to play an important role in supporting export transactions, to both developed and developing markets, as commercial institutions come in and out of the trade finance and export credit arenas[1]. In order to respond to the changes brought about by globalization and to effectively operate in a market place that is increasingly commercial, ECAs are looking for ways to remain valued players in a complex financial environment. ECAs will need to address policy challenges in the following areas to remain relevant over the longer term.

---

[1] MLT export credits in Category I countries was 40% of total in 2001 reported by ECAs, compared to 27% in 1995.

International Trade Law

ECAs must remain responsive to applicable disciplines under the World Trade Organization (WTO) as interpreted by jurisprudence created through WTO dispute settlement proceedings and to the current re-negotiation of the WTO Agreement on Subsidies and Countervailing Measures (ASCM) in the Doha Development Round. Participants are addressing some of the shortcomings of the Arrangement by undertaking a review of the existing text with the objective of improving its consistency with the ASCM and increasing transparency and accessibility to non-Participants.

Canada fully supports progress in these areas and EDC participated as member of a small group of experts advising the OECD on the preparation of a redrafted Arrangement text, scheduled for adoption by Participants by the end of 2003.

Canada continues to promote greater convergence between Arrangement and market-based terms and conditions, including the development of a regime for floating interest rates in order to address concerns expressed by developing countries (i.e. higher funding costs and lower perceived value of security). The Aircraft Sector Understanding, an important annex under the Arrangement, may also be reviewed and rewritten in order to better reflect prevailing market conditions. Canada supported an invitation for Brazil, home to the world's 4th largest aircraft manufacturer, to participate in discussions in that regard.

Transparency of Market Window Operations

There is a desire on the part of OECD Participants to increase transparency with respect to market window operations. Dialogue and presentations have taken place to provide greater comfort that current operations correspond to sound commercial practices, do not provide prohibited export subsidies and are in full conformity with international obligations under the WTO. EDC recognizes the importance of transparency as a tool for Canada to increase the level of understanding of its market-based activities by other Participants. EDC continues to share information in that regard while keeping in mind the principle of commercial confidentiality.

Relevance of ECAs in a Commercial Environment

In today's world, ECAs are expected to add value by participating in increasingly varied and complex financing structures with private sector counterparts and international financial institutions (IFIs). ECAs are often not well-placed in terms of competencies, technology and other infrastructure needed to successfully underwrite and manage commercial risks. They need to upgrade their skills and operating systems in order to be valued contributors.

Many ECAs continue to look to EDC as an example from which they can learn, particularly with regards to EDC's ability to offer flexible solutions to customers by complementing the commercial marketplace, while following commercial principles that preserve long-term viability and sustainability without a requirement for government budgetary contributions.

Increased Public Scrutiny of the Broader Social Effects of ECA Business Decisions

Reputation risk management will continue to be of relevance to ECAs as they need to address any vulnerability in the area of corporate social responsibility. Civil society concerns are no longer issues for a limited number of countries or institutions.

International non-governmental organization (NGO) networks continue to successfully put pressure on ECAs across the world to make collective progress in areas such as the environment, combating bribery, or avoiding unproductive expenditures in the Heavily Indebted Poor Countries. While such progress was achieved through the conclusion of a variety of agreements at the OECD, NGOs are not only watching the implementation of those agreements but are shifting their focus to even broader issues such as labour rights, human rights and sustainable development concerns.

As instruments of government policy, ECAs are responsive to legitimate civil society concerns and will continue to adopt pragmatic, credible practices in those areas in order to maintain support from their respective governments and the broader public, while continuing to fulfill their mandate to support exporters.

2.2 THE CANADIAN CONTEXT

Canada led the G-7 in economic growth in 2002, growing by 3.4% – a performance that will not be repeated in 2003. The Canadian economy is expected to expand by around 2.2% in 2003 followed by growth of 3.4% in 2004.

The slowdown in Canadian GDP growth during 2003 is due to the impact of a sluggish US economy in the first half of 2003, uncertainty generated by the run-up to war in Iraq along with SARS and mad cow disease. The stronger Canadian dollar is also taking its toll on Canadian exports. The first half of 2003 saw the Canadian dollar rise by 15% against the US greenback. It is estimated that these shocks shaved 0.5 to 0.7 percentage points off Canadian GDP growth in 2003.

Canada's prospects for 2004 are much brighter. The US economy is starting to recover while conditions in overseas economies are also showing improvement. Commodity prices will be higher in 2004 and the Canadian dollar is expected to stabilize around 74 cents US. Stronger growth in the US and global economies, along with a stable Canadian dollar, will see Canada's exports return to growth.

2.2.1 THE CANADIAN GOVERNMENT'S TRADE AND INVESTMENT PRIORITIES

Canada is a trading nation and its prosperity is linked to its ability to facilitate commerce with the world. In fact, Canada's exports account for 42% of its GDP – the highest percentage among G-8 countries. Given the importance of trade to Canada, the government plays a critical role in developing and sustaining an environment in which Canadian investors and exporters can succeed.

The primary goal of the Government of Canada's trade and investment agenda is to benefit Canadians by providing new opportunities for Canadian companies in global markets. In so doing, the government remains committed to making Canada the world's best trading nation; a nation that creates jobs and economic growth through innovation and the growth of exports; a nation that shows leadership in global trade liberalization efforts; and a nation that is the location of choice for global investment.

The government promotes a trade and investment agenda that is focused on:

- Improving market access
- Exploiting the full potential of Team Canada and government trade missions
- Increasing the number of Canadian exporters
- Supporting efforts to expand to markets beyond the US
- Improving Canada's share of global investment

2.2.2 EXPORT ENVIRONMENT FOR CANADIAN COMPANIES

The global economy put in its third consecutive sub-par performance during 2003 and Canadian exports are following this pattern. Canada's exports of goods and services were down in both 2001 and 2002. The last time exports experienced a back-to-back annual decline was nearly 50 years ago in the early 1950s. The stronger Canadian dollar, mad cow disease, high energy prices and SARS have all taken a toll on Canadian exports in 2003.

For 2003, little relief is expected with exports of goods and services forecast to show no growth over 2002 results. Netting out the volatile energy sector, Canadian exports are projected to decline by 4% in 2003. Export growth is projected at 4% in 2004. Looking further ahead, an annual average growth rate of just over 5% is forecast for Canada's exports during the 2003-2008 timeframe.

Region Forecast

Canadian exports to **China**, **Eastern Asia** and **Mexico** are projected to show the strongest growth over the next five years (see *Exhibit I*). Exports to the **United States** are forecast to grow just above the average at around 5.5%, which is to be expected given that more than 80% of Canada's foreign sales go to the US.

Industry Forecast

While most of Canada's major industries are expected to see positive export growth in 2004 (see *Exhibit II*), weakness will continue in some sectors, namely aerospace and motor vehicles. Exports of telecom and other high-tech equipment will remain weak in 2003 but the sector is forecast to return to growth in 2004, although nothing near the large double-digit growth rates experienced in 1999 and 2000.

