2003-2007 Corporate Plan Summary

March 2003

Broad tool kit

developing markets

Customer service

partnerships

Create capacity

➔ *Operating Budget*
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EDC
Export Development Canada
Exportation et développement Canada

Canada

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2003-2007 CORPORATE PLAN SUMMARY
March 2003

This document is a summary of the 2003-2007 Corporate Plan, which was prepared in the Fall of 2002. As such the content dates back to that period.

Executive Summary

The following summarizes the key elements of EDC's Corporate Plan. The Corporate Strategy section describes EDC's program, principally for the year 2003. EDC's Board of Directors has recently begun, and agreed to continue, a comprehensive strategic review of EDC and its activities to ensure that optimal support from both the private and public sectors is available to Canadian companies pursuing international business for years to come.

CORPORATE MANDATE

Export Development Canada (EDC) was established in 1969 by the Export Development Act, and is accountable to Parliament through the Minister for International Trade. 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.

LEGISLATIVE REVIEW

A comprehensive mandate 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. EDC adopted a number of changes further to suggestions made during the review , in particular in the area of corporate social responsibility.

THE GLOBAL CONTEXT AND ECONOMIC OUTLOOK

Global economic activity continues to become more integrated. Industry rationalization and consolidation will remain major forces behind global economic activity. The global economy was surprisingly resilient to the events of last September 11, 2001. The slowdown mainly affected the global manufacturing sector, which cut inventories extremely aggressively. Inventory rebuilding caused a burst of economic growth for 3-6 months, but the economy then moderated to a slower, more sustainable pace. Higher interest rates through 2003 will not halt the recovery but instead should be viewed as confirmation that the economy is healing. Global GDP is expected to grow by 3.5% in 2003, up from 2.6% in 2002.

TRENDS IN INTERNATIONAL FINANCIAL INTERMEDIATION

At a time of greater risk, the availability of financial intermediation in the form of international trade risk management services becomes all the more important. In recent years, a number of developments in the area of financial intermediation have occurred resulting in fewer players supplying international risk management services.

THE CONTINUING ROLE OF ECAS

ECAs continue to play an essential role in providing financial support for export transactions. As ECAs respond to the changes brought about by globalization, many are redefining their roles in order to remain effective players while operating in what has essentially become a commercial marketplace.

THE CANADIAN GOVERNMENT TRADE AND INVESTMENT PRIORITIES

Canada is highly dependent on trade for its prosperity, with exports amounting to 43% of GDP. The government has developed a trade and investment agenda that strives to:

- Make Canada the world's best trading nation
- Create jobs and economic growth through innovation and the growth of exports
- Continue to show leadership in global trade liberalization efforts
- Make Canada the location of choice for investment in North America

THE EXPORT ENVIRONMENT FOR CANADIAN COMPANIES

Both Canadian and global trade are projected to follow slower growth tracks over the next five years. Trade friction following September 11, 2001, investor uncertainty and the recent emergence of protectionism are behind the more subdued trade outlook. An annual growth rate of 7% is projected for Canadian exports for the 2003-2007 period. Canadian exports to Mexico, China and the US are projected to show the strongest growth over the next five years.

THE EVOLVING NEED OF CANADIAN COMPANIES

Exporters' needs tend to vary by their size and industry sector. Small exporters value easily accessible, affordable and prompt service. Medium-sized exporters require more customization. Large Canadian exporters and Trans-National Corporations need flexible and tailored solutions.

CANADA'S TRADE FINANCE PICTURE

As the world economies recover, Canadian companies are expected to benefit from increased trade and will more than ever need trade finance and risk management services. Unfortunately, the economic turmoil of the past two years has caused many financial institutions to retrench from lines of business or activities and has also caused insurers to either cut back on available capacity or increase premiums significantly or to do both. The obvious effect is a reduction in risk capacity and a higher price tag for those companies that have been able to secure the services they need. Canadian companies need dedicated partners to support their international business and that is where EDC comes in.

CORPORATE STRATEGY

EDC has been helping Canadian companies compete internationally for more than fifty years. As a key instrument of government policy, EDC carefully balances public and private sector sensibilities and fully supports the government's trade and investment agenda by:

- Creating Prosperity for Canada
- Operating In a Socially Responsible Manner
- Building for the Future
- Serving Canadian Companies of all Sizes

BUSINESS STRATEGY

EDC will deploy a number of strategies in support of its corporate objective to:

CREATE AND DELIVER CAPACITY, CAPABILITY AND OPPORTUNITIES IN SUPPORT OF CANADIAN COMPANIES PURSUING INTERNATIONAL BUSINESS

Enhance our customer service proposition

EDC conducts customer research on a regular basis to ensure that its products and services meet customer needs. There are a number of areas for improvement that have been noted from the customer survey and other customer feedback. EDC is currently reviewing how it serves all customer segments to ensure that it brings all the right tools, expertise and financial capacity to the table to meet their evolving needs.

Efficiently grow our customer base to 10,000 by 2004

Back in 1999, EDC set a goal to serve 10,000 customers by the year 2004 in support of the government's priority to increase the number of exporters and to ensure that SMEs, in particular, have the tools they need to grow their exports. Growing the customer base to 10,000 will certainly be challenging and will require innovative approaches and products. The focus will be on increasing awareness of EDC, leveraging private and public sector partnerships, reviewing and enhancing our customer service proposition and our product offering.

Enhance our tool kit

Serving companies of all sizes and from all sectors in more than 200 world markets requires a broad range of financial services. New tools are added to the tool kit while others are updated to respond to developments in the markets.

Pro-actively pursue business in developing markets

A central component of EDC's public policy mandate is our commitment to expand Canada's trade and investments in developing markets. EDC will continue to take a leadership role in developing and facilitating good business opportunities in emerging markets. Key priorities will include; developing a clear positioning for EDC towards developing markets; increasing EDC representation abroad; expanding partnership with DFAIT and other government departments and, supporting the government's priority on Africa.

Create capacity via partnerships

EDC's reach and financial capacity is limited; therefore it must combine its expertise and risk capacity with that of other financial providers to ensure that Canadian companies have the support they need to succeed internationally.

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. The recruitment and retention of qualified employees continues as a strategic imperative.

EDC's people strategy is anchored in our commitment to create and sustain a desirable work climate and it is focused on three key components: enhancing EDC's reputation (internally and externally) as a compelling career choice for high potential candidates; providing employees with development opportunities and developing outstanding leaders. EDC's technology program is an enabler to manage growth and productivity. In 2003, the focus will remain on customer applications and ensuring that our technology infrastructure continues to respond to the changing needs of the users.

PERFORMANCE MEASURES

EDC's corporate performance measurement program is comprehensive in that it starts at the corporate level and cascades down to the individual level. The core corporate measures that support the achievement of the strategies are found in the table below, as well as the forecast for 2002 and targets for 2003.

	2001	2002	2002	2003
	Actual	Plan	Forecast	Plan
Enhance our customer service proposition				
Customer Satisfaction (out of 100)	81.5	80.0	80.0	80.0
Grow our customer base to 10,000 by 2004				
# of customers served	6,355	6,800	7,200	8,000
# of SMEs served	5,720	6,050	6,480	7,200
Expand our tool kit / business in developing markets				
Business Volume ($B)	44.35	40.0	50.2	54.5
Volume in developing markets ($B)	10.99	9.50	11.25	11.75
Manage in a financially prudent manner				
Net Income ($M)	58	(159)	119	190
ROE (%)	2.8	(9.2)	5.7	8.4
Internal Efficiency Ratio (%)	15.7	20.0	15.5	17.0
Operating Income to Capital and Allowances (FSR) (%)	14.0	12.3	13.8	13.0
Resourcing to deliver results				
Voluntary Turnover Rate	<10%	<10%	<10%	<10%
Number of training days per employee	5	5	5	5
Rank above high quality organizations[1]				50%+

[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 (employee opinion survey) is conducted on a biennial basis. The next one will be administered in 2003.

FINANCIAL PLAN

The assumptions used to develop the Financial Plan suggest that EDC will have sufficient capital to service both existing and new business. Cash flow is forecast to remain strong in 2002 and 2003 while net income is currently forecast to be $119 million in 2002 and $190 million in 2003.

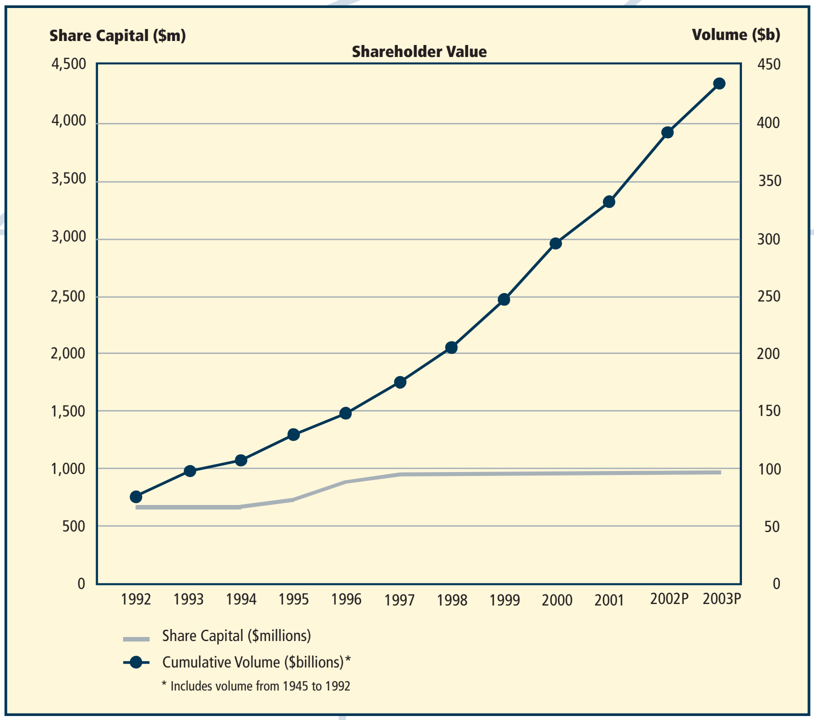
1. Introduction

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. In establishing EDC, the government sought to create an institution to contribute to the competitiveness of Canadian exporters of all sizes. EDC conducts its activities on commercial principles carefully balanced with its enduring public policy values to create prosperity for Canada.

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.



The dotted line that follows the scale on the right-hand side 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 1992, EDC had cumulatively supported $82 billion of volume, which is projected to increase to $443 billion by 2003, while using virtually the same share capital base.

EDC aims to provide the highest quality service to Canada's export and trade community for the benefit of Canada through:

- being responsive to the trade policies and priorities of its shareholder (as detailed in Chapter 2), and
- ensuring that Canadian companies have the financial services they need to be competitive internationally in their export and foreign investment activities thus creating enduring prosperity for Canada. In so doing, EDC will often partner with the private sector so that maximum financial support is available to Canadian companies.

EDC's vision is that "EDC will be the recognized leader in providing ground-breaking commercial financial solutions to companies of all sizes, helping them to succeed in the global marketplace and create enduring prosperity for Canada." 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 vision.

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 is being sought as projections indicate that contingent liabilities will exceed the current ceiling in 2003.

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 Minister for International Trade, with the concurrence of the Minister of Finance, may authorize the Corporation to undertake certain financial and contingent liability transactions which the Minister for International Trade 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 be paralleled under the Canada Account, except for equity investments and the incorporation of subsidiaries.

All monies required by the Corporation to discharge its obligations 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 Minister for International Trade, 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 and a legal requirement to review the environmental effects of projects are 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, which lasted almost four years.

An amendment to the Act changed the Crown Corporation's name to Export Development Canada in English and Exportation et développement Canada in French, establishing the acronym "EDC" in both official languages. This creates a stronger presence and easier name recognition, especially in foreign markets, to better support Canadian exporters. Export Development Canada instantly identifies the organization as a Canadian entity, as recommended by Canadian exporters.

On environmental review issues, the legislation amended the *Export Development Act* by requiring EDC, before entering into a project-related transaction, to determine whether the project is likely to have adverse environmental effects and if so, whether EDC is justified in entering into the transaction; and exempting EDC from the application of the *Canadian Environmental Assessment Act*.

The mandate review encompassed extensive research, public consultation and debate, witness testimony and numerous submissions from a wide range of groups. Throughout the review period, EDC adopted a number of changes further to suggestions made during the review. These include establishing an Advisory Council, appointing a corporate social responsibility advisor to engage NGOs on EDC policies; appointing a Compliance Officer; assembling the largest and most skilled environmental team of any export credit agency, led by a new chief environmental advisor and strengthening linkages with the government to receive guidance on human rights and Canada's other international obligations. Further details on these initiatives are provided in Chapter 3.