Exhibit I

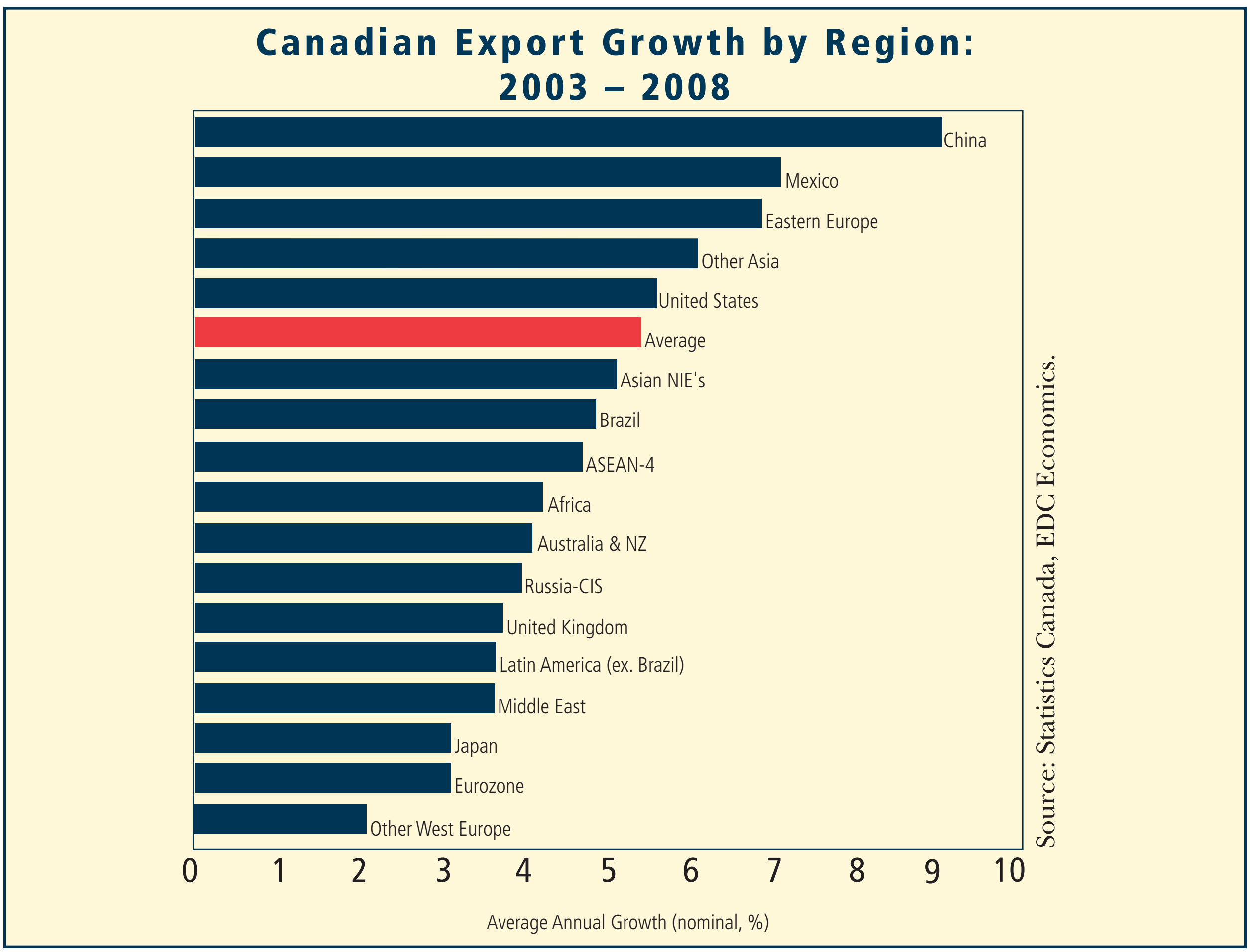
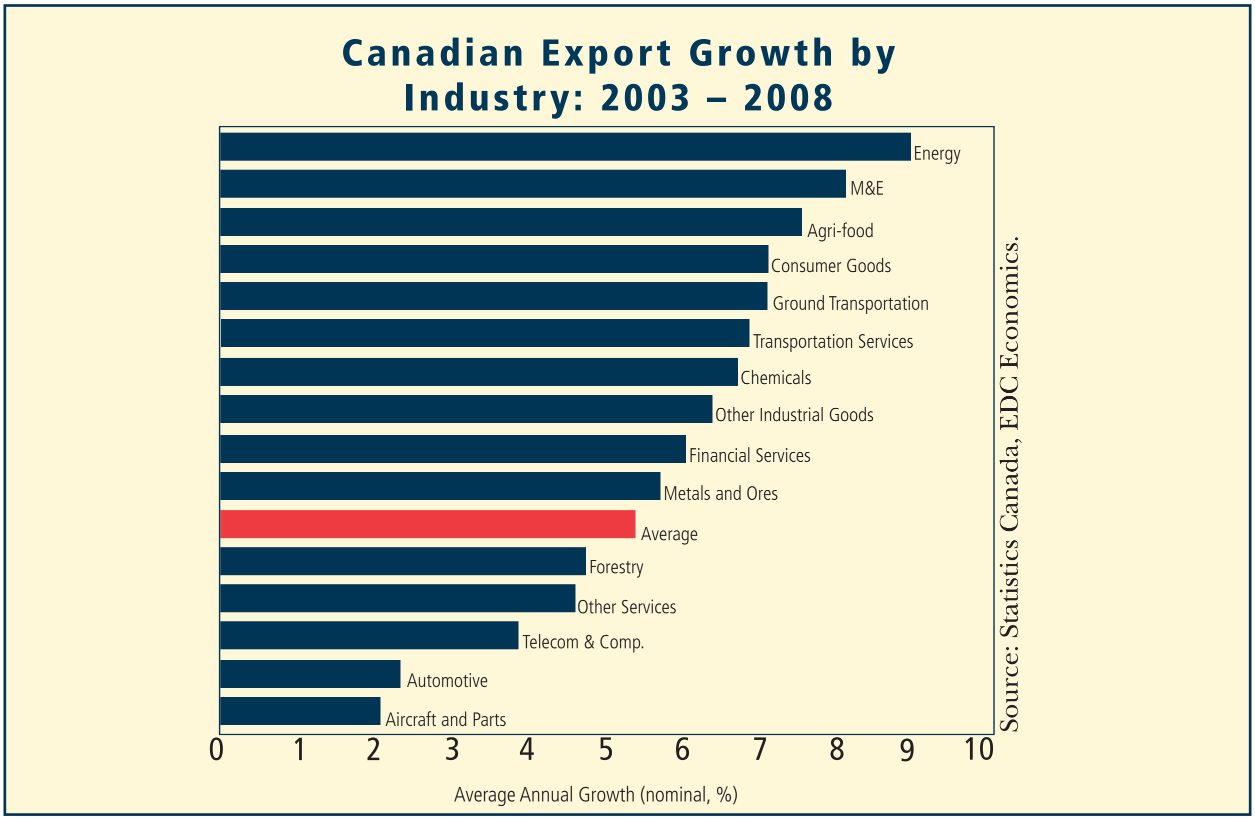


Exhibit II



2.2.3 THE EVOLVING NEEDS OF CANADIAN COMPANIES

Recent Statistics Canada data reveals that there are 34,880 exporters in Canada, of which 70% are small businesses (less than $5 million in total sales). Collectively, small businesses contribute approximately 2% of the value of Canadian exports.

Number of Canadian Exporters 2003	
Small	**24,806**
Medium	**5,816**
Large	**4,258**
Total	**34,880**

Source: Statistics Canada, 2003

Small exporters value service which is easily accessible, affordable, delivered promptly and streamlined, taking into consideration the fact that they have lean resources and significant time constraints. This is the exporter population that is most challenged to find the financial services they need to grow their export business.

Medium-sized exporters require more customization, value the financial provider's knowledge of their sector and want the right financial service to be delivered efficiently. These businesses are continually looking for new opportunities and look to their financial partners to provide solutions that help them win business while managing their risks.

Large exporters and Trans-National corporations (TNCs) while fewer in number, account for the majority of the volume of Canadian exports. To increase competitiveness, they are establishing manufacturing facilities abroad and may require financing to fund their investments or risk mitigation tools to protect them. Their international business, which they often pursue with partners, is conducted in multiple markets where risks vary greatly; they therefore have complex financial needs that require deep market and sector knowledge and seasoned trade finance skills to meet. They look for a more strategic relationship with their financial partners who they expect will provide complete solutions tailored to their needs.

Over the past few years Canadian exporters and investors have faced a very difficult environment in which to conduct their international business. New risks and greater uncertainty have surfaced, operating costs have increased, access to capital has been limited and sometimes non-existent, international competition has increased and capacity in the insurance industry has declined or come at a much higher cost.

2.3 PLANNING ENVIRONMENT - SUMMARY AND CONCLUSIONS

After almost three years of slow economic growth, the outlook for 2004 is more promising for the world economies and for Canadian exports. Economic activity is expected to resume at a level more in line with the long-term trend, led by robust growth in China and developing Asia. In the midst of this, risks and uncertainty will remain high as the world adapts to a new reality.

Canadian exports are poised to grow in 2004, after three difficult years of sub-par performance. Assuming that the Canadian dollar stabilizes in the mid 70 cent US range, most industry sectors should see positive growth in 2004. The aerospace, automotive and telecom sectors will face continued challenges over the next few years, growing at a slower rate than the average.

The US will continue to be the export destination of choice for the majority of Canadian exporters and economic conditions are already improving in that market. Highest export growth rates are forecast for China, Eastern Asia, Mexico and Eastern Europe where economic development will offer interesting opportunities for exporters and investors. Having said this, the base of Canadian exports to these developing markets is fairly small, therefore Canadian companies will need the right incentives and partners to venture and compete into these foreign markets.

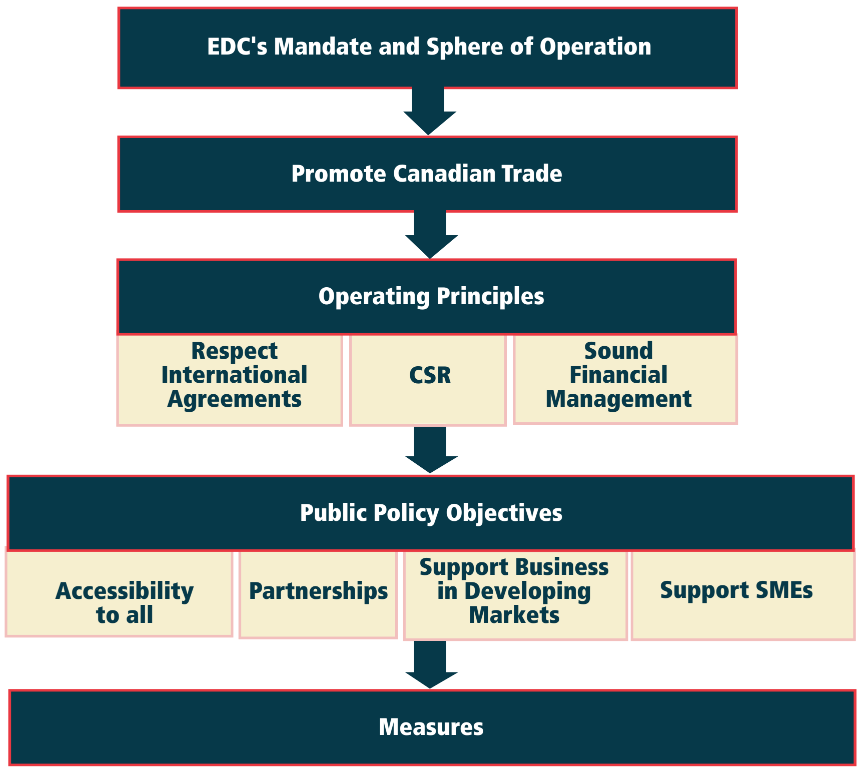
Canadian exporters know all about the challenges of doing business internationally. Whether they venture into a developing market or do business with our neighbor to the south, they face a variety of risks and need financial tools to manage these risks or the financing to close the business. Finding the right financial partner has become more difficult for some as banks and other financial institutions have either retrenched from certain product lines, offer products but at a much higher price or are demanding higher security from their customers.

EDC has witnessed these changing times and has adapted its operating model over the years to meet the evolving needs of Canadian companies. Its distinct mandate and commercial approach allow it to cover a broad spectrum of needs from companies of all sizes. Its status as Canada's official ECA, coupled with its mandate and commercial approach, make EDC an ideal partner for private sector institutions interested in assisting Canadian exporters and investors.

EDC's Corporate Strategy is fully described in Chapter 3. Its key objective of being "accessible to all" can only be fully realized if it works collaboratively with a full network of partners to ensure that companies are aware of the products and services available to them and that the required market capacity is brought to the table when designing customer solutions. With small companies making up the majority of Canadian exporters and developing markets offering the highest growth potential in 2004, these two traditional areas will continue to be core to EDC's Corporate Strategy.

3. Corporate Strategy

The following diagram depicts the various components of EDC's Corporate Strategy. The strategies and activities presented in this section are conducted under EDC's Corporate Account.



3.1 EDC'S MANDATE AND SPHERE OF OPERATION

3.1.1 EDC'S MANDATE

EDC is Canada's official export credit agency. In establishing EDC more than 50 years ago, the government sought to create an institution that would contribute to the competitiveness of Canadian exporters and investors of all sizes.

In response to Canadian companies facing a changing international environment, the government amended EDC's mandate in 1993 to better equip the organization with the scope and tools needed to meet the evolving needs of these companies. EDC's current mandate is:

"to support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade as well as respond to international business opportunities"

In the Fall of 2002, EDC's Board of Directors undertook a comprehensive strategic review (the Review) of EDC and its activities. To assist the Board in that process, an Ad Hoc Strategic Review Committee (the Committee) was formed and mandated to develop a work plan for the purpose of examining Canada's export credit system and EDC's place and function within it.

The stated objective of the Review was to ensure that Canadian exporters and investors have the required trade finance-related products, services and capacity available to them in order to realize their full potential in an increasingly competitive global marketplace. The Committee was asked to specifically review EDC's role in the provision of short-term insurance services and of medium-/long-term financial services, especially bank guarantees.

The Committee's work plan consisted of two parts: data collection and analysis as Part I followed by the development of options and proposals under Part II. In Part I of the work plan, the Committee commissioned a number of studies and surveys to gain a greater understanding of the export credit landscape in Canada. In Part II, the Committee provided a summary of its findings and analysis to the Board of Directors and made a number of recommendations.

The Board endorsed the Committee's recommendation to constitute two working groups, a Short-Term Insurance Working Group and a Bank Guarantee Working Group, who will be tasked to develop a work plan to further examine strategic issues around each subject matter and bring recommendations to the Board of Directors in 2004. The Board also asked EDC management to review in detail the findings of the exporter survey conducted under the Committee work plan and work with the Business Development Committee of the Board in bringing forward recommendations that would address the areas needing improvement.

3.1.2 EDC's SPHERE OF OPERATION

As is the case with other export credit agencies (ECAs), EDC's model has evolved over the years to serve the specific needs of the market in which it operates. EDC's sphere of operation is more comprehensive than that of a traditional ECA as it strives to respond to the needs and expectations of Canadian exporters and investors. Specifically, EDC's mandate is broader in that it covers a wider scope of international trade activities; EDC's product offering is more extensive, including a short-term insurance program and a contract bonding program which are not usually available from other ECAs; and EDC has a distinct commercial approach which allows it to operate in both the commercial and consensus markets and be financially self-sustaining.

EDC has been a constant source of financial support throughout the good and bad times since its sphere of operation extends beyond the traditional arena of serving risky markets and smaller companies which, in themselves, remain core to its business strategy.

3.1.3 PROMOTE CANADIAN TRADE

EDC is a financial institution but it does more than deliver financial services. It is also an integral component of Canada's international trade and investment policy, working with other government departments and agencies and other Crown corporations to enhance the visibility and success of Canadian companies abroad.

EDC has representatives abroad whose role it is to build relationships with key players in their markets and identify and develop incremental business opportunities for Canadian companies. EDC also joins forces with the Trade Commissioners' Service to open doors for Canadian companies, in particular in developing markets. EDC actively participates in trade missions, seminars and other activities led by government players, both in Canada and abroad, that are aimed at increasing trade in developing markets.

EDC is an Executive Member of Team Canada Inc. (TCI), a partnership of 21 federal departments and agencies involved in international business development. EDC also collaborates with individual TCI members, Investment Partnerships Canada, the provinces and business associations, all with the view to promote the interests of Canadian exporters.

3.1.4 CREATING PROSPERITY FOR CANADA

EDC's ultimate objective in applying its mandate within its sphere of operation is to create prosperity for Canada. The most fundamental measure of EDC's contribution to Canadian prosperity is the Gross Domestic Product (GDP) generated by the business it facilitates. EDC's financial services help Canadian companies sell their goods and services abroad or invest in foreign markets and, by so doing, create employment and prosperity for Canada.

EDC carried out $51.2 billion in international trade and investment transactions on behalf of Canadian companies in 2002. By breaking down EDC's business volume by type of transaction and by sector, the Corporation estimates that exports and investments facilitated by EDC in 2002 helped generate nearly $32 billion in GDP, or 3.5% of total GDP. The employment sustained by this GDP contribution is estimated at 429,000 person-years of employment, or about 2.8% of national employment.

Creating prosperity is at the core of the government's trade and investment agenda and the government's Innovation Strategy is directly related to increasing Canada's general level of prosperity. EDC is supporting this initiative by providing significant support to companies that invest in R&D, an engine of innovation, including investing in high-technology firms directly or via venture capital funds.

3.2 OPERATING PRINCIPLES

EDC conducts its business in a manner that is respectful of international agreements to which Canada is a party; that is consistent with its Corporate Social Responsibility commitments; and that ensures the sound financial management of its activities.

3.2.1 RESPECT INTERNATIONAL AGREEMENTS

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 behaviour, some are formalized in international agreements. EDC is committed to having in place the necessary policies and practices to ensure that it respects the terms of these agreements where applicable. Key ones for EDC are the following:

- The OECD Consensus Arrangement
- The WTO Agreement on Subsidies and Countervailing Measures (ASCM)
- The Anti-Corruption Legislation
- The Anti-Terrorism Legislation

3.2.2 EDC'S CORPORATE SOCIAL RESPONSIBILITY PROGRAM

EDC conducts its activities in a socially responsible manner, recognizing that norms in this area continue to evolve through international agreements and emerging practices in the private sector. In 2003, EDC is completing work on its framework for Corporate Social Responsibility (CSR) that will link its many CSR practices within an overarching statement. For the first time, an annual report on CSR activities and achievements is being prepared for internal use by EDC management. EDC anticipates that subsequent reports will be made available publicly.

As international and private sector standards continue to evolve, EDC will further benchmark its practices against other financial institutions working internationally and, in particular, export credit agencies to ensure it is keeping pace with emerging trends.

Business Ethics

EDC's Code of Conduct and Code of Business Ethics have provided its employees, customers and stakeholders with clear direction on the high ethical standards EDC applies to its business.

EDC is also subject to international anti-corruption initiatives such as the Action Statement agreed by OECD ECAs and to Canada's anti-corruption legislation, *The Corruption of Foreign Public Officials Act* (CFPOA). In response, EDC developed an Anti-Corruption Program which was implemented through staff training, the updating of documentation and systems enhancements. Also under the program, EDC's customers are now required to submit anti-corruption declarations and/or accept relevant representations and covenants in appropriate documentation.

In 2003, EDC distributed to its customers an anti-corruption brochure to inform of the potential risks they face if exposed to corrupt business practices, and to encourage the development of corporate best practices in this area. This material is available on the EDC website and will be provided to all new companies looking to access EDC's products and services.

Environmental Review

EDC's revised procedures for assessing the environmental and related social impacts of projects under consideration are contained in the Environmental Review Directive (ERD), which was put in place in December 2001 through amendments to the *Export Development Act*. EDC's Board of Directors approved the final ERD on May 1, 2002 and, to ensure compliance, EDC has introduced a number of procedures to strengthen its internal processes. An Environmental Review Advisory Committee was created in 2003 to provide on-going advice and guidance relating to the implementation of the ERD and a first report of the Chief Environmental Advisor was released publicly in 2003.

In 2003, the Office of the Auditor General of Canada began its special review of EDC's environmental review procedures. This work will continue into 2004 and EDC staff will work closely to assist the auditors in executing this task.

Benchmarking against good practices is an important step in ensuring EDC remains current with emerging international trends such as the Equator Principles, a voluntary set of guidelines developed by several international commercial banks in 2003 for managing social and environmental issues related to certain types of project financing. A review of the Equator Principles indicates that EDC's own ERD compares favorably.

In 2003, EDC began discussions and negotiations with other ECAs on appropriate revisions to the OECD "Common Approaches on Environment and Officially Supported Export Credits". In 2004, work will focus on implementing any agreed revisions to the "Common Approaches".

In 2004, EDC environmental specialists will continue to disseminate information about its environmental review initiatives through seminars for customers and financial partners, both within and outside Canada in markets such as China.

Disclosure and Transparency

EDC's commitment to greater disclosure of information on its activities, and its obligations of confidentiality to its customers must be carefully balanced. EDC's Disclosure Policy implemented in October 2001, strikes that balance, providing enhanced aggregate and individual transaction reporting.

EDC will continue to champion good disclosure practices with exporters, project sponsors and financial institutions, including other ECAs. In this regard, in 2003, Canada/EDC is participating in discussions at the OECD to enhance the "Common Approaches", including provision for greater disclosure of those transactions with significant environmental impacts.

Respecting Human Rights

In 2002, EDC and DFAIT strengthened channels of communication with respect to human rights developments in relevant countries. This has given EDC access to information and guidance from DFAIT on human rights issues around the world. This information facilitates the examination of country-level and project-level risks, including factors such as socio-economic inequality, the existence of institutions or channels for peaceful resolution of grievances and the existence and persistence of political violence as a means of political expression. Such exchange of information continues to assist EDC in strengthening its country-based human rights framework through which potential human rights impacts are assessed.

EDC and DFAIT officials will meet to further explore ways in which EDC might contribute to making exporters aware of Canada's international human rights obligations.

Non-governmental stakeholders have expressed an interest in EDC's human rights assessment practices. In 2003, EDC initiated a dialogue with non-governmental organizations (NGOs) on its practices in this area. In 2004, this dialogue will continue with a variety of stakeholders.

Stakeholder Engagement

Engaging stakeholders is integral to both the development and implementation of policy at EDC. EDC's relations with NGOs have evolved from answering enquiries to a genuine dialogue which contributes to the effective delivery of EDC's mandate.

In the coming year, EDC will engage with NGO stakeholders on a regular basis on CSR issues, with a particular emphasis on broadening the range of NGOs with which it engages to include those with an interest in EDC's activities and a focus on developing markets.

Also in the coming year, EDC will continue to engage affected customers and key business associations on CSR practices. The Corporation will explore the development of a mechanism to recognize best CSR practices in the private sector as a means of conveying to its customers the importance of CSR as an element of good business strategy.