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 five general categories.

Accounts Receivable Insurance protects policyholders against non-payment by their buyers or banks, whether due to insolvency, default, repudiation of goods or termination of contracts, or to risks outside of the buyers' control such as difficulty in converting or transferring currency, cancellation of export or import permits, and war-related risks. EDC has the largest export accounts receivable insurance portfolio in Canada. Coverage is available for companies of all sizes and some products have been simplified to meet the needs of SMEs. Documentary Credits Insurance is available to banks that provide support to Canadian exporters whose customers pay with irrevocable letters of credit. EDC also offers domestic credit insurance to eligible exporting customers through an alliance with St Paul Guarantee (formerly London Guarantee).

Two new online products have recently been introduced: **EXPORT***Check,* is an insurability opinion through EDC and/or Dun & Bradstreet business information report; and **EXPORT***Protect,* provides single transaction insurance coverage. Through EDC Direct (EDC's customer only section of our web site) the Receivables Insurance Center (RIC) allows customers access to a variety of online services.

Financing Services enable 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. Lines of credit and protocols are pre-arranged financing facilities set up between EDC and foreign banks or agencies. They represent a fast and inexpensive means by which smaller exporters can promote sales. Note purchase facilities enable EDC to purchase promissory notes issued by foreign buyers to Canadian exporters for the purchase of Canadian goods and services, thereby freeing up cash for the exporter. These are ideal for small- to medium-sized transactions. Direct buyer loans can be arranged for any export transaction, but usually apply to transactions having repayment terms that exceed two years. Long-term pre-shipment financing, leasing support and project financing are also available.

EDC's **Bonding Services** come into play in many international transactions, particularly for capital equipment and projects, where customers may require exporters to post bonds guaranteeing their bid, performance, or any advances received from them. Performance Security Insurance protects exporters from wrongful calls made on their bonds and is also available online under the Wrongful Call Program. Performance Security Guarantees, on the other hand, provide banks with coverage against any calls pursuant to the guarantees issued on an exporter's behalf. In transactions where the exporter is required to post surety bonds instead of bank letters of guarantee, EDC may issue the bond directly to the buyer. Alternatively, EDC also offers reinsurance capacity to licensed sureties to facilitate the issuance of such bonds for companies that do not meet normal surety underwriting guidelines. This situation arises from the perception that certain industry sectors; offshore project location and country risks are considered unacceptably high risks or where the exporter's financial profile does not meet normal surety underwriting guidelines.

Political Risk Insurance is available to support Canadian companies with investments in foreign countries and to support lenders who finance transactions pursued by Canadian companies abroad. EDC's cover protects against political risks: transfer difficulties, whereby an investor is unable to convert local earnings into hard currency or repatriate hard currency; expropriation, whereby an investor is unable to use its assets or conduct business due to the direct or indirect actions of the host government; war, revolution and insurrection, whereby the project's assets are destroyed or business operations are discontinued due to politically motivated conflict.

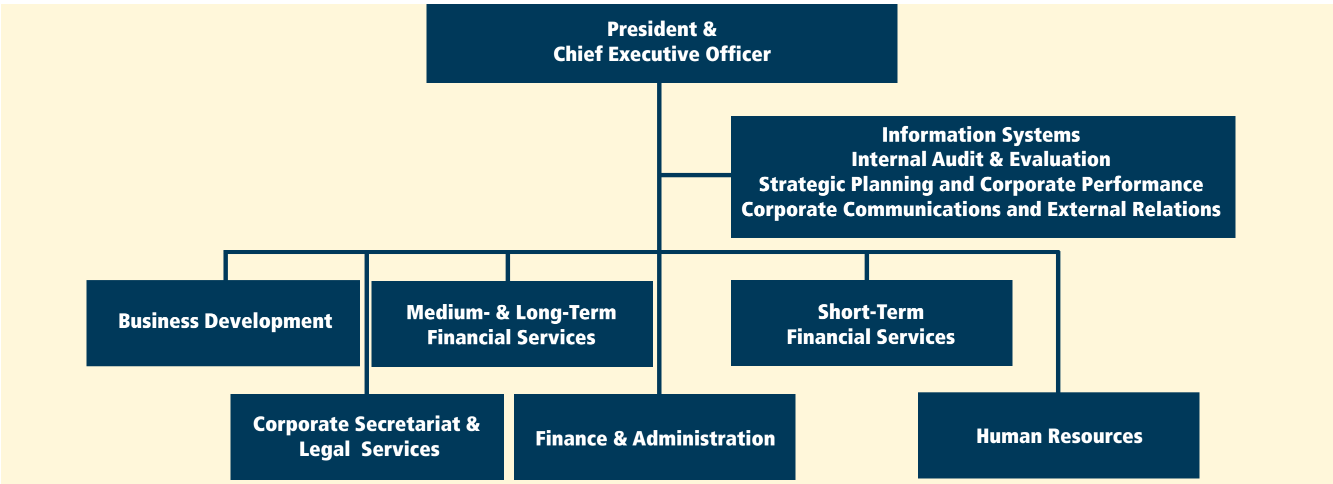
EDC may also provide **Equity** and other forms of related investments in projects or international companies through participation in market- or sector-focused investment funds. This allows EDC to offer broader support to Canadian firms, attract additional sources of financing, foster cooperation among Canadian firms and their partners, and assist Canadians to compete globally.

In addition to the financial services described above, EDC also provides a number of tools to Canadian companies. **EXPORT** *Able?* is a new online tool to help 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.

1.4 MANAGERIAL AND ORGANIZATIONAL STRUCTURE

EDC's head office is located in the nation's capital, as prescribed by statute. 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 its products and services through Business Teams that have been aligned with specific industry sectors or customer segments such as the Emerging Exporters Team. Depending on the primary focus of the teams, they report to the executive responsible for Short-Term Financial Services or Medium- and Long-Term Financial Services. These teams are assisted in their efforts by Centres of Expertise, including country and product specialists whose knowledge areas have been greatly valued by our customers over the years.



1.4.1 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 Chairman of the Board and EDC's President are appointed by the Governor in Council. The Board 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.

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

Global economic activity, increasingly characterized by rising levels of cross-border investment and trade, continues to become more integrated. More than ever, the international flow of goods, services and capital provides the basic building blocks for economic growth and improved living standards. The primary factors bringing national economies closer together are liberalization and technological change, which lowers communication and transaction costs.

Liberalization of trade and investment is expected to continue, although recent protectionist measures may temper this trend over the next couple of years. Industry rationalization and consolidation will nevertheless continue to be a major force behind global economic activity, implying foreign direct investment (FDI) will play an increasingly larger role in international business decisions. Trade liberalization is promoting increasing specialization of production through more 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. Building a global supply chain where all the parts fit naturally together is causing companies to invest in foreign economies in record amounts. During the 1990s, global FDI grew at a rate nearly three times that of world Gross Domestic Product (GDP). In turn, international trade grew at nearly twice the rate of world GDP. The result is more income for all countries that participate in the globalization process. This represents a significant change from the past, when FDI was typically done in order to circumvent international trade barriers.

Economic integration can benefit nations through increased trade and cross-border investment, but globalization also means financial and political shocks tend to spread swiftly through the international economy. Events in recent years certainly bear this out. The Asian financial crisis in 1997 and the subsequent impact on emerging markets elsewhere quickly come to mind. However, the conveyance of negative shocks through the global economy can be minimized with judicious and transparent practices. The situation in Argentina provides a good example. Emerging market governments have taken significant steps to improve their financial and economic infrastructure since the 1997 crisis in Asia and as a result have largely avoided any spillover from Argentina's current economic problems.

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 environmental and sustainable development requirements. The benefits from participating in this integrated, yet more competitive and demanding global economy has not been lost on Canadians – on average, 30 cents of every dollar earned by Canadians and one out of every five jobs comes from the exporting of goods and services.

2.1.1 GLOBAL ECONOMIC OUTLOOK

The global economy has proved to be surprisingly resilient to the events of last September 11, 2001. The risk of a protracted recession in 2002 was high, given that the economy was already dealing with the collapse of the technology boom when the terrorist attacks occurred. However, the slowdown mainly affected the global manufacturing sector, which cut inventories extremely aggressively during the second half of 2001. Moreover, consumer spending held up very well, supported by very sharp interest rate cuts.

In the early months of 2002, analysts were surprised by the vigor of the economic signals and began to extrapolate a powerful economic upturn. However, the economic snap back was short-lived. Inventory rebuilding caused a burst of economic growth for 3-6 months, but the economy then moderated to a slower, more sustainable pace. The global manufacturing sector will take much of 2003 to work off its excess capacity. This will mean continued downward pressure on inflation and the likely emergence of deflationary pockets. Competition for global sales will be fierce, and corporate pricing power will be very limited.

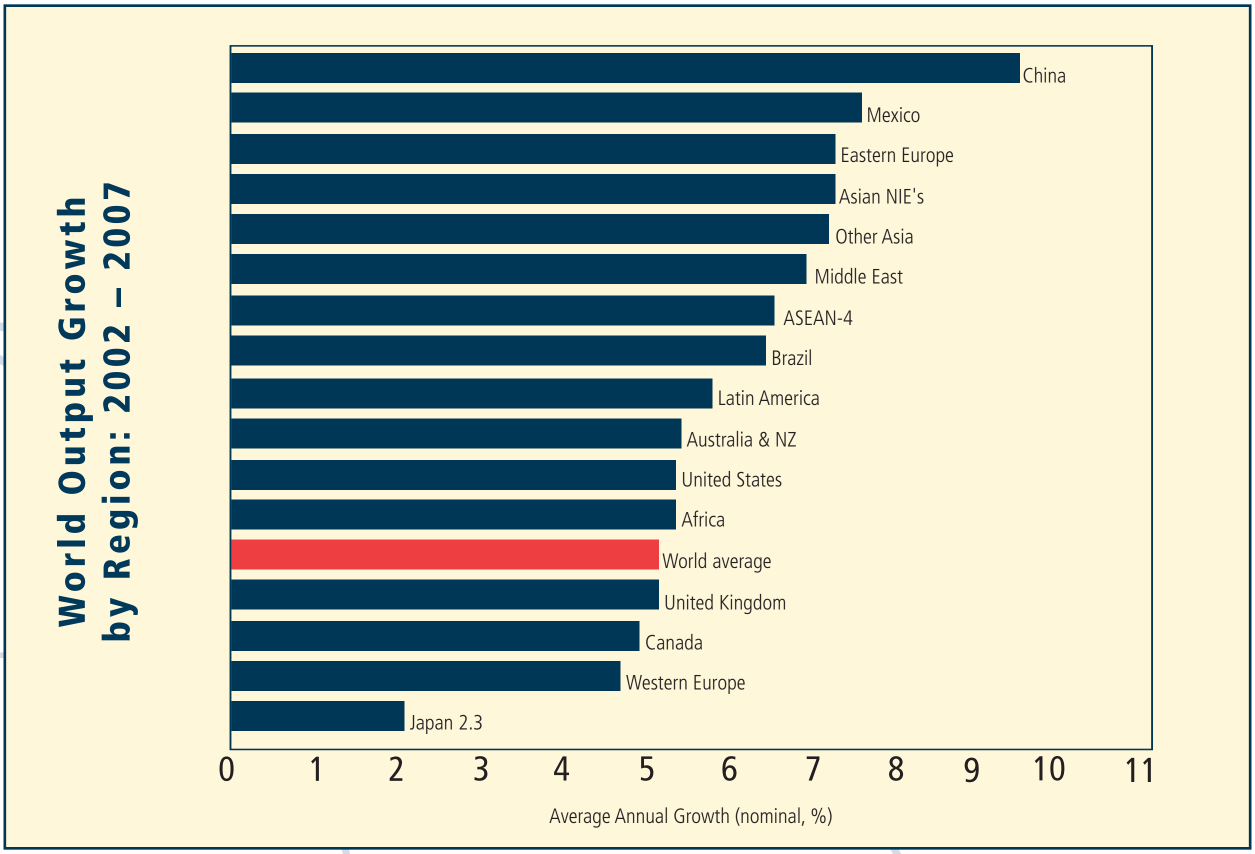
These conditions will spawn a new global wave of corporate restructuring. Companies facing flat or lower prices for their products will invest in new technology to reduce labor costs. As a result, it will take much longer than usual for the recovery to trickle down into the labor market. And there will be periodic concerns about the durability of the recovery, particularly as interest rates rise through 2003. Rising interest rates will not represent a tightening of monetary policy, simply a return to neutral after a period of aggressive cuts. Consequently, higher interest rates will not halt the recovery but instead should be viewed as confirmation that the economy is healing.