Established in the Fall of 2001, EDC's *Advisory Council on CSR* meets semi-annually. The seven-member Council serves as a sounding board to executive management on the Corporation's CSR practices and policies. To ensure transparency, a summary of proceedings of these meetings are posted on EDC's website. In 2004, EDC will continue to actively engage this trusted, highly-experienced source of expert advice and guidance.

EDC's *Compliance Program* became fully operational in the spring of 2002. The Program was designed to ensure compliance in matters related to: improving transparency; public disclosure and accountability; contributing to environmentally sustainable development; and enhancing respect for internationally-recognized human rights. The first Annual Report of the Compliance Officer can be found on EDC's website. Increasing awareness of the Program amongst all stakeholders remains a priority for the Compliance Officer. An evaluation of the effectiveness of the Program will take place in 2004.

Community Investment

EDC's Education and Youth Employment (EYE) Strategy contributes to strengthening Canada's ability to compete internationally through a better-educated, more trade-focused workforce, by partnering with educational institutions and key stakeholders. EDC's support for education and youth employment falls under three main pillars:

- Build awareness of EDC and the importance of international trade;
- Capture innovative thinking by recruiting youth and working with youth-related initiatives; and
- Foster learning and employment opportunities for youth.

PERFORMANCE MEASURES AND TARGETS

EDC's CSR Program is a composite of various policies and practices. Objectives are set for key initiatives and achievements are measured at that level. To supplement this, EDC will measure employee awareness of the Corporation's CSR commitment as part of its 2003 employee opinion survey. This will facilitate the establishment of a baseline to determine what further action may be required.

3.2.3 SOUND FINANCIAL MANAGEMENT

EDC conducts its operations on a self-sustaining basis, generating sufficient income to protect its assets and to support future business. The financial viability of the organization is not only about pricing transactions to risk but also about the proper management of a myriad of risks the Corporation faces every day. To do so, EDC has in place an Enterprise Risk Management Framework (ERM) that provides a comprehensive view of the key risks the Corporation faces and tools and methods to measure, monitor and manage these risks.

In 2001, a corporate risk map was developed which is updated every year to provide guidance in the management of risks that may impact EDC in the achievement of its business objectives. That corporate risk map is taken into account in the establishment of corporate priorities.

The Financial Plan presented in Chapter 4 outlines the various elements of our financial performance.

PERFORMANCE MEASURES AND TARGETS

EDC tracks its financial performance via four key performance measures which are fully described in Chapter 4. They are presented in the table below:

	2002	2003	2003	2004
Measures	**Actual**	**Plan**	**Forecast**	**Plan**
Net Income ($M)	122	190	100	102
Return on Equity (%)	5.9	8.4	4.6	4.5
Gross Efficiency Ratio (%)	17.4	19.8	18.1	19.6
Financial Sustainability Ratio (%)	13.9	13.0	13.5	12.8

3.3 PUBLIC POLICY OBJECTIVES

Four public policy objectives have been articulated to define and guide EDC's activities in the application of its mandate. They are the backbone of EDC's strategy and determine what actions and goals EDC sets in the service of Canadian exporters and investors. They are:

- Accessibility to All
- Partnerships
- Support Business in Developing Markets
- Support SMEs

3.3.1 ACCESSIBILITY TO ALL

A key goal of EDC is to ensure that Canadian companies of all sizes have access to the financing and risk management services they need to compete in the international marketplace. To accomplish this, EDC uses a variety of distribution channels and works collaboratively with a large number of partners in the exporting and financial communities to reach and serve these companies.

In 2002, EDC provided $51.2 billion of financial services to more than 7,200 Canadian exporters and investors in over 200 markets of the world. This performance was the best to date for EDC and was achieved in an environment that saw exports decline for the second year in a row.

The business activity seen by EDC in the first half of 2003 suggests that the growth rate with respect to number of customers served and volume of business facilitated will be more modest than in previous years, a reflection of a weaker export environment. At this time, the Corporation expects to serve 7,600 companies in 2003 against a plan of 8,000 and to conclude some $52.4 billion of business (export only) against a plan of $54.5 billion.

EDC's analysis of results to date for 2003 suggests that companies are facing rising property and casualty insurance costs which has affected their profit margins and has prompted them to opt-out or delay the purchase of accounts receivable insurance policies. Smaller exporters are also challenged to find affordable product liability insurance coverage on sales to the United States. This has caused a number of companies to reduce their export activity. These are prime reasons why EDC's customer count will not hit target in 2003.

Also, the faster than expected rise in the Canadian dollar in 2003 has impacted EDC negatively since the volume of business signed and the operating income received by EDC are both largely denominated in US dollars. This accounts for a large portion of the expected shortfall in our business volume results for 2003 compared to Plan.

EDC expects that 2004 will be a recovery year for Canadian companies and that more companies will take advantage of EDC services.

Accessibility to all means that EDC must serve a wide range of needs which requires coordinated business development efforts, efficient and effective delivery mechanisms and an extensive tool kit. Each of these elements is described further below. It also means that EDC must work closely with other players in the exporting and financial communities to reach Canadian companies and to develop competitive solutions that meet their needs. EDC's partnership activity is described in section 3.3.2.

Coordinated Business Development Efforts: Our Goal to Serve 10,000 Customers

As noted in section 2.2.3 of the Plan, Statistics Canada estimates that there are some 35,000 exporting companies in Canada. Back in 1999, EDC set an internal goal to serve 10,000 customers by the end of 2004 in support of the government's priority to increase the number of exporters. EDC's customer base has grown by more than 45% since the goal was set based on our current forecast for 2003 of serving 7,600 customers. More than 90% of these customers are SMEs.

At this time, EDC anticipates serving 8,000 customers by the end of 2004, falling short of its 10,000 customer goal. The shortfall is primarily due to a weaker export environment and the fact that, as the Corporation increases market penetration, it becomes more difficult to sign-up new customers. Although this is disappointing, the goal of serving 10,000 customers has nevertheless motivated EDC to more aggressively reach out to SMEs directly or through our network of partners and to improve service delivery.

EDC's sales force, located in our regional offices, and its Emerging Exporters Team (via our inbound and outbound calling centres) are the primary sources of new customers at EDC. However, signing up new customers is a corporate goal and involves many other teams. In 2003, a group of senior managers called the V8 was formed to ensure that EDC's business development efforts are coordinated and that results are tracked and analyzed on a regular basis.

Also in 2003, a new sales methodology was introduced to the regional sales force and to our outbound calling centre to help gain a better understanding of exporters' needs and how to meet them.

Enhanced Service Delivery

EDC strives to serve all segments of the exporter population efficiently and effectively. The small exporter segment is served via dedicated teams that are tasked to provide efficient, accessible service to a large number of companies. The medium and large exporter segments are served via sector teams that are assisted in their efforts by centres of expertise, including country and product specialists, whose knowledge is greatly valued by our customers.

In 2003, a number of initiatives were undertaken that are expected to improve service delivery:

Customer service protocol – A protocol is being developed to set service standards to be applied consistently across the Corporation when dealing with customers.

Customer relationship management protocol – EDC recognizes that serving the largest Canadian exporters presents the most challenges in terms of risk capacity and service expectations. EDC is developing a relationship management protocol to more effectively manage the more complex relationships EDC has with these customers.

Increased service and productivity through technology – EDC has made significant investments in recent years to upgrade its technology platform in order to manage growth and enhance service to our customers in a secure and reliable way. A new Business Solutions and Technology Group was created in the summer of 2003, bringing together business solutions and technology specialists in order to improve coordination of the many efforts underway. In 2003, Globex, an important new business application, was launched and the Corporation's Web applications saw an increasing level of activity.

Update our Tool Kit

EDC's product tool kit is extensive: products cover three main categories of insurance, contract bonding and financing (direct lending and guarantees) and cover short- and medium-term horizons. Our insurance programs accounts for approximately 75% of our business volume in any given year, whereas our contract bonding represents 10% and our financing 15%.

The needs of Canadian companies evolve as market conditions change. Accordingly, EDC's tool kit must keep pace with those needs. In 2003, enhancements were made to our tool kit, of which the following are noteworthy:

Medium-Term Guarantee Framework – As outlined in EDC's 2003-2007 Corporate Plan, the Corporation undertook to review its current Medium-Term Guarantee Framework to determine if it could enhance its value as a tool to support Canadian companies. In 2003, EDC began offering insurance coverage to commercial lenders in respect of loans to or guaranteed by sovereign entities. This **non-honouring sovereign (NHS) coverage** is more comprehensive than our traditional Political Risk Insurance in that it includes the risk of non-payment or failure to honour a sovereign obligation for any reason.

As indicated in Section 3.1.1, a working group is being created to specifically study in-depth the strategic issues around the development of an enhanced bank guarantee facility. Progress on this initiative will be reported in next year's Corporate Plan.

Surety quota share reinsurance treaty – In response to a diminishing surety capacity for Canadian exporters, EDC introduced in 2003 a portfolio-based surety reinsurance treaty with St. Paul Guarantee.

Sub-sovereign lending – In many countries, increasing responsibilities are being transferred to regional and municipal governments for the procurement of municipal services. Companies selling to these sub-sovereign entities have difficulty arranging financing since their buyers do not have credit ratings from recognized credit rating agencies. To address this gap, EDC recently signed an agreement with Standard & Poor's to obtain credit assessments of non-rated regional or municipal governments whenever EDC financing is required to purchase Canadian goods and services.

Global documentary credit insurance approach – Work has commenced on the introduction of a global documentary credit insurance approach which would provide coverage to banks for all of their eligible documentary credit business.

Equity Program – Amendments to the ED Act with respect to the Equity Regulations are expected to be ratified in late 2003. They should serve to increase the deal flow under the program and will give EDC the ability to participate in international projects in a more meaningful manner thus better serving Canadian companies.

Customer Feedback

EDC has been actively measuring customer satisfaction since the mid 1990s when it instituted an annual customer survey to capture data on its performance across a number of service attributes. Throughout this period, EDC received invaluable feedback from its customers which is used to enhance product and service delivery. Several measures were drawn from the survey results, including an overall customer satisfaction score. The survey conducted in the Fall of 2002 rated EDC 81.8 out of 100 in terms of overall customer satisfaction, up slightly from a score of 81.5 in 2001.