The world's major currencies have also been buffeted by the financial storms of the last 3 or 4 years. A return to healthy, balanced economic growth over the next 12-18 months should permit many currencies to move toward a more normal relationship with the US dollar.

The world economy will not achieve cruising altitude until mid to late 2003, and there are a number of headwinds that could disrupt that ascent. The events of September 11, 2001 have thrown some sand in the wheels of the global trading system, the world's growth engine. The insurance, financing and border costs associated with international trade and investment have all increased and trade protectionism has once again reared its ugly head. In addition, volatile equity markets, political instability in the Middle East, higher oil prices and slower growth in the United States and Western Europe have certainly caused many to question whether the current nascent recovery is strong enough to absorb these hits. These developments could delay or even abort the world economic recovery, and those countries most dependent on trade – of which Canada is a leading example – would pay the highest price.

Meanwhile, the world remains vulnerable to more financial crises in Asia and Latin America. With banking systems still laboring under the legacy of the 1997-1999 crises in those regions, the potential for another financial flare-up is real. Moreover, Japan remains a major question mark. The good news is that these particular risks should abate as the economy strengthens.

Global GDP growth is forecast to accelerate to around 2.6% in 2002 and move back towards its long-term trend of 3.5% in 2003. Non-Japan Asia will lead global economic growth over the next couple of years while the US economy is expected to perform below potential through the end of 2003. Factors such as trade dependence, tech sector reliance, consumer reticence and economic and corporate restructuring will affect how quickly other regions of the world join the recovery.



In recent years, the driving force behind global economic growth has been a robust US economy. Economic and financial crises in Asia, Russia and South America dampened overseas economic activity in the late 1990s but a strong US economy, fueled by consumer and business spending, picked up the slack. The Eurozone remained on the sidelines during this period, largely preoccupied with implementing its new currency. However, 2001 saw the US go into recession in the wake of the deflating tech bubble, which forced companies to reduce capital spending and trim output in order to bring down bloated inventories.

Thankfully, the resiliency of the US consumer limited the downturn in 2001. Spending by US consumers continues to grow at a decent pace but this will not be a significant incremental contributor to growth over the next couple of years. Given that consumers did not retrench during the recession in 2001, the pent-up demand that would normally result in a strong recovery is not in place. As such, the recovery will not be as strong as those experienced in previous business cycles. US business investment appears to be stabilizing but given high levels of excess capacity and lackluster profit growth, capital expenditures will be slow to recover. The end result is the US economy will probably not reach its full potential until the end of 2003.

Economic activity in Western Europe is likely to remain below potential through most of 2003, lagging behind the US on the road towards stronger growth. Countries like Germany, Italy and the United Kingdom, which are closely connected by trade with the US, were immediately impacted by the US slowdown. By corollary, the echo effects of the US retrenchment in 2001 are still being shaken off. The United Kingdom is expected to remain the growth leader in Western Europe over the coming year. In Germany, weak employment prospects and stalling confidence mean the US echo has had a slightly louder resonance and it will be mid-2003 before the last vestiges of weak performance are shaken away.

Fortunately, Asia appears set to take up the economic-growth baton from the United States. Most Asian economies are putting in an impressive growth performance this year, with the notable exceptions of Japan and Hong Kong. Assuming those two economies can continue to muddle through, Asia's growth could play an important supporting role in keeping the world economy on a positive track into 2003. Also encouraging is the fact that much of Asia's economic growth is being generated internally, through stronger domestic consumption and greater trade and investment links 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 an important contributor to the global economy. Excluding Japan, the Asia-Pacific region now accounts for one-quarter of the world economy – on par with North America and Western Europe.

Japan has started to make some headway on the structural and policy reforms needed to break out of its recessionary cycle but given the magnitude of current problems, the country is likely to undergo several more years of lackluster growth. Given this strife, the positive push that a growing global economy will provide to this major trading partner will be less evident.

Latin-America will undoubtedly face a bumpy ride before it succeeds in tapping into the recovering global economy. Indeed, the level of uncertainty created by fears of a Brazilian default over and above an already-risky world in the latter part of 2002 has pushed investors to reconsider their investment priorities in the region as a whole. Given this "psychological" contagion, whereby investors fear all higher-risk markets without regard to underlying economic fundamentals, Latin-America will require a strong return of market confidence before being able to take flight again.

The major concerns for the global economy in the coming year, namely oil prices and capital market uncertainty, have historically exerted great influence on Latin-America. Indeed, the energy sector plays a pivotal role in many of the regions' economies, and capital flows are key components of external stability for most, if not all, countries in the area.

In South America, a troubled Argentina stands as the key-limiting factor in the overall regional growth outlook. Structural deficiencies in the Argentine economy are the key factor behind the significant declines forecast for 2002 and 2003. Despite representing just 18% of the South American economy, the large 15% decline in GDP forecast for Argentina in 2002 translates into significant negative impact on the region's aggregate growth. Furthermore, Brazil's current difficulties mean it is likely to grow by just 1.5% in 2002 before stronger growth sets in 2003. Helped by connections to an improving Mexican economy, and the recovery in the US economy, Central American economic growth will continue to improve over the forecast period.

2.1.2 TRENDS IN INTERNATIONAL FINANCIAL INTERMEDIATION

At a time of greater risk, the availability of financial intermediation in the form of international trade risk management services becomes all the more important. Without it, exporting and importing businesses would be forced to carry and manage a variety of international risks where they have no particular expertise; trade would be less efficient and more costly; and trade volumes and national wealth would be affected accordingly. In recent years, a number of developments in the area of financial intermediation have occurred resulting in fewer players supplying international risk management services. This makes it more challenging for any but the very large international companies to secure the services they need to conduct their business.

Three market forces have been at play: **consolidation** of financial intermediation providers; **convergence** of financial intermediation pillars; and **specialization** in financial intermediation services. Further intermediation gaps have also been created by the emerging softer environmental risks (environmental, social, human rights) and the greater uncertainty post September 11, 2001.

Consolidation is occurring as a result of greater trade and investment liberalization. When combined with shareholder pressure for returns, financial institutions are constantly seeking cost savings via economies of scale, leading to a quest for size among large institutions. As a result of these forces, the top 15 financial institutions in the world have increased their market capitalization from 2% of world GDP in 1990 to 5% of GDP in 2001.

The outlook for consolidation is highly dependent on the size of the financial institution. Analysis suggests the emergence of three tiers of banks: first, a small number of very large full service global banks (Citibank, Deutsche Bank, HSBC); second, a tier with strong national presence and global niches (ABN, SocGen, Barclay's, Bank of America and some Japanese banks); third, a tier of financial intermediaries with a regional, local or specialized role.

The coming implementation of the new Basel II capital adequacy guidelines is likely to reinforce this move to consolidation. Basel II favors larger, more specialized institutions endowed with the deep pockets necessary to make the investments in internal risk-rating systems to make them Basel-compliant.

The short-term insurance market has also gone through a transformation in the past decade, with three tiers of players emerging from the consolidation process that took place. In the first tier there are three private market leaders which now control an estimated 80% of global credits insurance revenues (Euler-Hermes, Gerling-NCM, Coface). While we don't expect further consolidation to occur in Europe, these players may expand their reach in other markets. The second tier consists of a number of smaller private credit insurers in Europe, the US and the developing world. Given the importance of technology and scale to private sector insurers, smaller credits insurers will be challenged to find specific market niches where they can profitably differentiate themselves from the big three. The third and final tier consists of public sector insurers that play a public policy role. The drive to consolidate means that certain exporters, like small business, and certain sectors that see strong cyclical shifts in claims experience may be chronically under-served by the shrinking number of private sector insurers.

Convergence is blurring conventional financial intermediation boundaries as the pillars of insurance, banking, brokerage come together in search of economies of scope. This process is leading to a new class of full-service provider; however, the prospects for convergence are far from certain. The principal risk is that better quality entities will want to access best-in-class financial services, while entities that cannot borrow easily are most likely to use full-service lenders. Credit bundling with investment-banking services may therefore create a pool of riskier borrowers. As a result, the expected benefits from convergence may not be realized, and this trend may not continue. The recent problems faced by Credit Suisse might be one early indication of the challenges of convergence.

Specialization is driven by the search for efficient scale among smaller institutions. Specialization occurs as tier 2 and 3 institutions without global balance sheets or skills are seeking narrower market niches to enhance their earnings by reinforcing their economies of scale, and by dropping less-profitable lines of business. Similarly, the search for efficiencies may lead to continued cross-border mergers and acquisitions, even by tier 3 institutions in specialized niche markets.

One of the consequences of specialization may be increased difficulty in securing commercial loans. Straight commercial lending is a relatively low-yield banking business, and will be subject to increased marginalization among banking service providers as they seek out more profitable activities, such as treasury management services or arranging and advising.

2.1.3 THE CONTINUING ROLE OF EXPORT CREDIT AGENCIES (ECAS)

ECAs continue to play an essential role in providing financial support for export transactions. As ECAs respond to the changes brought about by globalization, many are redefining their roles in order to remain effective players while operating in what has essentially become a commercial marketplace.

In order to remain relevant as well as sustainable over the longer term, ECAs will have to meet policy challenges in three main areas:

Their basis for operation under international trade law – In particular, ECAs will have to be responsive to jurisprudence created through recent World Trade Organization (WTO) dispute settlement proceedings. They will also have to be mindful of developments in the re-negotiation of the WTO Agreement on Subsidies and Countervailing Measures (ASCM), which is part of the Doha Development Round launched by WTO members at their Ministerial Conference in November 2001. Such developments at the WTO have put into question many widely held assumptions about the autonomy enjoyed by the Participants to the OECD Arrangement on Guidelines for Officially Supported Export Credits (the "Arrangement") vis-à-vis all other WTO members and the WTO dispute settlement process, as well as the relevance of the Arrangement vis-à-vis the ASCM. These developments have forced the Participants to address some of the shortcomings of their agreement and of their process in a recently started exercise to re-write the Arrangement with the objective of improving the consistency of the text with the ASCM and inserting more transparency vis-à-vis non-Participants.

Canada's position is to fully support progress in these areas and EDC supports the government in the representation of Canada's national interests at the OECD; indeed, EDC's Director of International Relations is a member of a small group of experts advising the OECD in the preparation of a re-drafted Arrangement text for adoption by the Participants.

EDC also recognizes the importance of transparency as a tool for Canada to increase the level of understanding of its market-based activities by the other Participants. While complete disclosure would not be possible without sacrificing some of the basic principles of market-based financing, in particular in the area of commercial confidentiality, EDC is prepared to continue sharing information on its market activities with Canada's OECD partners, in relation to both methodologies and transactions, as long as this is compatible with its disclosure policy.

Their business relevance to the exporting communities and governments in their respective host countries – No uniform ECA model is developing across the world as each national ECA model is the result of many factors, including a country's industrial structure and principal export markets, the structure of its banking sector, its political and economic philosophy and its history. At the same time, no ECA escapes the changes brought about by the globalization not just of industries but also of private capital flows. In today's world, ECAs are expected to add value by participating in a great variety of financial structures with private sector counterparts.

Exporters want ECAs to be commercially astute and able to respond to their requests in a business-like manner. Governments like ECAs to be complementary to the market. Governments have signed international agreements at the WTO which are intended to regulate government support for export trade; they are also participants to the OECD Arrangement.

Many ECAs have undergone reviews of their legislation or operating principles by their respective governments in the recent past. There is momentum towards increased cooperation of ECAs with the private sector and other ECAs, as illustrated by EFIC's alliance with NCM in Australia and the great number of reinsurance and financing cooperation agreements signed among ECAs in recent years.

ECAs still play a meaningful role by complementing the commercial marketplace and indeed following commercial principles themselves. In spite of the great variety of national systems, many ECAs look to EDC as an example from which they can learn.

Increased public scrutiny of the broader social effects of their business decisions – Reputation risk management has become a topic of relevance to many ECAs as they have acknowledged their vulnerability in the area of corporate social responsibility. Civil society concerns are no longer issues for just a limited number of countries or institutions. Rather, the international NGO networks have 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 can be expected to shift their focus to even broader issues such as labor rights, human rights and developmental concerns.

As instruments of government policy, ECAs have to be responsive to legitimate civil society concerns and should 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 is highly dependent on trade for its prosperity, with exports amounting to 43% of GDP. The success of Canadian companies on the international scene depends on a number of factors, including the active participation of the Canadian Government in facilitating foreign market access and providing the support and services which Canadian exporters and investors need to compete on equal grounds with their international counterparts.

2.2.1 THE CANADIAN GOVERNMENT'S TRADE AND INVESTMENT PRIORITIES

The Government of Canada's overall objective is to create jobs and prosperity for Canada. It does so by promoting an environment in which Canadian business has access to investment and technology with which it can take full advantage of the opportunities presented by the new global economy. To achieve this, the government has developed a trade and investment agenda that strives to:

- make Canada the world's best trading nation;
- create jobs and economic growth through innovation and the growth of exports;
- continue to show leadership in global trade liberalization efforts; and
- make Canada the location of choice for investment in North America.

The government has employed a number of strategies in support of its trade and investment goals, the most prominent of which are:

- **Promoting an innovation agenda** - The government recognizes the important link between innovation and Canadian prosperity and is therefore promoting an innovation agenda that is intended to strengthen how Canada develops and leverages knowledge in the new economy. This means modernizing the business and regulatory environment to support investment and innovation processes in the export community. It also means promoting the export of goods and services from the knowledge-based sector of the economy.

- **Promoting market access** - Improving market access is tied to the establishment and maintenance of effective and appropriate frameworks within which trade is conducted. The government will therefore look to improve market access for Canadian goods, services and investments by supporting multilateral trade liberalization efforts, primarily at the WTO, but also under the Free Trade Area of the Americas (FTAA). In addition, the government will continue to pursue bilateral trade agreements with El Salvador, Guatemala, Honduras, Nicaragua and Singapore. Finally, the government has begun preliminary talks with the Andean community (Bolivia, Colombia, Ecuador, Peru and Venezuela) about a proposed free trade agreement.

  At the same time, the government will also look to address those bilateral issues that impact on its trade and investment agenda. This would include working with the US to ensure the smooth flow of goods and services between Canada and the US and continuing its efforts to resolve both the softwood lumber dispute with the US and the regional aircraft dispute with Brazil.

- **Increasing the number of exporters and improving their preparedness** - The government is continuing its efforts to foster a global market mindset among Canadian business. The purpose is two-fold: to help engender the next generation of Canadian exporters, particularly among SMEs, and to provide current exporters with the tools they need to grow their exports into new markets.

  Through Team Canada Inc. (TCI), the government is seeking to provide Canadian businesses with seamless and practical access to the fully integrated export services of the Government of Canada. Moving forward, the government will continue to pursue partnerships with the exporting and financing community in support of trade. It will also, as part of its innovation agenda, continue to promote exports of goods and services from the knowledge-based sector.

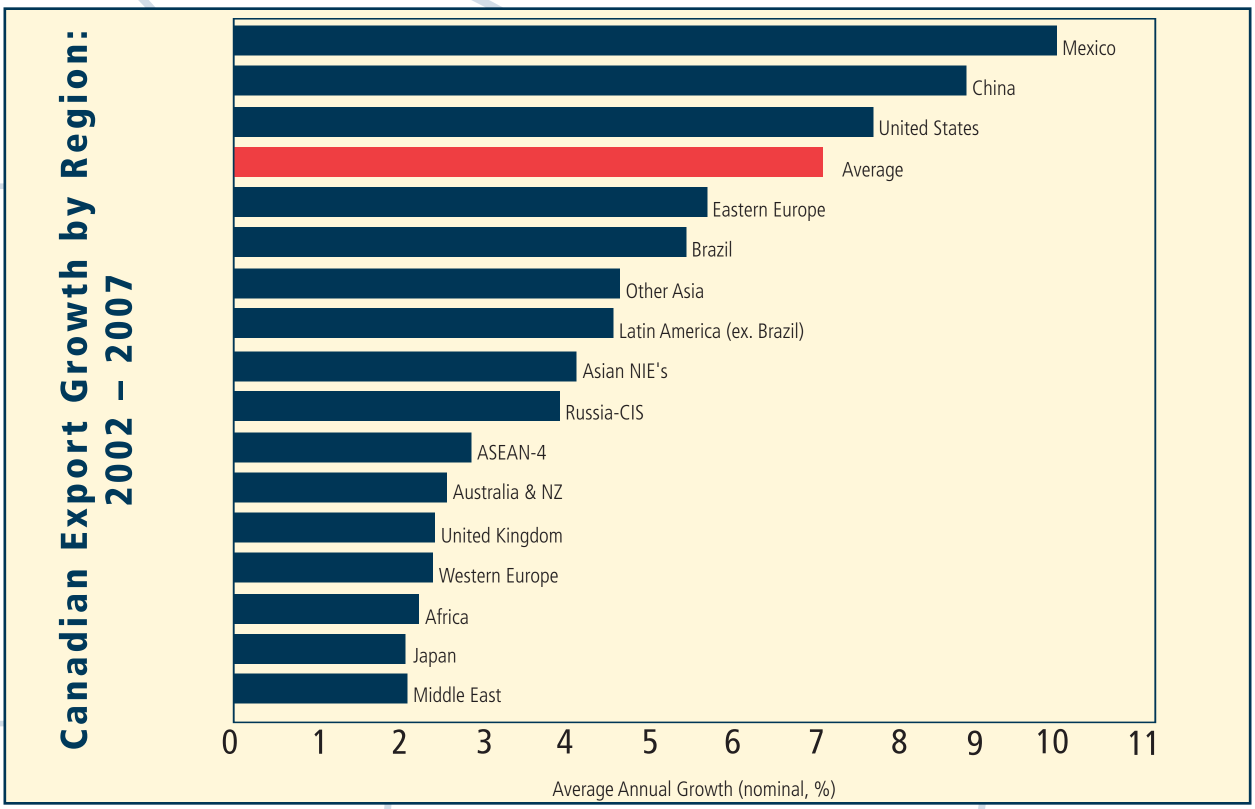
- **Increasing Canada's share of global investment** - Attracting investment is a key element of the government trade agenda. By exploiting Canada's cost competitive advantages, the government hopes to attract a greater share of global FDI, particularly investment directed at the NAFTA region.

- **Promoting exports to new markets and diversifying Canada's trade beyond the US** - The government is committed to diversifying Canada's trade beyond the US, particularly to new markets in South Asia, Latin America and Africa. This means working with exporters, through TCI and the Trade Commissioner Services to identify those markets where they see the greatest potential for growth.

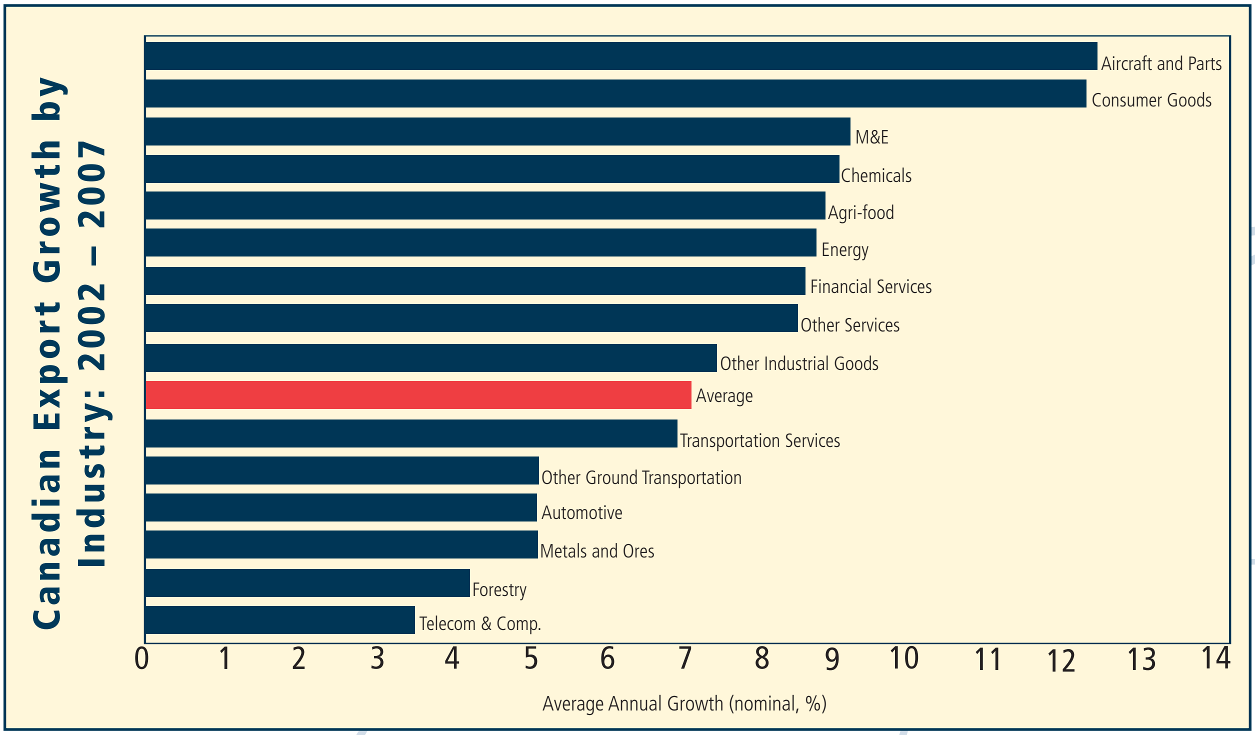
2.2.2 THE EXPORT ENVIRONMENT FOR CANADIAN COMPANIES

This year is turning out to be a transition period for the global economy and it is likely to take until the end of 2003 before global economic activity is firing on all cylinders. Canada's export performance is expected to follow this global growth pattern. For 2002 as a whole, Canadian exports are projected to show little growth. However, exports have started to recover across many industries and with the expected pickup in global demand in 2003 Canadian companies should see export sales rise by around 6%. Looking further ahead, an annual export growth rate of 7% is forecast for the 2003-2007 period. Historically, Canadian export growth has outpaced growth in global trade by about 1% per year and this trend is expected to continue during the planning period. However, both Canadian and global trade are projected to follow slower growth tracks over the next five years. Trade friction following September 11, 2001, investor uncertainty and the recent emergence of protectionism are behind the more subdued trade outlook.

As shown in the following chart , Canadian exports to Mexico, China and the US are projected to show the strongest growth over the next five years. Sales to most other markets in East Asia should also see reasonably solid growth over the next couple of years. While markets in Latin America are weak in 2002, demand is expected to improve in 2003 as the region benefits from the broader global recovery. Exports to Japan, Africa, the Middle East and Eastern Europe are forecast to lag sales to other regions. Within Eastern Europe however, Canadian exports to those countries in line for EU accession should see fairly good growth.



By sector, we will see a broad divergence in the export performance of individual Canadian industries as shown in the following chart. Exports of telecom will be slow to recover due to high levels of excess capacity as well as high debt levels among telecom service providers, a situation that will limit new capital spending. Canadian agri-food exports are expected to grow above average but this sector is at risk from the US Farm Bill whereby higher subsidies for US farmers will boost production and reduce global agri-food prices. Aircraft exports will probably outperform due to better prospects for regional jet markets. Finally, commodity exports (energy, metals, and forestry products) are forecast to grow in line with the global economy, following the usual cyclical pattern seen for these goods.



2.2.3 THE EVOLVING NEEDS OF CANADIAN COMPANIES

Canadian exporters and investors continue to require the financial services that help them compete successfully in international markets, by insuring their foreign operations, financing their buyers or financing/insuring their international projects/investments.

Exporter population data provided by Statistics Canada reveals that there are approximately 32,450 exporting companies in Canada, out of approximately 1.8 million registered businesses. Roughly 70% of exporters are small businesses (less than $5 million in total sales, or $1 million export sales). Collectively, small business continues to contribute a very small proportion of the value of Canadian exports (around 2%). The highest population of exporters is in Ontario (14,800) followed by Quebec (7,070).

Table 1: Number of Canadian Exporters 2002

Small	22,720
Medium	5,580
Large	4,150
Total	32,450

Source: Statistics Canada, 2002

Exporters' needs tend to vary by their size and industry sector. For example, high technology exporters' needs have evolved to focus on converting their receivables into cash. For many of them, improving their receivables turnover and having strong cash flow can be key to demonstrate their viability and performance to the investor community.

Small exporters (companies with sales of less than $5 million) 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.