The 2003 annual survey of customers planned for the Fall will test and analyze 18 separate customer value statements for each of EDC's main programs. The results of the analysis and some further refinements to the model will then allow EDC to finalize the composition of a new measure called the Customer Value Index (CVI) against which targets will be set for 2004. EDC plans on retaining the current overall satisfaction measure as it allows us to track the year over year evolution of customer satisfaction.

PERFORMANCE MEASURES AND TARGETS

EDC's success under this objective is currently measured by the number of customers served, by the volume of business concluded and by Customer Satisfaction. A Customer Value Index will be added to this grouping in 2004 and a target will be set once a baseline is established in the Fall in the context of the 2003 customer survey.

Measures	2002 Actual	2003 Plan	2003 Forecast	2004 Plan
Business Volume ($B) – Export only	51.2	54.5	52.4	55.1
Number of Customers Served	7,223	8,000	7,600	8,000
Customer Satisfaction	81.8	80.0	80.0	80.0
Customer Value Index	-	-	-	TBD

3.3.2 PARTNERSHIPS

EDC has developed an extensive network of partners which allows it to combine its expertise and risk capacity with that of other players in the exporting and financial communities for the purpose of reaching out to Canadian companies and ensuring that they have the financial services they need to compete internationally.

Partnership activity at EDC falls under three main categories:

- Marketing or reach initiatives
- Transaction-based partnerships
- Portfolio management activities

Marketing or Reach Initiatives

EDC pursues numerous marketing communications opportunities with both private and public sector institutions to leverage reach into their memberships or the exporting community. These opportunities can take the form of marketing partnership agreements, sponsorship activities or promotional material distribution arrangements.

For years, EDC has worked with geographic, sector and exporter associations at both the national and provincial levels. Recent formalized marketing arrangements include those with the Canadian Federation of Independent Business (more fully described in section 3.3.4) and the Canadian Venture Capital Association. These partnerships allow EDC to consolidate a number of marketing activities to increase exposure which can include conference sponsorships, speaking opportunities, advertising in printed material and web promotions.

Partnerships with associations can also take the form of group or umbrella insurance policies that provide easy and inexpensive access to association members, in particular SMEs, to EDC's insurance protection. Current policies include those with the Wood Products Group and the Canadian Apparel Federation while two more are currently under discussion.

The banking sector remains the primary vehicle for financial support to SMEs. In 2002, EDC developed and began executing a strategy to expand EDC's working capital support through the banking network. The strategy provides for the creation and testing of a bank microsite which is an Intranet tool that provides bank account managers with up-to-date information on EDC products. The first microsite was successfully launched in 2003 with Scotia Bank and additional ones are under consideration with other banks.

Finally, another important third party channel through which SMEs learn about EDC are professional advisors or service providers such as accountants and freight forwarders. Of note is EDC's interest in focusing on the major accounting associations as partners in 2004.

Transactions-based Partnerships

Customer transactions come in many types and sizes. Each transaction is assessed based on its own merits and then a determination is made as to how best to support that transaction. At times, EDC will provide the full support required by the customer on its own books; at other times a financial institution may require EDC's coverage to provide a solution to the customer; and yet at other times EDC will approach or will be approached by other financial institutions to add capacity to the mix so that a complete solution is provided to the customer.

The number of transactions and volume of business coming to EDC has increased sharply over the past few years, making it necessary for EDC to partner with other financial institutions to optimize capacity available to Canadian companies. Transaction partnerships can take two broad forms: the leveraging of EDC's capacity and co-participations.

Leveraging EDC's capacity - EDC has a number of risk-sharing products available to financial institutions to enhance their ability to participate in customer solutions. These products are designed specifically for financial institutions and are used primarily to support SMEs or business in developing markets where private sector risk appetite is often limited.

In 2002, more than 40% of EDC's business volume provided coverage to financial institutions under these products. Commercial banks were the primary users and, as such, represent an important user group of EDC services. Also of note is the fact that almost 60% of medium-/long-term transactions are concluded today in partnership with one or more financial providers.

In 2003, a number of initiatives were pursued or are underway to enhance the value of EDC's risk-sharing products. They include the promotion of a "bundle" of working capital and bonding products to a large number of banks, credit unions and others; the introduction of non-honouring sovereign coverage to commercial lenders in respect of loans to or guaranteed by sovereign entities; the re-drafting of the Performance Security Guarantee (PSG) to better meet the banks' RAROC standards; the entering into a Surety Quota Reinsurance Agreement with St. Paul Guarantee to cover surety bonds issued by St. Paul on behalf of their Canadian customers; and the current consideration of a global documentary credit insurance approach which would provide coverage to banks for all of their eligible documentary credit business (currently only available on a specific transaction basis).

Co-participations - Some transactions pursued by Canadian companies are simply too large for any single financial institution to support fully. In these instances, EDC is either approached by or approaches financial partners to ensure that complete solutions are secured for these companies.

EDC has concluded a number of co-insurance and re-insurance arrangements with other insurers under its short-term insurance and political risk insurance programs where each partner brings capacity to a transaction. These arrangements allow for a distribution of risks amongst several players which contributes to prudent portfolio management.

EDC actively partners with commercial banks on virtually all of its project finance transactions given the large scale and complex risks typically associated with these projects. The nature of EDC's role on these transactions can vary from being a financing participant, a sub-underwriter or a co-arranger. Of note is EDC's successful deployment of a mix of finance and political risk insurance products to maximize bank market participation in projects in developing markets.

EDC also partners with other ECAs where more than one country supplies goods and services to a transaction or to a project. To facilitate this, EDC has signed reinsurance agreements with eight ECAs and is in discussion with two others to finalize similar agreements.

Portfolio Management Activities

EDC's capital base has grown over the years but the demand for EDC's financial services has grown even faster. As part of a prudent portfolio management strategy, EDC reinsures or sells down a substantial portion of the risks it underwrites and also sells existing assets or uses other forms of risk transfer approaches to free up capacity. The ability to partner with other financial institutions is integral to portfolio management, both in terms of enhancing risk capacity and providing solutions to customers.

PERFORMANCE MEASURES AND TARGETS

At this time, there are no measures to track the success of marketing or reach initiatives collectively, although success under each is normally measured to determine if the partnership added value. Also, portfolio management activity is determined based on a number of factors such as the desire to free up capacity, the need to comply with credit limits or to establish a more appropriate balance of exposures in our portfolio. Activity is not currently tracked under a performance measure and EDC is not proposing to introduce a measure at this time.

EDC tracks its activity under its risk sharing programs and will continue to do so in the future. In 2003, a first performance measure was introduced to motivate greater activity under our medium-/long-term programs, specifically with Canadian and foreign banks. EDC now proposes to capture performance more broadly in 2004 by adding two components to our measure, that is volume concluded under our Documentary Credit Insurance Program and volume concluded with sureties.

As well, a new measure is being introduced in 2004, this one focusing on the number of transactions concluded with a financial partner.

Measures	2002 Actual	2003 Plan	2003 Forecast	2004 Plan
Total Volume with Banks and Sureties ($B)	6.9	N/A	7.5	7.8
Number of MLTFS Transactions with Partners*	-	N/A	1,200	1,300

* *MLTFS refers to our medium- and long-term financial services program.*

3.3.3 SUPPORT BUSINESS IN DEVELOPING MARKETS

Core to EDC's mandate is the Corporation's long-standing commitment to the expansion of Canada's trade and investments in developing markets. In 2002, EDC facilitated $9.9 billion of business in developing markets compared to a Corporate Plan target of $9.5 billion. Of this total, $6.4 billion supported exports and $3.5 billion facilitated investments. Investment facilitation yields additional benefits as EDC estimates that each dollar invested by Canadians in developing markets generates two dollars of exports from Canada.

The forecast EDC volume in developing markets for 2003 is $10.4 billion or 11% below plan target of $11.75 billion. The economic recovery in these markets has been slower than expected and volume concluded by EDC has been negatively affected by the rise in the Canadian dollar since the bulk of our transactions are denominated in US dollars. Although Canadian exports to developing markets are expected to pick up in 2004, the continued rise in the Canadian dollar will dampen the Corporation's Plan volume increase in 2004 to just 6% over the 2003 forecast level.

In the Fall of 2002, EDC embarked on a number of initiatives to increase business in developing markets, with the full knowledge that these would take time to produce the growth desired. In 2003, EDC created an Emerging Markets Opportunities Committee as a dynamic forum to share ideas and to oversee the various initiatives underway, details of which are found below.

Develop a clear positioning for EDC towards developing markets – EDC has developed a marketing and communication plan to target Canadian exporters with messaging regarding its commitment and leadership role in providing financial services for their developing market business.

Actively engage with the exporting community – In addition to seminars and other exporter events, EDC held meetings in 2003 with a number of key customers who have a strong commitment to developing markets in order to discuss joint initiatives in these markets.

Work collaboratively with DFAIT and other government departments – Both EDC and DFAIT have a common goal to increase trade in developing markets. In May 2003, EDC and DFAIT executives met to formalize agreement on a joint approach to international business development. Areas of cooperation cover a wide range of initiatives, including specific joint action plans for the five priority markets of Brazil, China, India, Mexico and Russia.

Expand EDC representation abroad – EDC currently has representation staff in Brazil (Sao Paulo), China (Beijing), Mexico (Mexico City and Monterrey) and Poland (Warsaw). Two other postings have been approved for late 2003/early 2004: one in Rio de Janeiro (Brazil) and the other in Kuala Lumpur (Malaysia). The role of EDC foreign representatives is to build relationships with key players in their markets and provide assistance to Canadian companies seeking to capitalize on these market opportunities.

Support the government's priority on Africa – An Africa Working Group was created in 2003 with representatives from EDC and DFAIT to work together to identify and develop sound business opportunities in Africa.

Exploring new ways – Facilitating business in developing markets may require financial solutions that are designed specifically for these markets. In 2003, a number of product enhancements were made to better assist Canadian companies in that regard.

PERFORMANCE MEASURES AND TARGETS

For a number of years, EDC has assessed its performance in developing markets via a measure of volume of business concluded. This measure is one of EDC's four corporate incentive measures for 2003.