Medium-sized exporters (annual sales of between $5 and $25 million) 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 providers to propose solutions that help them win new business while managing the risks.

Large Canadian exporters and Trans-National Corporations (TNCs), while fewer in number, account for the majority of the volume of Canadian exports. To increase competitiveness, large Canadian exporters are establishing manufacturing facilities abroad. They are recognizing the need to merge, create alliances, enter partnerships and participate in joint ventures, all of which enable them to become more international in scope. Service-based companies also increasingly need to invest overseas to expand sales and strengthen or maintain their presence in foreign markets and many may find funding this activity a hurdle. These global organizations need flexible and tailored solutions to strengthen their international competitiveness; they expect to benefit from the expertise and contacts that their financial provider has to facilitate/broker or package deals as well as to enhance credit; and they look for a strategic relationship with their financial partner who they expect will not only anticipate their needs but also act as a solutions provider not just a product provider.

Exporters of all sizes and from all sectors across Canada increasingly take to the Internet to seek out trade related information, signaling the need to provide enhanced electronic commerce services. Exporters increasingly need options to interact with their financial providers in the means most convenient and timely to them, be it by telephone, in person, or, increasingly, via the Internet. Being responsive to their needs allows them to conclude their business transactions and meet the demands of their own customers.

Export-ready firms - Although Canada is successful in exporting, with over two-fifths of its GDP attributed to exporting, there are only a small percentage of total Canadian firms who export. The number has remained relatively stable, with exits countering new entrants to the export arena. More firms must be encouraged to trade to the US and beyond in order for Canada to remain a strong economy.

Research indicates that the export-ready group is comprised of firms who may have previous exporting experience but are not currently exporting plus Canadian companies in sectors with a high propensity to export (such as the high-technology/knowledge sector) who have expressed a likelihood of exporting. Research also reveals that export-ready businesses may actually fall somewhere along an "export-ready continuum". The continuum ranges from those businesses that currently have no intention of exporting in the future to those who are prepared to export and are on the verge of doing so. It is difficult to estimate the size of this potential market although it is expected to be a very small proportion of the 1.8 million registered Canadian companies.

Exporters and export-ready firms have a growing appetite for easy, comprehensive access to information and intelligence to help them grow their business through exporting. Currently government agencies and private sources play a role in providing general information to exporters and export-ready companies. Most sources provide information that could be characterized as generic data, falling short of being 'intelligence'. There are therefore opportunities to add value to the range of services currently available.

2.2.4 CANADA'S TRADE FINANCE PICTURE

As the world economies recover, Canadian companies are expected to benefit from increased trade and will more than ever need trade finance and risk management services to help them sell their products and services and mitigate the risks of international business. Unfortunately, the economic turmoil of the past two years has caused many financial institutions to retrench from lines of business or activities where they incurred heavy losses. The obvious effect is a reduction in risk capacity to support new trade business and a higher price tag for those companies that have been able to secure the services they need. To realize their full potential internationally, companies need to rely on their financial partners to be there in good and bad times. However, this volatility in the supply of trade finance services is an added challenge to the sustainability and the success of exporters and investors.

The daily international sales of goods and services on a short-term basis account for over 90% of all Canadian trade. Commercial banks will often require exporters to credit insure their foreign receivables before they provide credit against such receivables. Credits insurance institutions in the private and public sectors therefore are a key element in the trade risk market. Although the Canadian market for credits insurance has grown steadily since the late 1980s, it remains under-developed when compared to the European market. Thus, there is considerable room for all providers of short-term cover to expand their market presence in Canada.

Canada has the benefit of a mixed market with a strong public sector player and a growing private sector market share, which provides Canadian exporters with choice and availability of credits insurance capacity. Private insurers are more active in the Canadian market today but they have not yet shown a strategic commitment to the market. Furthermore, the difficult economic conditions of the past two years as well as the hardening reinsurance market post September 11, 2001 have caused insurers to either cut back on available capacity or increase premiums significantly or to do both.

Canadian companies have not been spared from these developments and, at times like these, really benefit from the wider choice available to them from a more active insurance market. The core public policy reason for EDC's presence in the credits insurance market has been to ensure access to trade risk management services for Canadian exporters. This reason remains fully valid.

Amidst the fundamental forces shaping the international environment, Canadian banks are showing evidence of a return to the basics by increasingly focusing on retail banking and business lines where return on equity is more stable, and reduced emphasis on commercial lending. Increasingly, Canadian firms rely on shares and bonds to fund their operations and not on bank loans.

While the market has seen a proliferation of global consolidation, Canadian banks have not been participants in this process. Their asset ranking worldwide has fallen to the lower half of the top 100 list and, although they are active in foreign acquisitions, they are not seen as global players. With the exception of Scotiabank which has shown some appetite for Latin America, albeit at a price, the international strategies of Canadian banks have been largely focussed on the US market. The declining relative size of Canadian banks in the global context means that they are constrained in an industry where economies of scale matter.

Canadian companies need dedicated partners to support their international business and that is where EDC comes in. EDC is entirely focused on providing competitive trade financial services to Canadian exporters and investors. It does so by using its own capacity and by partnering with Canadian banks and other financial institutions to increase the available pool of financial supply. Canadian companies can only benefit from having more active participants who bring added capacity to meet their growing needs.

3. Corporate Strategy

EDC has been helping Canadian companies compete internationally for more than fifty years. The Corporation's value to the Canadian business landscape was reaffirmed during a comprehensive legislative review, which concluded in December 2001. The review acknowledged EDC's role in strengthening the Canadian economy and endorsed its strategic direction and commercial orientation. The Review also noted that EDC needed to balance its commercial orientation with civil society and corporate social responsibility concerns.

As a key instrument of government policy, EDC carefully balances public and private sector sensibilities. EDC serves Canadian exporters and investors of all sizes and from all sectors of the economy by taking a prudent approach to risk management while embracing a range of progressive environmental and ethical initiatives. In fulfilling its mandate, EDC:

- creates prosperity for Canada;
- operates in a socially responsible manner; and
- builds for the future

The following sections profile EDC's corporate program for 2003. EDC's Board of Directors has recently begun, and agreed to continue, a comprehensive strategic review of EDC and its activities to ensure that optimal support from both the public and the private sectors is available to Canadian companies pursuing international business for years to come.

The review will include an examination of Canada's export credit system and the corporation's place and function within that system.

EDC's corporate strategy will therefore evolve during the course of this review, with the ultimate objective of enhancing the availability and competitiveness of financial services available to Canadian exporters and investors.

3.1 CREATING PROSPERITY FOR CANADA

International trade is the most basic building block of national prosperity. It is through the exchange of goods and services that nations can specialize in areas of economic activity for which they are most suited, thereby maximizing the employment, income and general well-being of its citizens.

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. In 2001, of the $44 billion of business volume concluded, we estimate that exports and investments facilitated by EDC generated nearly $30 billion in Canadian GDP and supported 458,000 person-years of employment. The lower figure takes into account the fact that many of the goods produced in Canada contain foreign components which are netted out of the original $44 billion.

Creating prosperity is at the core of the government's trade and investment agenda and the government's recently launched Innovation Strategy is directly related to increasing Canada's general level of prosperity. EDC is well positioned to support this initiative., EDC already provides 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.

EDC also has an extensive program of support for SMEs where the seeds of innovation are often found, and has given priority to supporting environmental exporters.

A major imperative identified in the context of the Innovation Strategy is the need to meet the increasing demands for a well-educated and skilled workforce. Under our Education and Youth Employment Strategy (EYE), EDC partners with educational institutions and key stakeholders to develop the next generation of trade specialists. EDC has also established a vehicle called Entrepreneur Inc. to encourage the development of an internal climate of innovation, recognizing that it too must continually evolve as an organization.

3.2 OPERATING IN A SOCIALLY RESPONSIBLE MANNER

As a Canadian Crown Corporation, EDC's activities must be conducted in a transparent, socially responsible manner to fully reflect the strong reputation that Canada holds internationally and at home. In the course of EDC's mandate review, the government encouraged the Corporation to demonstrate its commitment to conduct its activities in a socially responsible manner.

In the past few years, the Corporation has undertaken significant initiatives encompassing ethical business behavior, the consideration of environmental and social impacts in its transactions and the development and implementation of a comprehensive disclosure policy to greatly enhance transparency and public accountability of its activities. The Environmental Review Directive and the Disclosure Policy were developed following extensive consultations with EDC's many stakeholder groups and an analysis of business practices, competitive considerations and expert consultants' advice.

The Corporation is implementing Corporate Social Responsibility (CSR) initiatives it has undertaken, increasing its regular reporting on those activities, continuing its engagement with all key stakeholders on these issues and keeping abreast of new developments on the CSR front.

3.2.1 ENVIRONMENTAL REVIEW PROCEDURES

In May 2001, EDC announced it would commence public consultations to strengthen its Environmental Review Framework (ERF) which established its policies and procedures for assessing the environmental and related social impacts of projects under EDC consideration. With the government's decision to make the environmental review of projects a legal obligation at EDC, the then draft revision to the ERF became the legally sanctioned Environmental Review Directive (ERD) after the government's proclamation of amendments to the Export Development Act in December 2001. Following this, all stakeholders had an additional 60-day period for commentary on the ERD. EDC's Board of Directors approved the final ERD on May 1, 2002.

In light of international trends, EDC created a stand-alone team of environmental specialists directed by a Chief Environmental Advisor, a newly created position. The Chief Environmental Advisor focuses on directing the team of specialists who review projects and work with members of the OECD Export Credits Group and other international financial institutions in advancing environmental and social requirements for projects.

In 2002, EDC updated its environmental review procedures and its systems to ensure that supported transactions meet the requirements of the ERD. This was followed by extensive training of EDC's employees and extensive communication with customers to ensure that the terms and requirements of the ERD are fully known, understood and documented.

Looking ahead, EDC will continue to strengthen its environmental review procedures and, through training and case history, work towards building a corporate environmental culture, all in preparation for a special audit of the implementation of the ERD, expected to begin in 2003.

EDC will also continue to take an active role at the OECD amongst the export credit agencies (ECAs) that have signed on to the "Common Approaches on Environment and Officially Supported Export Credits". Dialogue amongst the ECAs is expected to focus on issues such as ex ante (i.e. pre-signing) disclosure of project-related environmental information. As well, EDC intends to participate actively at meetings of environmental practitioners where participants will share information and their experience in applying the Common Approaches agreement.

3.2.2 DISCLOSURE POLICY

EDC's Disclosure Policy came into effect in October 2001 after extensive national public consultations with EDC's various stakeholders. Enhanced aggregate and individual transaction reporting have been successfully implemented at EDC. Provisions for the disclosure of environmental and social impact information on projects took effect on May 1, 2002. EDC will continue to actively encourage and promote the disclosure of environmental and social information by project proponents on projects for which EDC is considering providing support. Internationally, EDC will continue to support the adoption of ex ante disclosure of project-related environmental information by OECD ECAs.

3.2.3 CONDUCTING BUSINESS ETHICALLY

EDC's own Code of Conduct and Code of Business Ethics have provided its employees, customers and stakeholders with clear direction on the high ethical standards it applies to its business. EDC is also subject to the international anti-corruption initiatives such as the Action Statement agreed by OECD ECAs and by Canada's anti-corruption legislation, *The Corruption of Foreign Public Officials Act*.

To ensure an effective implementation of EDC's Anti-Corruption Program, training has been provided to staff, documentation updated and systems are being enhanced to ensure that they can track the new procedures. EDC's customers are now required to submit anti-corruption declarations. Further, EDC held workshops nationally to inform its customers of the potential risks they face and to encourage them to develop best practices in these areas. EDC will also work internationally to ensure the effective operationalization of anti-corruption measures among ECAs.

In June 2003, EDC will host an international workshop on "Reputation Risk Management" for members of the Berne Union. Its objective is to provide a forum to discuss best practices among Berne Union members on reputation risks including financial, human rights, and labour-related risks, as well as governance issues.

3.2.4 HUMAN RIGHTS

In 2002, EDC and DFAIT took steps to strengthen their channels of communication with respect to human rights developments in relevant countries. This includes information on international human rights standards and United Nations and International Labor Organization reporting on countries where there are serious violations of international human rights law. This will give EDC access to relevant and current information, as well as guidance from DFAIT on human rights issues around the world. This information will facilitate 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 will assist EDC with the development of a stronger country-based human rights framework within which potential human rights impacts can be assessed.

3.2.5 BEING MINDFUL OF INTERNATIONAL OBLIGATIONS

Canada is party to many international obligations. Where international agreements outline the manner in which commitments are to be operationalized, EDC does so. However, the vast majority of international agreements are declaratory, or a subscription by Canada to a set of principles to guide domestic law making and behavior. These declaratory or principle-based commitments often do not come with a common framework to operationalize and assess adherence. In these instances, EDC looks to DFAIT to provide guidance and information in respect of these agreements.

As noted in Section 3.2.3, in the past twelve months, EDC has taken steps to ensure that its customers are aware of Canada's anti-corruption legislation, the Corruption of Foreign Public Officials Act and the OECD efforts in that regard. EDC has implemented an Anti-Corruption Program to ensure that it is not supporting export transactions that involve corruption of foreign public officials. EDC has also taken steps to ensure that its business practices conform with Canada's obligations under the United Nations Security Council Resolution against terrorism.

In October 2001, the Government of Canada enacted the United Nations Suppression of terrorism Regulations as well as the Anti-terrorism Act in response to the UN resolution. EDC has responded with an initiative aimed at ensuring that EDC does not transact business with or involving individuals or entities who are suspected of being engaged in terrorist activities and identified as such pursuant to the Regulations.

EDC and DFAIT are reviewing how various human rights treaties that Canada is party to apply to EDC and its operations and how EDC might play a role in assisting the government to promote them.

3.2.6 STAKEHOLDER ENGAGEMENT

Engaging stakeholders is integral to both the development and implementation of policy at EDC. In the coming year, EDC will engage NGO stakeholders on a quarterly basis on CSR issues. It will also develop other initiatives to engage a variety of stakeholders (customers, business associations, parliamentarians and other government stakeholders) on CSR issues in the context of EDC's mandate and operations.

Engagement with Non-governmental Organizations (NGOs) – EDC's engagement strategy for NGOs will also progress from responding to concerns raised by NGOs to proactively providing opportunities for their constructive engagement on specific topics such as the continuing evolution of CSR practices among ECAs with respect to human rights and the review of potential environmental and social impacts resulting from projects that ECAs are asked to support.

As a mechanism to encourage CSR practices among customers and to highlight leadership in the field, EDC will develop ways to recognize and publicize cooperation on projects between the private and not-for-profit sectors in the environmental field and in developing markets.

Engagement with Other Stakeholders – In early 2002, EDC undertook a series of cross-Canada workshops to inform customers about key CSR issues such as anti-corruption and environmental review practices. In the coming year, EDC will continue to engage affected customers and key business associations on CSR practices.

Advisory Council – Since its establishment in the fall of 2001, EDC's Advisory Council on CSR has provided a key, regular forum for the Corporation to review its own practices and inform itself of emerging national and international trends related to CSR for both the public and private sector. The Advisory Council, which meets on a semi-annual basis, is an important pillar of EDC's overall stakeholder engagement strategy. EDC will continue to consult the Advisory Council and to obtain pertinent advice on improvements to EDC's CSR practices and policies.

3.2.7 COMPLIANCE PROGRAM

Following the conclusion of EDC's legislative review, a Compliance Officer role was created to respond directly to public inquiries and appeals regarding a range of issues and policies related to accountability, including oversight into disclosure practices, business ethics and the environment. The compliance program was finalized in the spring of 2002. The role of EDC's Compliance Officer and the compliance program are more fully described on EDC's website, including the process for handling complaints or allegations of non-compliance with EDC's policies.

An internal communications plan has been implemented to ensure that staff are aware of the compliance program. A communications plan is also in place to inform potential users of this service, such as EDC customers, public interest organizations or other members of the public. This plan includes raising the profile of the compliance program through articles written in EDC publications and presentations at workshops, conferences and other relevant forums.

3.2.8 EDUCATION AND YOUTH EMPLOYMENT STRATEGY

Growing Canada's export and investment base is paramount to achieving Canada's future economic success. EDC's Education and Youth Employment Strategy (EYE) contributes to strengthening Canada's ability to compete internationally though 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 and working with youth-related initiatives; and foster learning and employment opportunities for youth.

EDC builds awareness of the challenges and opportunities of international business through its International Studies Scholarships, which include a work term at EDC, guest lectures and participation in education and youth-related events. Focused partnerships with educational institutions provide sustained alliances with both the faculty and the students. In addition, partnering with youth organizations provide increased awareness, access to innovative thinking and extended reach into the marketplace.

These initiatives ultimately lead to alliances with other financial institutions, key customers and organizations interested in supporting education and youth.

3.3 BUILDING FOR THE FUTURE

At EDC, building for the future means investing in our most valuable resource, our people, so that they may develop creative ways to fulfil our mandate. Building for the future also means expanding our capacity to serve customers. EDC conducts its operations on a self-sustaining basis by operating under commercial principles, generating sufficient net income to support the future needs of Canadian companies.

EDC strives to balance the risk it takes with the financial and mandate returns for that risk to ensure continued capacity for Canadian exporters and investors. EDC takes guidance from an Enterprise Risk Management (ERM) framework that provides a comprehensive view of the key risks it faces and tools to measure, monitor and manage them.

EDC's market-based approach is consistent with its Credit Risk Management Framework, a key element of its ERM. Under EDC's market-based approach, not only has support to Canadian companies increased (by 73% in the past five years) but EDC's sound risk and financial management practices have also produced a strong financial base that will serve companies for years to come.

EDC's market-based approach is consistent with, and respectful of, Canada's international obligations under the WTO. In 2001, EDC implemented an internal policy intended to ensure conformity with applicable international agreements, primarily the WTO Agreement on Subsidies and Countervailing Measures. Key principles of the policy include: all medium/long-term transactions must be either consistent with commercial market terms or with the OECD Arrangement; and the rationale for classifying a transaction under commercial terms or under the OECD Arrangement must be properly documented at the transaction authorization stage.

3.4 SERVING CANADIAN COMPANIES

Over the past five years, Canadian companies have enjoyed great success on the international scene and have increasingly called on EDC to provide the financial services they need to facilitate their international activities. EDC's business growth is simply a reflection of its customers' success: some 6,355 Canadian companies partnered with EDC in 2001 and EDC facilitated more than $44 billion of exports and investments.

Having said that, Canadian companies faced a difficult year in 2001 with a generalized global slowdown and, more specifically, the collapse of the technology sector, weak commodity prices and the events of September 11, 2001. Export sales declined for the first time in many years. EDC's Corporate Plan forecast for 2002 was developed at the height of uncertainty and called for a reduced level of activity by both EDC and its customers in 2002. It now appears that 2002 will be a much better year for global activity and that Canadian exports will recover some of the ground lost in 2001.

Even though Canada's export sales declined in 2001, there was a significant increase in EDC's business activity. That experience underscores that risk and uncertainty can be important drivers of the demand for EDC's financial services. It also shows how quickly EDC adapted to the changing environment to meet the needs of Canada's export community.

While it took on more risk on behalf of Canadian companies, the Corporation maintained its prudent approach to risk management and provisioning against potential losses so as to preserve financial integrity.

The business activity seen by EDC in the first half of 2002 suggests that 2002 will be another record year in terms of the number of customers served and the volume of business facilitated. At this time, we expect to serve more than 7,200 companies in 2002 against a plan of 6,800 and to conclude some $50 billion of volume against a plan of $40 billion. We also forecast growth in 2003, as indicated in the performance measures section of this plan.

EDC will deploy a number of strategies in support of its corporate objective to:

CREATE AND DELIVER CAPACITY, CAPABILITY AND OPPORTUNITIES IN SUPPORT OF CANADIAN COMPANIES PURSUING INTERNATIONAL BUSINESS

3.4.1 ENHANCE OUR CUSTOMER SERVICE PROPOSITION

EDC regularly conducts customer research to ensure that its products and services meet their needs. Our research has shown that customer needs vary by size and by sectors which led EDC some years ago to create business teams dedicated to serving the needs of small companies or specific industry sectors.

In the fall of 2001, EDC surveyed 1,039 customers to measure their level of satisfaction with EDC, and they gave EDC the highest score to date: 81.5% compared to 79.6% in 2000. This increased satisfaction was consistent among businesses of different sizes, industry sectors and EDC products. The most significant change from a year ago was a marked increase in the percentage of customers who considered EDC services extremely reliable and worthwhile. Given that the survey was conducted after September 11, 2001, this suggests a strong perception that EDC is a secure haven in troubled times.

There are a number of areas for improvement that have been noted from the customer survey and therefore EDC is currently reviewing how it serves all customer segments to ensure that it brings all the right tools, expertise and financial capacity to the table to meet their evolving needs.

3.4.2 EFFICIENTLY GROW OUR CUSTOMER BASE TO 10,000 BY 2004

As noted in Section 2.2.3 of the plan, we estimate that there are some 32,000 exporting companies in Canada, 70% of them being small businesses with less than $5 million in total sales. Back in 1999, EDC set a goal to serve 10,000 customers by the year 2004 in support of the government's priority to increase the number of exporters and to ensure that SMEs, in particular, have the tools they need to grow their exports.

In 2001, EDC served 6,355 companies and expects to serve over 7,200 companies in 2002. Some 90% of EDC customers are SMEs and we expect that customer growth will come primarily from this segment. Growing the customer base to 10,000 will certainly be challenging and will require innovative approaches and products. Accordingly, EDC will focus on the following:

Increase awareness of EDC - Our success to date at growing our customer base is in part due to initiatives geared towards increasing awareness of EDC amongst exporting companies and the financial services sector. Our successful direct mail campaigns will continue to be our main form of promotion for awareness building, along with other tools such as advertising, telemarketing and third party marketing. Innovations on the advertising and promotional fronts include radio, a medium never used before, that may be tested in selected markets in the spring of 2003, new offers and promotional web splash pages.

We will also enhance our contacts with professional intermediaries such as commercial bankers, accountants, lawyers and business consultants who can have a major influence in both increasing awareness of EDC and recommending EDC to their clients. New partnerships with industry associations and e-commerce players will also be explored.

Leverage our private sector partnerships - The banking sector remains the primary vehicle for SME support in Canada. Accordingly, EDC has focused on how best to serve SMEs through the existing banking network, to the extent permitted by the regulations governing the financial services sector.

In 2002, EDC developed and executed a strategy to expand EDC's working capital support through the banking network. A total of 141 presentations have been made to date to Commercial Banking Centers, reaching 1,396 bankers who, in turn, helped us reach their customers with joint bank/EDC solutions to meet their working capital requirements.

Leverage our public sector partnerships – Small customers want an integrated service proposition from the various government organizations. We will continue to build on our close relations with DFAIT, Industry Canada, other financial Crown corporations and provincial and municipal governments engaged in trade advisory or business development activities. These relationships help coordinate various public sector activities and events in support of SMEs.

In addition, through its membership in Team Canada Inc. (TCI), EDC is able to tap into the interdepartmental community's efforts to provide Canadian business with seamless and practical access to a full range of international business development services provided by the Government of Canada. EDC has recently expanded its role in TCI by becoming an Executive Member. Over the coming year, EDC will look to leverage its experience in supporting Canadian exporters to assist TCI in its mission.

Review and enhance our customer service proposition - Although SMEs are highly satisfied with EDC's service, we are considering building a new common "store front" to serve the small exporter segment to build on the successes achieved by the two small business teams and also possibly integrating the web and our call center. Extensive research was conducted in 2002 into the buying behavior of small business, which will help us determine what enhancements should be introduced to our customer service proposition.

Enhance our product offering - Although we expect that SMEs are more inclined to need our traditional financing and insurance products, we introduced two new e-products in 2002, EXPORT Protect and EXPORT Check, our first fully automated trade finance products. With these products, Canadian exporters can get credit information and insurability reports on potential buyers and account receivable insurance faster than ever. Other product ideas are on the drawing board at this time and may see the light of day in 2003.

Priority customer segments - From time to time, EDC determines that special focus should be given to a specific sector or customer segment in order to increase awareness of EDC and increase the use of EDC products by these targeted companies. In 1999, EDC launched a corporate program to raise awareness, build partnerships and support the environment industry's export business. That initiative is on-going and continues to be a priority at EDC.

In 2001, EDC identified the tourism sector as a potential customer group for its accounts receivable program. We set out to learn more about the needs of this under-served segment and are working with their industry associations to get the EDC message out in a manner that is responsive to their special circumstances.

We are also working with the Canadian Tourism Commission, a new Crown Corporation, by participating and presenting EDC information at their events and inserting editorials and advertising in their monthly magazine. In 2003, we intend to further explore opportunities within the services sector, which has also been under-represented in our customer base.