While this measure has proven to be a useful indicator of performance, a multi-dimensional scorecard has been developed to more fully reflect our activity in these markets. Key components of the scorecard include: number of transactions concluded; number of customers served; and our traditional volume of business concluded. Internal targets were set for each new measure in 2003 and progress is being tracked at the program level on a quarterly basis.

EDC intends to continue monitoring performance in 2004 against the three key components of the scorecard. Targets have been set for each component below.

Measures	2002 Actual	2003 Plan	2003 Forecast	2004 Plan
Volume of Business ($B)	9.9	11.8	10.4	11.0
Number of MLTFS Transactions *	1,080	N/A	1,250	1,350
Number of Customers	1,370	N/A	1,450	1,520

* *MLTFS refers to our medium- and long-term financial services program.*

3.3.4 SUPPORT SMEs

SMEs represent over 90% of EDC's customer base, growing by 45% since 1999 from a base of 4,550 to 6,575 at the end of 2002. That exporter segment represents the greatest potential for new customers and has benefited from extensive promotional and awareness building activity in the past years as the Corporation strives to reach our goal to serve 10,000 customers.

EDC offers a range of products to meet the needs of SMEs, both for risk management services and for access to working capital. These products and services are delivered by trade specialists at EDC who specialize in serving the needs of SMEs.

An extensive program to increase awareness of EDC and of products available to SMEs continues to be a priority as well as improving the efficiency and quality of our service delivery to that important customer segment.

Awareness Building

EDC uses many tools to increase awareness amongst SMEs including direct mail campaigns, outbound telemarketing, workshops, advertising and e-Marketing. As EDC continues to expand its reach into the exporting community, developing and expanding partnerships with Canadian financial institutions and intermediaries has become a necessity. These institutions and intermediaries provide EDC with access to their customers and members and they also work with EDC in delivering joint products to these customers. As an example of this, in July EDC entered into a 12 month marketing agreement to reach the 100,000 members of the Canadian Federation of Independent Business (CFIB). The deal with Venngo, the exclusive marketing agent for the association, will feature EDC's logo and information on a customized website, in e-mail letters and printed material and will feature promotional offers for EDC products to the members.

Improving the Efficiency and Quality of our Service Delivery

EDC is working on a number of fronts to improve service to SME customers. Customer leads come to EDC from many different channels and in order to improve the effectiveness of generating, managing and converting leads into customers, EDC completed mapping of its leads generation process in 2003. Improvements were identified and actions are underway to achieve greater effectiveness of the process.

Increased staff training is and will continue to be a priority in two key areas: how to assess the financial and risk management needs of prospective customers; and cross product training to acquire a broad-based knowledge of EDC's product and service offerings. These two areas will complement the enhanced selling techniques training provided to staff to improve overall service delivery to SMEs.

In order to serve an ever-expanding SME customer base, EDC is committed to delivering a larger percentage of services via third parties. The financing of export business can be complex for small companies and no single financial institution can fully support their needs. EDC has identified a market gap which is to "bundle" a number of working capital and bonding products and work with Canadian banks, credit unions and les caisses populaires to actively promote and deliver these products to our joint customers. This closer cooperation has contributed to a 25% to 30% increase in the number of customers served and in the number of transactions concluded in the past 18 months with these partners. For 2004, EDC expects that 30% more SME customers will be served via these partnerships.

As expected, the Web is proving to be an excellent channel to reach SMEs and transact business with them. SMEs often prefer the convenience and ease of the Internet to research and apply for EDC services. As a result of our Web strategy, EDC now receives an average of 40 applications for Accounts Receivable Insurance online per month. This compares to a total of 35 online applications for the whole of 2002. In the Fall of 2003, EDC will launch its "Online Advisor for SMEs", which is a smart engine that will help companies identify their financial needs and give them suggestions as to how EDC products can meet those needs.

PERFORMANCE MEASURES AND TARGETS

EDC has traditionally measured success under its SME initiative by the number of SMEs served during the year. The Corporation is retaining this performance measure for 2004.

Measure	2002 Actual	2003 Plan	2003 Forecast	2004 Plan
Number of SMEs Served	6,575	7,200	6,800	7,200

3.4 RESOURCING TO DELIVER RESULTS

To successfully execute its business strategy, EDC must ensure that it has the internal capacity and resources to accomplish its goals on behalf of Canadian exporters. As a knowledge-based organization, EDC's success is primarily accomplished through the quality and performance of its people.

EDC's human resources priorities are aligned with building capacity for the future, strengthening our customer relationships and operating in a socially responsible manner. As such, the recruitment and retention of qualified employees remains a strategic imperative for the Corporation.

3.4.1 CREATING A COMPELLING CAREER CHOICE

EDC's values of Excellence, Learning, People and Passion provide a stimulating framework for the high potential knowledge workers who make up the majority of EDC's employee complement. EDC crafts a positive work climate with a wide range of programs, including many that further diversity, work-life balance and corporate social responsibility. In 2002, the decision was taken to conduct future Employee Opinion Surveys (EOS) on a biennial basis. A mini-survey was conducted during the Fall of 2002 which focused on six key 'climate' dimensions. The results provided a positive progress report on these key dimensions, enabling communications and action plans for further improvement. Externally our policies and programs were recognized when EDC was named one of Canada's 'Top One Hundred Employers' for the second year in a row.

Employee turnover for 2003 is projected to be less than 6% and the total voluntary separation target will be less than 6% in 2004. The retention of key resources is prioritized and monitored as part of quarterly Human Resources Activity Reports.

During 2003, EDC continued to focus on productivity and has been able to support continuing growth through a more strategic alignment of its human resources. The 2003 staff complement is forecast to increase by less than 3% over 2002, to 1020 active employees by year-end. In 2004, EDC is planning growth to 1030, an increase of less than 1% and an average employee strength of 1025.

Greater emphasis has been placed on EDC's diversity initiatives in 2003. This will continue in 2004 with strengthened communication and training programs planned to further diversity in our organization. In 2003, the Corporation was pleased to be recognized once again in Canadian Heritage's 2001-2002 '*Annual Report on the Operation of the Canadian Multiculturalism Act*' for our programs in this area.

3.4.2 TALENT MANAGEMENT

Launched in early 2003, EDC's Talent Management strategy is a proactive and comprehensive program focused on building talent from within the organization, encouraging individual advancement and providing for strategic staffing. The 'Talent Management Plan' has three pillars: Succession Planning, Career Development and Learning & Development (EDC University).

Succession Planning

EDC expanded its Succession Planning process in 2003 to include identification of high potential senior management successor candidates from deeper inside the organization. An important aspect of this plan is the identification of future organizational vulnerabilities, both in terms of qualified resources and organizational structure. EDC, like many of its sister organizations in the public service, looks beyond 2004. Preparation for a greater outflow of retiring leaders and key employees is imperative and underway.

Career Development

EDC has had a leadership competency framework in place for several years and, in 2002, the Corporation undertook to expand this program to include 'enterprise wide competencies', which will ultimately provide a framework applicable to all positions across the organization. The overall Competency Project is ongoing and projected to be fully operational in 2005.

Learning & Development (EDC University)

EDC's Talent Management programs identify and support qualified employees who aspire to higher leadership levels, while providing ongoing development to those who prefer to develop specializations and deeper expertise in their chosen field or current role.

The corporate measure of a minimum of five days' training per person will be retained for 2004. EDC will continue to expand our training delivery methods to online learning. One particular focus will be on establishing and furthering our learning partnerships with other government agencies, such as DFAIT, as well as with educational institutions.

PERFORMANCE MEASURES AND TARGETS

Measures	2002 Actual	2003 Plan	2003 Forecast	2004 Plan
Voluntary Turnover Rate	4%	< 10%	< 6%	< 6%
Average number of Training days per employee	5	5	5	5
Rank above high quality organizations in our employee survey[1]	N/A	50%+	50%+	N/A

[1] *Rank above high quality organizations for the majority of elements measured on the Climate Assessment, as independently reported by Hay. EDC's Climate Assessment, or employee opinion survey, is conducted on a biennial basis. One is currently underway in 2003.*

4. Financial Plan

The following pages present the projected consolidated financial position of the Corporation to the year 2008. The presentation includes projected consolidated income statements, balance sheets and cash flow statements for the five-year planning period and the Corporation's anticipated capital expenditures for 2004-2006.

As described in Chapter 2, the global economy has endured a number of shocks over the past couple of years: the bursting of the tech bubble in 2000, the terrorist attacks of September 11, 2001 and since then, corporate malfeasance, weak equity markets, war in Iraq, high oil prices and SARS. As a result, 2003 will be the third consecutive year of sub-par growth for the global economy.

Through 2004 a general economic recovery is predicted as is an improvement in the credit cycle over 2003. Bankruptcies are, however, expected to remain higher than historical averages. The Corporation will continue to diligently apply its risk management policies and practices in order to manage the risks inherent in the credit cycle.

4.1 MATERIAL RISKS TO FINANCIAL PLAN RESULTS

Accounting Guideline 13 - Hedging Relationships

The Canadian Institute of Chartered Accountants (CICA) has released Accounting Guideline 13 – "Hedging Relationships" effective for fiscal years beginning on or after July 1, 2003. This new guideline impacts the Corporate Plan beginning in the fiscal year 2004. The guideline deals with derivative financial instruments and how they are to be recorded in the financial statements. In order to fund its assets which are mainly in US dollars, EDC borrows in the international markets and converts the proceeds to US dollars using derivative financial instruments.

Under this guideline, the use of these derivative financial instruments for the purposes of converting its debt into US dollars does not qualify as a hedge as EDC's functional currency is Canadian dollars. Therefore to be compliant with this guideline, EDC is required to record its derivative instruments at market value on the balance sheet, but must record the related debt instruments at cost on the balance sheet.

EDC's planned approach to implementing this guideline for the 2004 fiscal year involves marking to market all of EDC's derivative financial instruments, and recording the resulting mark to market gain or loss as a separate line item in the income statement, as well as note disclosure describing the impact on EDC's financial statements. This adjustment will vary depending on interest rate movements. Individual market adjustments on derivative instruments will go to zero when these instruments mature. EDC expects that the implementation of this guideline will result in greater fluctuations in net income.