3.4.3 ENHANCE OUR TOOL KIT

Serving companies of all sizes and from all sectors in more than 200 world markets requires a broad range of financial services: some are standardized to fit the needs of the smaller exporters, while others are complex financial packages that involve many financial players. That breadth of services can only be made possible by having a highly qualified team of trade finance experts who not only understand the needs of their customers but also know how to use the tool kit to best meet those needs. Formal and on-the-job training is provided to ensure that our trade finance specialists are aware of the variety of solutions that are available for given circumstances.

As we develop new financial solutions for our customers, new tools are added to the box and others are updated to respond to developments in the consensus and financial markets. At this time, EDC is reviewing how it can enhance its product offering to more effectively partner with banks in the provision of financial services to Canadian companies.

With venture capital in scarce supply, EDC's Equity Program is being sought out. We will continue to target our support for "innovation companies" as a complementary source of funds to those available from the private and the public sector, predominantly through direct investments and also selectively in funds.

3.4.4 PRO-ACTIVELY PURSUE BUSINESS IN DEVELOPING MARKETS

A central component of EDC's public policy mandate is our commitment to expand Canada's trade and investments in developing markets. Customer satisfaction surveys continue to demonstrate strong customer appreciation of EDC's risk coverage and market knowledge in high risk markets, as well as their expectations that EDC will continue to take a leadership role in developing and facilitating good business opportunities in emerging markets.

In 2001, EDC facilitated $11 billion of business in 149 developing markets, a 4% increase over 2000. Of this total, $6.6 billion supported exports and $4.4 billion facilitated investments. Investment facilitation yields additional benefits as we estimate that each dollar invested by Canadians in developing markets generates two dollars of exports from Canada.

The developing market business concluded in 2001 accounted for 25% of EDC's total business volume, a significant contribution to Canada's success in these markets considering that only 6% of Canada's goods and services exports are to developing markets ($27 billion). Some 3,075 companies benefited from EDC services in developing markets, up 7.5% since 2000 and up a remarkable 50% over the past five years.

While EDC has played an important role in supporting exporters and investors in developing markets, EDC is committed to achieving even greater success in the future. EDC's appetite for good business in developing markets is open, with the caveat that good business includes respecting our various CSR policies. There are immediate challenges ahead for both EDC and Canadian companies as some of the more traditional developing markets for Canadian goods, in particular in Latin America, are in the midst of financial crises and that will no doubt translate in lower sales and a higher credit risk environment, at least in the short-term. However, our focus goes beyond 2003 and the following key priorities have been identified:

Develop a clear positioning for EDC towards developing markets - This will include a more focused and proactive communications strategy aimed at raising awareness of EDC's interest in these markets and effectively employing various communications tools to reach a wider base of Canadian customers and buyers abroad.

Expand partnership and increase day-to-day coordination with DFAIT and other government departments - Both EDC and DFAIT have a common goal to increase trade in developing markets and have recognized the benefit of an on-going dialogue to better coordinate efforts towards expanding trade in these markets. That dialogue is underway and will focus on identifying priority markets and how best to approach our support towards these markets. EDC further intends to continue participating in trade missions, seminars and other activities led by other government players that are aimed at increasing trade in developing markets.

Expand EDC representation abroad - EDC currently has representation staff in Brazil, China, Mexico and Poland. In 2002, representation was expanded in Mexico by an additional resource. Further postings are under consideration for 2003 to increase our developing market footprint. EDC foreign representatives are building relationships with the key players in markets and are able to provide financial and risk management advice and assistance to Canadian companies seeking to realize on market opportunities. A key focus for the representatives is to identify and develop incremental business opportunities.

Expand and deepen the skills and knowledge base of EDC staff - A concerted effort is being made to ensure that the EDC staff dedicated to serving developing markets, both in Canada and abroad, are equipped with the local knowledge, contacts, expertise and tools they need to assist Canadian companies.

Expand our reach and our tool kit - A number of new initiatives are being explored to enhance our capacity to do business in developing markets such as providing local currency financing and taking municipal and other sub-national risks in certain developing markets. Also, some 20% of Canada's service exports go to developing markets and we will research how best to meet the needs of service companies in those markets.

More actively engage with the exporter community - EDC will increase its direct efforts with exporters to identify opportunities to enhance Canada's share of trade with developing markets. EDC will continue to participate in and support marketing initiatives with Canadian companies that have demonstrated a commitment to expanding their sales/operations in promising markets.

Develop a multi-dimensional operational scorecard - For a number of years, EDC has measured its activity in developing markets, principally via a volume of business measure which is presented in the Corporate Plan. While volume provides one useful indication of performance, we will broaden our performance measures to include additional metrics.

Use of Canada Account - Canada Account is a tool available to support business in developing markets that meets EDC's criteria but that EDC is unable to support due to a combination of risks. Such risks may include the size of the transaction, market risks, EDC's country capacity, borrower risks, and/or financial conditions.

Support the government's priority on Africa - EDC will place an enhanced focus on facilitating commercially sound transactions in the Africa region, in particular in the mining and oil and gas sectors. EDC participated to the Team Canada Mission in November 2002 and will participate in future strategic Canadian trade missions and other business development activities.

3.4.5 CREATE CAPACITY VIA PARTNERSHIPS

EDC's reach and financial capacity is limited; therefore it must combine its expertise and risk capacity with that of other financial providers to ensure that Canadian companies have the support they need to succeed internationally. As a matter of practice, EDC looks to partner with banks and other financial institutions as part of either an institutional or a transactional agreement. EDC's relationship with financial institutions is multi-level:

- for the benefit of SMEs, EDC's partnership with banks and others is geared at providing complementary working capital solutions via a number of vehicles and arrangements in order to create additional capacity for companies to pursue new business;
- EDC has a host of risk-sharing products, which are available to financial institutions to enhance their ability to participate in customer solutions. As indicated earlier, EDC is updating and adding to these products with the view to increasing their use;
- Although EDC has no formal arrangement in place, partnerships occur on a transaction basis to underwrite syndicated structured finance deals. These help mobilize as much private risk capital as possible in support of infrastructure development in developing countries for the benefit of our customers;
- EDC has a number of reinsurance treaties with the private sector and also concludes transactional reinsurance arrangements to leverage international capacity. These arrangements extend beyond the private sector. In a continual effort to facilitate the global reach of Canadian exporters and to minimize their risk in third countries, EDC has negotiated reinsurance agreements with other ECAs such as US EXIMBANK, Spain's CESCE, ECGD in the UK, COFACE in France and ODL in Luxembourg.

3.5 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 and by its ability to manage growth through technology and efficient processes.

3.5.1 PEOPLE...OUR COMPETITIVE ADVANTAGE

The recruitment and retention of qualified employees continues as a strategic imperative, while balancing greater customer demand and emerging business priorities. Despite the general economic slowdown during the past eighteen months, the competition and demand for the competencies required by EDC remained strong and is projected to continue as such in 2003, requiring that we remain progressive in our human resources practices. EDC's people strategy is anchored in our commitment to create and sustain a desirable work climate and it is focused on three key components: enhancing EDC's reputation (internally and externally) as a compelling career choice for high potential candidates; providing employees with development opportunities and developing outstanding leaders.

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 further promotes a healthy positive work climate with a wide range of programs that support diversity, work-life balance and wellness. The results of EDC's 2001 Employee Opinion Survey (EOS) reflected the highest level of employee satisfaction to date and exceeded norms for high quality North American firms, all of which reinforced our commitment to sustaining a desirable work environment. Our policies and programs were recognized when EDC was named one of Canada's Top One Hundred Employers.

Employee turnover is projected to be less than 10% in 2002 and our total voluntary separation target remains at less than 10% for 2003.

During 2002 EDC focused on productivity and has been able to support continuing growth through a more strategic alignment of its human resources. In 2003, we are planning growth to 1,065, for an average employee strength of 1,040. The combination of turnover and growth confirms that recruiting activity will remain high with 147 new hires projected for 2003, excluding internal promotions and transfers. EDC has successfully strengthened both its profile and reputation as an employer during 2002 and will be introducing technology in 2003 that will enable more rapid turnaround and greater efficiencies in the recruiting process. The potential for higher caliber recruits will be augmented through targeted recruiting strategies, the introduction of standardized pre-employment assessments for leadership and key roles, plus additional recruiting and selection training.

Greater emphasis has been placed on EDC's diversity initiatives in 2002. This will continue in 2003 with strengthened communication and training programs planned to further diversity in our organization. In 2002, EDC was pleased to be recognized in Canadian Heritage's 2000-2001 '*Annual Report on the Operation of the Canadian Multiculturalism Act*' for its programs in this area.

Also key to enhancing the quality of the workplace for EDC employees are initiatives underway to strengthen human resources service levels across the organization.

In 2003, the Human Resources Group will build upon a number of service improvement initiatives launched in 2002, including an annual client-satisfaction survey and the launch of an e-HR strategy that will ultimately streamline a number of processes, while facilitating greater self-service for employees and easier access to information for our leaders.

Career Development - EDC continues to balance organizational needs with the development needs of its people. We remain committed to a minimum of five days' training per person in 2003. Development of an EDC University (EDC-U) is a corporate priority and during 2003, EDC-U will launch its Management Faculty, further its roster of external partnerships and introduce certification programs across a number of core business areas.

An Enterprise-Wide Competency Program is well underway and during 2003 it will play a key role in helping define career-paths for our professional/technical and leadership personnel.

Leadership Development - EDC continues to provide its leadership cadre with development opportunities essential to creating a motivating work environment and to developing their full leadership potential. Ongoing programs include the administration of several core leadership workshops, supplemented by semi-annual leadership conferences and individual feedback and development programs arising from 360° feedback on EDC's Leadership Competency Framework. A 'Change Management' workshop was piloted in 2002 and will be added to the core leadership syllabus in 2003.

3.5.2 IMPROVING PRODUCTIVITY AND SERVICE WITH TECHNOLOGY

EDC's technology program is an enabler to manage growth and productivity. To that end, in 2001, EDC undertook a three-year IT investment program during which the organization planned to invest some $100 million. To improve project prioritization and scheduling, EDC created a Technology Initiatives Group in 2002 due to the numerous demands for technology solutions. In 2003, the focus will remain on business applications and ensuring that our technology infrastructure continues to respond to the changing needs of the users.

3.6 2003 PERFORMANCE MEASURES

EDC's corporate performance measurement program is comprehensive in that it starts at the corporate level and cascades down to the individual level. The core corporate measures that support the achievement of the strategies described in chapter 3 are found in the table below, as well as the forecast for 2002 and targets for 2003.

	2001 Actual	2002 Plan	2002 Forecast	2003 Plan
Enhance our customer service proposition				
Customer Satisfaction (out of 100)	81.5	80.0	80.0	80.0
Grow our customer base to 10,000 by 2004				
# of customers served	6,355	6,800	7,200	8,000
# of SMEs served	5,720	6,050	6,480	7,200
Expand our tool kit / business in developing markets				
Business Volume ($B)	44.35	40.0	50.2	54.5
Volume in developing markets ($B)	10.99	9.50	11.25	11.75
Manage in a financially prudent manner				
Net Income ($M)	58	(159)	119	190
ROE (%)	2.8	(9.2)	5.7	8.4
Internal Efficiency Ratio (%)	15.7	20.0	15.5	17.0
Operating Income to Capital and Allowances (FSR) (%)	14.0	12.3	13.8	13.0
Resourcing to deliver results				
Voluntary Turnover Rate	<10%	<10%	<10%	<10%
Number of training days per employee	5	5	5	5
Rank above high quality organizations[1]				50%+

[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 (employee opinion survey) is conducted on a biennial basis. The next one will be administered in 2003.

4. Financial Plan

The following pages present the projected consolidated financial position of the Corporation through the year 2007. 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 2003 to 2005.

Projected income statements and balance sheets are also provided for the Corporation's subsidiary, Exinvest Inc. The earnings of the Corporation and its subsidiary are not subject to the requirements of the *Income Tax Act*.

As described in Chapter 2, the global economy has proved to be surprisingly resilient to the events of last September 11, 2001. Although the risk of a protracted recession in 2002 was high, the slowdown mainly affected the global manufacturing sector, and consumer spending maintained its levels. After a burst of economic growth in the first half of 2002, the economy has now moderated to a slower, more sustainable pace. Therefore there will be periodic concerns about the durability of the recovery, particularly as interest rates rise through 2003.