While the Corporation is unable to determine the impact of this adjustment with certainty at this time, a preliminary estimate of the impact on the 2004 Corporate Plan is disclosed in a note to the Income Statement which indicates that the negative charge to earnings for 2004 could be in the range of $272 million. This estimate is based on the increasing interest rate assumptions included in the 2004 Corporate Plan and its impact on the derivatives associated with the floating rate debt. It is assumed that all floating rate debt amounts are as per the Corporate Plan Financial Statements and that this debt has derivatives attached to it. For the years 2005-2008, interest rates have been held constant at 2004 levels, therefore understating the potential volatility that exists in the calculation of this adjustment for these years.

If a loss in the range of $272 million does materialize, it would have a material impact on many of the components of the Corporate Plan including retained earnings, return on equity, capital adequacy and financial sustainability ratio.

In addition, the CICA has recently released three exposure drafts on financial instruments; Financial Instruments - Recognition and Measurement, Hedges, and Comprehensive Income. These exposure drafts would permit EDC to record debt instruments at market value, which would allow EDC to apply symmetrical treatment to its debt instruments and related derivatives. This would largely eliminate the gain or loss referred to in the previous paragraph as the gains/losses on the derivative instruments would be largely offset by gains/losses on the related debt instruments. The CICA's stated intention is to have these standards in their final form in force beginning in 2006. The potential impact of these exposure drafts has not been reflected in the Corporate Plan Financial Statements due to uncertainty around the final form that these standards will take and the timing of their release.

Paris Club and "Evian Terms"

As an export credit agency and an agent of Her Majesty in right of Canada, the Corporation benefits from Canada's membership in the Paris Club. This is an international group whose role is to help sovereign entities deal with payment difficulties by arranging rescheduling agreements whereby, at times, debt relief and debt service reduction is provided by creditor governments. The impacts of these arrangements are detailed in the Corporation's Annual Report. Currently, the Paris Club is taking another step forward on the evolving strategy for dealing with the external debt problems of developing countries via the introduction of "Evian Terms". With these terms a greater weight will be placed on "debt sustainability", rather than the debtor country's per capita income, when determining how much debt relief a given country might receive. Heavily indebted middle-income countries may therefore become eligible for a write-off of a portion of their external sovereign debt. Argentina will probably be the first case but as the terms are not yet finalized the impact of this is unknown and therefore not included in this financial plan.

Foreign Exchange

As a majority of the Corporation's business transactions are conducted in US dollars, fluctuations in the US exchange rate may significantly impact EDC. The financial assumption for the US exchange rate is that US dollars are converted to Canadian dollars at an average rate of $1.41 for 2003, $1.35 for 2004 and $1.34 for subsequent years. The environment at the time of this Plan is a strengthening Canadian dollar, and if strengthening continues beyond our initial assumptions, it will have a continuing negative impact on income.

4.2 PROJECTED INCOME STATEMENTS – CALENDAR YEARS 2002 TO 2008

EDC forecasts net income in 2003 of $100 million, $22 million lower than 2002, and $90 million lower than the planned profit of $190 million. The 2003 Forecast is lower than 2002 primarily due to lower net interest income and lower than 2003 Corporate Plan due to lower net interest income and higher provisions for credit losses, partially offset by a decrease in net administrative expenses. The 2004 Corporate Plan net income is forecast at $102 million compared to the 2003 Forecast of $100 million as a result of a decrease in net interest income and an increase in net administrative expenses, offset by increases in insurance and guarantee income and lower provisions for credit losses.

TABLE 1— PROJECTED CONSOLIDATED INCOME STATEMENT — 2002–2008

	2002	2003	2003	2004	2005	2006	2007	2008
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj	Proj	Proj
Interest Income								
Loans	1,404	1,482	1,240	1,277	1,378	1,464	1,553	1,656
Debt relief	96	113	56	35	84	27	20	20
Investment Portfolio	69	81	73	52	71	75	75	75
	1,569	1,676	1,369	1,364	1,533	1,566	1,648	1,751
Less: Interest expense	580	665	409	412	486	501	523	560
Net interest income	**989**	**1,011**	**960**	**952**	**1,047**	**1,065**	**1,125**	**1,191**
Insurance Premiums and Guarantee Fees	147	158	152	164	155	166	177	189
Provision for Credit Losses	840	780	831	816	867	815	865	903
Income after provision for credit losses	**296**	**389**	**281**	**300**	**335**	**416**	**437**	**477**
Administrative expenses	174	199	181	198	210	224	238	253
Net income	**122**	**190**	**100**	**102**	**125**	**192**	**199**	**224**
Retained Earnings								
Beginning of year	1,067	1,091	1,094	1,194	1,296	1,421	1,613	1,812
Dividends paid	95	-	-	-	-	-	-	-
End of year	**1,094**	**1,281**	**1,194**	**1,296**	**1,421**	**1,613**	**1,812**	**2,036**

Note: The above presentation excludes the estimated impact of marking to market EDC's derivative financial instruments under Accounting Guideline 13 as discussed in Section 4.1. Preliminary estimates suggest that the resulting negative charge to the income statement for the 2004 Corporate Plan could be in the range of $272 million based on the assumptions discussed in Section 4.1. This amount is highly variable and is largely dependant on the magnitude of relative interest rate movements.

Net interest income decreases by $8 million in 2004 from 2003 Forecast due to a reduction in debt relief of $21 million, offset by an increase in net loan and investment revenue of $13 million. An increasing trend begins in 2005 as financing volumes commence to increase.

Insurance premiums and guarantee fees earned are expected to increase by 8% in 2004 due to the addition of domestic short-term insurance previously underwritten by St. Paul Guarantee (St. Paul Guarantee, a strategic partner of EDC, informed EDC that it wished to withdraw from the domestic accounts receivable business). Fees decrease in 2005 due to the movement of the domestic insurance business to a new partner. They then grow at an average rate of 7% for the years 2006-2008.

4.3 CAPITAL EXPENDITURES – CALENDAR YEARS 2002 TO 2006

The following table summarizes the capital expenditures of EDC through 2006. The largest capital expenditures in 2004 are in technology investments. EDC is committed to an extensive program of investment in information technology and systems, including enterprise risk management, e-Business opportunities and systems infrastructure, in order to keep pace with its growing base of business and the more complex needs of customers while improving efficiency and productivity. The 2003 Forecast and 2004 Capital Plan include expenditures that form part of contractual and business commitments for a material technology project commenced in 2001. The 2005 and 2006 Capital Plan projections depicted below reflect the completion of the material technology project and a return to more moderate investment levels.

The forecast information technology expenditures in 2003 are lower than the Capital Plan for the year due primarily to delays in acquiring and implementing certain software applications. The 2003 Forecast expenditures for facilities, including leasehold improvements, furniture and fixtures are lower than 2003 Capital Plan due to a delay in spending until 2004 for regional offices.

TABLE 2 — CAPITAL EXPENDITURES PLAN — 2002–2006

	2002	2003	2003	2004	2005	2006
($ in millions)	**Actual**	**Plan**	**Forecast**	**Plan**	**Proj**	**Proj**
Facilities	0.2	1.9	0.9	1.5	1.0	1.0
Information Technology	20.7	28.2	18.8	13.7	17.0	17.0
Total Capital Expenditures	**20.9**	**30.1**	**19.7**	**15.2**	**18.0**	**18.0**

4.4 PROJECTED BALANCE SHEETS – CALENDAR YEARS 2002 TO 2008

Table 3 summarizes EDC's Projected Balance Sheets through to the year 2008.

TABLE 3— PROJECTED CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31 — 2002–2008

	2002	2003	2003	2004	2005	2006	2007	2008
($ in millions)	**Actual**	**Plan**	**Forecast**	**Plan**	**Proj**	**Proj**	**Proj**	**Proj**
Assets								
Loans receivable	24,623	25,845	22,340	23,431	25,055	27,874	30,846	33,961
Allowance for losses	3,613	3,500	3,457	3,891	4,300	4,909	5,551	6,227
	21,010	22,345	18,883	19,540	20,755	22,965	25,295	27,734
Cash & marketable securities	2,824	2,584	2,027	2,350	2,686	2,686	2,686	2,686
Investments	75	76	52	52	52	52	52	52
Accrued interest and other	474	540	426	536	597	646	691	744
Derivative related amounts	171	181	150	158	169	185	202	219
Total Assets	**24,554**	**25,726**	**21,538**	**22,636**	**24,259**	**26,534**	**28,926**	**31,435**
Liabilities and Shareholder's Equity								
Medium- & long-term loans payable	16,919	18,653	15,014	15,537	16,997	19,128	21,018	23,349
Short-term loans payable	3,909	3,063	2,761	3,184	3,154	3,007	3,210	3,059
	20,828	21,716	17,775	18,721	20,151	22,135	24,228	26,408
Accrued interest and other	428	516	247	291	306	328	335	353
Allowance for loan commitments and guarantees	377	555	570	547	566	598	642	681
Allowance for claims on insurance	460	470	432	443	452	461	472	482
Derivative related amounts	384	205	337	355	380	416	454	492
	22,477	23,462	19,361	20,357	21,855	23,938	26,131	28,416
Share capital	983	983	983	983	983	983	983	983
Retained earnings	1,094	1,281	1,194	1,296	1,421	1,613	1,812	2,036
	2,077	2,264	2,177	2,279	2,404	2,596	2,795	3,019
Total Liabilities and Shareholder's Equity	**24,554**	**25,726**	**21,538**	**22,636**	**24,259**	**26,534**	**28,926**	**31,435**
Position Against Statutory Limits								
Section 14								
Loans payable borrowing limit	30,750	31,110	31,155	32,655	34,185	36,060	38,940	41,925
Loans payable position against the limit	20,828	21,716	17,775	18,721	20,151	22,135	24,228	26,408
Sections 10(3), 10(4) Contingent liability (ceiling)	20,000	17,500	20,000	20,000	20,000	20,000	20,000	20,000
Position against limit	15,263	18,302	12,765	14,229	14,564	16,124	17,536	19,147

Note: The above presentation excludes the estimated impact on loans payable and retained earnings of marking to market EDC's derivative financial instruments under Accounting Guideline 13 as discussed in Section 4.1. This amount is highly variable and is largely dependant on the magnitude of relative interest rate movements.

Loans receivable for 2003 are forecast to be lower than planned mainly due to the lower than planned financing volumes as well as the strengthening Canadian dollar. Loans receivable are expected to continue to grow year over year during the planning period consistent with the signing of new commitments.

During the planning period, EDC may decide to effect transactions involving its acquisition of interests in other entities (EDC equity transactions) directly or through Exinvest Inc., its subsidiary, or through newly created subsidiaries. In the event that EDC decided to effect an EDC equity transaction through Exinvest Inc., or a newly created subsidiary, (i) EDC's investment in Exinvest Inc., as indicated herein, may be increased by amounts corresponding to the amounts involved under the EDC equity transaction so effected, and (ii) the operations of Exinvest Inc., as indicated herein, may be expanded to the extent necessary to effect such equity transaction, and this Corporate Plan and Operating Budget, in respect of both EDC and subsidiaries, shall be deemed to be amended accordingly.

4.4.1 DIVIDEND POLICY

Pursuant to the Corporation's dividend policy, a dividend is payable, subject to authorization by the Board of Directors, based on return on equity and maintaining a sufficient capital adequacy to ensure future growth. The dividend rate is calculated on a return on equity exceeding the return on Government of Canada long-term bonds. This amount would become eligible for payment should the risk-adjusted capital evaluation show a surplus in any year, exceeding a margin sufficient to compensate for variations in the risk composition of the portfolio. This margin protecting the capital base is based on the Government of Canada long-bond rate applied to shareholder's equity.

The dividends paid in 2002 were instructed dividends to the Shareholder and were not eligible dividends per the Corporation's Dividend Policy.

4.5 PROJECTED CASH FLOW STATEMENT – CALENDAR YEARS 2002 TO 2008

Table 4 summarizes EDC's Projected Cash Flow Statement for the calendar year 2002 through to the year 2008.

TABLE 4— PROJECTED CONSOLIDATED CASH FLOW STATEMENT — 2002–2008

	2002	2003	2003	2004	2005	2006	2007	2008
($ in millions)	**Actual**	**Plan**	**Forecast**	**Plan**	**Proj**	**Proj**	**Proj**	**Proj**
Operating Activities								
Net income	122	190	100	102	125	192	199	224
Items not affecting cash	363	630	1,074	528	607	614	647	685
Cash Provided (Used)	485	820	1,174	630	732	806	846	909
Investing Activities								
Loan disbursements	(6,028)	(7,588)	(5,124)	(6,435)	(6,858)	(7,690)	(7,841)	(8,375)
Loan repayments	5,157	5,081	3,989	5,072	5,019	4,871	4,872	5,255
(Increase) Decrease in investments	97	-	23	-	-	-	-	-
Cash Provided (Used)	(774)	(2,507)	(1,112)	(1,363)	(1,839)	(2,819)	(2,969)	(3,120)
Financing Activities								
Issue of long-term loans payable	6,134	6,735	5,508	4,974	4,044	5,845	5,699	5,826
Repayment of long-term loans payable	(5,277)	(4,481)	(5,219)	(4,341)	(2,571)	(3,685)	(3,779)	(3,464)
Increase (decrease) of short-term loans payable	177	(538)	(1,148)	423	(30)	(147)	203	(151)
Dividends	(95)	-	-	-	-	-	-	-
Cash Provided (Used)	939	1,716	(859)	1,056	1,443	2,013	2,123	2,211
Increase (Decrease) in Cash and Marketable Securities	650	29	(797)	323	336	-	-	-
Cash and Marketable Securities								
Beginning of Year	2,174	2,555	2,824	2,027	2,350	2,686	2,686	2,686
End of Year	2,824	2,584	2,027	2,350	2,686	2,686	2,686	2,686
Increase (Decrease) in Cash and Marketable Securities	650	29	(797)	323	336	-	-	-

Note: An accounting standard on the presentation of the Cash Flow Statement was issued by the CICA effective for 1999. The above presentation conforms to this standard, with the exception that Cash, Cash Equivalents and Marketable Securities have been grouped together for planning purposes as "Cash and Marketable Securities".

4.6 OPERATIONS 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.

The following tables set out the 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 at this time.

A Shareholder distribution was effected in March 2002, amounting to $95 million. This amount represented a dividend of $20 million and a reduction of the stated capital of $75 million.

TABLE 5 — EXINVEST INC. PROJECTED INCOME STATEMENT — 2002–2008

	2002	2003	2003	2004	2005	2006	2007	2008
($ in millions)	**Actual**	**Plan**	**Forecast**	**Plan**	**Proj**	**Proj**	**Proj**	**Proj**
Revenue								
Interest income	1	1	1	1	1	1	1	1
Expenses								
Admin. & amortization of financing costs	1	1	1	2	1	2	1	2
Net Income (loss)	-	-	-	(1)	-	(1)	-	(1)
Retained earnings at beginning of year	20	-	-	-	-	-	-	-
Less dividends paid	20	-	-	-	-	-	-	-
Retained earnings at end of year	-	-	-	(1)	(1)	(2)	(2)	(3)

TABLE 6 — EXINVEST INC. PROJECTED BALANCE SHEET AS AT DECEMBER 31 — 2002–2008

	2002	2003	2003	2004	2005	2006	2007	2008
($ in millions)	**Actual**	**Plan**	**Forecast**	**Plan**	**Proj**	**Proj**	**Proj**	**Proj**
Assets								
Investments	24	24	24	24	24	24	24	24
Deferred financing costs	7	9	7	6	6	5	5	5
Cash and short-term investments	15	13	15	15	15	15	15	14
Total Assets	46	46	46	45	45	44	44	43
Liabilities and Shareholder's Equity								
Capital	46	46	46	46	46	46	46	46
Retained earnings	-	-	-	(1)	(1)	(2)	(2)	(3)
Total Liabilities and Shareholder's Equity	46	46	46	45	45	44	44	43

4.7 ASSET/LIABILITY AND BORROWING STRATEGIES

In accordance with the Act and the 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.

4.7.1 MARKET RISK MANAGEMENT POLICIES

EDC manages its exposures to interest rate, foreign exchange and credit risks utilizing limits consistent with industry "best in class" practices developed in consultation with the Department of Finance and approved by the Corporation's Board of Directors. EDC's Asset/Liability Committee meets monthly to review and discuss interest rate, foreign exchange, credit risks and borrowing strategies. These activities and risk exposures are reported quarterly (or more frequently as required) to EDC's Audit Committee of the Board of Directors and Risk Management Committee of the Board of Directors.

4.7.2 ASSET/LIABILITY MANAGEMENT STRATEGY

EDC conducts its borrowing and lending activity within an overall Asset/Liability strategy. EDC continually monitors its exposure to movements in interest rates and manages those exposures consistent with the Asset/Liability strategy. The strategy and any changes thereto are reported regularly to EDC's Assert/Liability Committee and the Risk Management Committee of the Board of Directors.

4.7.3 BORROWING STRATEGIES

The Act permits the Corporation to borrow up to a maximum of fifteen times the aggregate of its paid-in capital from time to time and its retained earnings, if any, determined in accordance with its most recent audited financial statements. Based on figures appearing in the audited financial statements for the year ended December 31, 2002, this formula produced a limit of $31.2 billion against which borrowings are estimated to be $17.8 billion at December 31, 2003. The maximum limit for borrowings in 2004 is estimated to be $32.7 billion, $14.0 billion above the planned borrowings of $18.7 billion.

EDC operates borrowing programs in various countries for fixed and floating rate funding in a wide range of currencies. EDC may issue unhedged third-currency debt to allow the Corporation to take advantage of favorable market conditions, within predefined risk limits.

The Corporation continuously issues short-term paper (maturing in less than one year) by means of Canadian, US and European commercial paper programs. The amounts and uses of short-term borrowings are a function of both the Corporation's financial requirements and the availability of funding in capital markets.

The proceeds from short-term borrowings will be used in varying amounts for corporate cash requirements, funding fixed-rate assets on an interim basis, funding floating rate assets and for investing in the most effective manner possible in accordance with the Corporation's Market Risk Management Policies and Guidelines. The level and uses of short-term borrowings are determined on an on-going basis, as required, to support the business activities of the Corporation.

Based on expected loan signings, the aggregate new borrowings for 2004 and 2005 are estimated to be $5.4 billion and $4.0 billion respectively.

Borrowings may increase by approximately US $750 million (Cdn $1.0 billion) as a result of increased disbursement volume or pre-funding of the next year's requirements.

TABLE 7 — PROJECTED BORROWING PLANS — 2002 TO 2008

	2002	2003[1]	2004	2005	2006	2007	2008
($ in millions)	**Actual**	**Forecast**	**Plan**	**Proj**	**Proj**	**Proj**	**Proj**
Established Borrowing Authority	8,293	7,193	7,071	7,051	7,051	7,051	7,051
Aggregate New Borrowings[2]	6,311	4,360	5,397[3]	4,014	5,698	5,902	5,675
Borrowings Payable, year-end							
Medium-term	16,919	15,014	15,537	16,997	19,128	21,018	23,349
Short-term[4]	3,909	2,761	3,184	3,154	3,007	3,210	3,059
Total Borrowings Payable	20,828	17,775	18,721	20,151	22,135	24,228	26,408
Principal Repayments							
Medium- and long-term	5,277	5,219	4,341	2,571	3,685	3,779	3,464

1. *Average foreign exchange rate for 2003 is assumed to be US $1 = Cdn $1.41, for 2004-US $1=Cdn $1.35 and for 2005-2008, US $1 = Cdn $1.34*

2. *Medium- and long-term borrowings including the net increase (or decrease) in short-term borrowings.*

3. *If EDC begins to finance major new transactions during 2004 or if favorable market conditions warrant the pre-funding of 2005 requirements or a portion thereof, EDC's aggregate new borrowings may increase in 2004 by a further US $750 million.*

4. *EDC will have a minimum of US $1 billion and a maximum of US $2 billion for the confirmed standby facility, which will allow the Corporation to borrow funds at predetermined rates of interest if necessary for operating purposes.*