EDC can foresee continued or increased demand for the Corporation's risk management services. However, on the other hand, EDC can foresee a significant number of business failures and restructuring. EDC must continue to effectively manage its portfolios and finances to ensure that it has the financial base necessary to meet the current and future needs of its customers.

4.1 PROJECTED INCOME STATEMENTS – CALENDAR YEARS 2001 TO 2007

EDC forecasts a profit in 2002 of $119 million which compares to a profit of $58 million in 2001 and a planned loss of $(159) million for the year. The variance of $278 million is primarily due to a higher net interest income as well as lower provisions. The net interest income is higher mainly due to lower interest expense from lower cost short-term funding. The provisions for the 2002 Plan were done right after the September 11, 2001 attacks and were conservative due to the uncertainty that was involved.

TABLE 1— PROJECTED CONSOLIDATED INCOME STATEMENT — 2001–2007

	2001	2002	2002	2003	2004	2005	2006	2007
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj	Proj	Proj
Interest Income								
Loans	1,621	1,501	1,497	1,595	1,678	1,813	1,895	2,062
Investment Portfolio	127	93	69	81	94	96	102	100
	1,748	1,594	1,566	1,676	1,772	1,909	1,997	2,162
Interest expense	(934)	(804)	(582)	(665)	(807)	(847)	(898)	(947)
Net interest income	**814**	**790**	**984**	**1,011**	**965**	**1,062**	**1,099**	**1,215**
Insurance Premiums and Guarantee Fees	134	132	143	158	171	188	208	230
Provision for Credit Losses	(741)	(897)	(833)	(780)	(691)	(783)	(802)	(902)
Income after provision for credit losses	**207**	**25**	**294**	**389**	**445**	**467**	**505**	**543**
Administrative expenses	(149)	(184)	(175)	(199)	(220)	(239)	(251)	(264)
Net income	**58**	**(159)**	**119**	**190**	**225**	**228**	**254**	**279**
Retained Earnings								
Beginning of year	1,009	956	1,067	1,091	1,281	1,506	1,734	1,988
Dividends paid	-	(50)	(95)	-	-	-	-	-
End of year	**1,067**	**747**	**1,091**	**1,281**	**1,506**	**1,734**	**1,988**	**2,267**

Net interest income increases by $27 million in 2003 from 2002 forecast due to higher average assets and increased debt relief offset somewhat by the strengthening of the Canadian dollar. An increasing trend begins in 2004 as financing volumes commence to increase significantly.

Insurance premiums and guarantee fees earned are expected to increase in 2003. They then grow in line with forecasted insurance volumes for the years 2004 to 2007.

4.2 CAPITAL EXPENDITURES – CALENDAR YEARS 2001 TO 2005

The following table summarizes the capital expenditures of EDC through 2005. The largest capital expenditures in 2003 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. It is anticipated over the next three years that EDC will continue its investment in technology at a similar level as depicted in the 2003 Capital Plan.

The forecast information technology expenditures in 2002 are lower than the capital plan for the year due primarily to delays in acquiring and implementing certain software applications. The 2002 forecast expenditures for facilities, including leasehold improvements, furniture and fixtures are lower than 2001 due to planned expenditures from future years being undertaken in 2001 in order to obtain cost savings on the acquisition of work stations and a reduction in the costs of the move to the new facilities. The 2002 forecast expenditures for facilities, including leasehold improvements, furniture and fixtures are lower than 2002 Capital Plan due to a delay in spending until 2003 for furniture and fixtures and leaseholds.

TABLE 2 — CAPITAL EXPENDITURES PLAN — 2001–2005

	2001	2002	2002	2003	2004	2005
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj
Facilities	5.1	1.8	0.5	1.9	1.8	1.8
Information Technology	26.1	36.6	27.1	28.2	28.2	28.2
Total Capital Expenditures	**31.2**	**38.4**	**27.6**	**30.1**	**30.0**	**30.0**

The 2002 Forecast and 2003 Capital Plan include expenditures that form part of contractual and business commitments for a material technology project commenced in 2001. The 2004 and 2005 Capital Plan projections depicted above reflect the Corporation's continued commitment to invest in technology.

4.3 PROJECTED BALANCE SHEETS – CALENDAR YEARS 2001 TO 2007

Table 3 summarizes EDC's Projected Balance Sheets through to the year 2007.

TABLE 3— PROJECTED CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31 — 2001–2007

	2001	2002	2002	2003	2004	2005	2006	2007
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj	Proj	Proj
Assets								
Loans receivable	23,718	23,376	24,540	25,845	26,537	28,769	31,445	34,608
Allowance for losses	2,892	3,142	3,399	3,500	3,289	3,574	3,846	4,199
	20,826	20,234	21,141	22,345	23,248	25,195	27,599	30,409
Cash & marketable securities	2,174	2,422	2,555	2,584	2,623	2,821	2,783	2,776
Investments	172	342	76	76	76	75	75	75
Accrued interest and other	454	470	491	540	474	382	246	110
Derivative related amounts	167	287	172	181	187	201	217	236
Total Assets	**23,793**	**23,755**	**24,435**	**25,726**	**26,608**	**28,674**	**30,920**	**33,606**
Liabilities and Shareholder's Equity								
Medium & long-term loans payable	15,886	17,900	16,951	18,653	19,327	21,279	23,313	25,256
Short-term loans payable	3,723	2,110	3,601	3,063	2,981	2,787	2,647	2,994
	19,609	20,010	20,552	21,716	22,308	24,066	25,960	28,250
Accrued interest and other	566	529	560	516	535	553	562	579
Allowance for loan commitments and guarantees	588	664	601	555	580	609	663	722
Allowance for claims on insurance	464	498	454	470	485	502	519	538
Derivative related amounts	516	324	194	205	211	227	245	267
	21,743	22,025	22,361	23,462	24,119	25,957	27,949	30,356
Share capital	983	983	983	983	983	983	983	983
Retained earnings	1,067	747	1,091	1,281	1,506	1,734	1,988	2,267
	2,050	1,730	2,074	2,264	2,489	2,717	2,971	3,250
Total Liabilities and Shareholder's Equity	**23,793**	**23,755**	**24,435**	**25,726**	**26,608**	**28,674**	**30,920**	**33,606**
Position Against Statutory Limits								
Section 14 Loans payable borrowing limit	29,880	29,085	30,750	31,110	33,960	37,335	40,755	44,565
Loans payable position against the limit	19,609	20,010	20,552	21,716	22.308	24,066	25,960	28,250
Sections 10(3), 10(4) Contingent liability (ceiling)	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500
Position Against Limit	15,845	14,871	16,038	18,302	19,114	21,669	23,286	25,532

Loans receivable for 2002 are now forecast to be higher than planned mainly due to the higher than planned financing volumes. Loans receivable are expected to continue to grow year over year during the planning period consistent with the signing of new commitments.

EDC has requested an increase in the Contingent Liability Ceiling from $17.5 billion as set out in the Export Development Act to a new limit of $20 billion. The increase in such limit is required to enable the Corporation to continue to operate at its current and projected volumes of business through years 2002, 2003 and 2004.

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.

4.3.1 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 included in this plan are instructed dividends to the Shareholder and are not eligible dividends per the Corporation's dividend policy.

4.4 PROJECTED CASH FLOW STATEMENT - CALENDAR YEARS 2001 TO 2007

Table 4 summarizes EDC's Projected Cash Flow Statement for the calendar year 2001 through to the year 2007.

TABLE 4— PROJECTED CONSOLIDATED CASH FLOW STATEMENT — 2001–2007

	2001	2002	2002	2003	2004	2005	2006	2007
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj	Proj	Proj
Operating Activities								
Net income	58	(159)	119	190	225	228	254	279
Items not affecting cash	249	556	809	630	602	718	771	860
Cash Provided (Used)	307	397	928	820	827	946	1,025	1,139
Investing Activities								
Loan disbursements	(8,085)	(5,451)	(6,602)	(7,588)	(7,464)	(8,208)	(8,814)	(9,550)
Loan repayments	6,243	4,915	5,087	5,081	6,080	5,690	5,844	6,097
(Increase) Decrease in investments	(2)	(33)	96	-	-	1	-	-
Cash Provided (Used)	(1,844)	(569)	(1,419)	(2,507)	(1,384)	(2,517)	(2,970)	(3,453)
Financing Activities								
Issue of long-term loans payable	5,398	5,452	6,634	6,735	5,944	4,754	5,296	4,760
Repayment of long-term loans payable	(4,203)	(4,650)	(5,545)	(4,481)	(5,266)	(2,791)	(3,249)	(2,800)
Increase (decrease) of short-term loans payable	329	(698)	(122)	(538)	(82)	(194)	(140)	347
Dividends	-	(50)	(95)	-	-	-	-	-
Cash Provided (Used)	1,524	54	872	1,716	596	1,769	1,907	2,307
Increase (Decrease) in Cash and Marketable Securities	(13)	(118)	381	29	39	198	(38)	(7)
Cash and Marketable Securities								
Beginning of Year	2,187	2,540	2,174	2,555	2,584	2,623	2,821	2,783
End of Year	2,174	2,422	2,555	2,584	2,623	2,821	2,783	2,776
Increase (Decrease) in Cash and Marketable Securities	(13)	(118)	381	29	39	198	(38)	(7)

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."

4.5 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 for the year ending December 31, 2003.

Table 5 — Exinvest Inc. Projected income statement — 2001–2007

	2001	2002	2002	2003	2004	2005	2006	2007
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj	Proj	Proj
Revenue								
Interest income	5	4	1	1	1	1	1	1
Expenses								
Admin. & amortization of financing costs	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Net Income	4	3	-	-	-	-	-	-
Retained earnings at beginning of year	16	-	20	-	-	-	-	-
Dividends paid	-	-	(20)	-	-	-	-	-
Retained earnings at end of year	20	3	-	-	-	-	-	-

Table 6 — Exinvest Inc. Projected balance sheet as at December 31 — 2001–2007

	2001	2002	2002	2003	2004	2005	2006	2007
($ in millions)	Actual	Plan	Forecast	Plan	Proj	Proj	Proj	Proj
Assets								
Investments	24	24	24	24	24	23	23	23
Deferred financing costs	8	7	9	9	8	8	7	7
Cash and short term investments	109	18	13	13	14	15	16	16
Total Assets	141	49	46	46	46	46	46	46
Liabilities and Shareholder's Equity								
Capital	121	46	46	46	46	46	46	46
Retained earnings	20	3	-	-	-	-	-	-
Total Liabilities and Shareholder's Equity	141	49	46	46	46	46	46	46

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.

4.6 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.

4.6.1 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.

4.6.2 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 Asset/Liability Committee and the Risk Management Committee of the Board of Directors.

4.6.3 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, 2001, this formula produced a limit of $30.8 billion against which borrowings are estimated to be $20.6 billion at December 31, 2002. The maximum limit for borrowings in 2003 is estimated to be $30.5 billion, $8.8 billion above the planned borrowings of $21.7 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 favourable market conditions, within pre-defined 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 fixed- and floating-rate borrowings for 2003 and 2004 are estimated to be $6.2 billion and $5.9 billion respectively.

Borrowings may increase by approximately US $750 million ($1.2 billion) as a result of increased disbursement volume or pre-funding of the 2003 requirements.

TABLE 7 — PROJECTED BORROWING PLANS — 2002 TO 2007

	2001	2002[1]	2003	2004	2005	2006	2007
($ in millions)	**Actual**	**Forecast**	**Plan**	**Proj**	**Proj**	**Proj**	**Proj**
Established Borrowing Authority	8,365	8,085	7,823	7,823	7,823	7,823	7,823
Aggregate New Borrowings[2]	5,727	6,512	6,197[3]	5,862	4,560	5,156	5,107
Borrowings Payable, year-end							
Medium-term	15,886	16,951	18,653	19,327	21,279	23,313	25,256
Short-term[4]	3,723	3,601	3,063	2,981	2,787	2,647	2,994
Total Borrowings Payable	19,609	20,552	21,716	22,308	24,066	25,960	28,250
Principal Repayments							
Medium- and long-term	4,203	5,545	4,481	5,266	2,791	3,249	2,800

1. *Foreign exchange rate for 2002 is assumed to be US $1 = Cdn$1.54, for 2003-2007, US $1 = Cdn $1.49*
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 2003 or if favorable market conditions warrant the pre-funding of 2004 requirements or a portion thereof, EDC's aggregate new borrowings may increase in 2003 by a further US $750 million.*
4. *EDC has a US $2.0 billion confirmed standby credit facility, which will allow the Corporation to borrow funds at predetermined rates of interest if necessary for operating purposes.*