2007–2011
Corporate Plan Summary

Operating Budget • Capital Budget • Borrowing Plan

Canada

EDC
Export Development Canada | Exportation et développement Canada

Operating Budget

Capital Budget

Borrowing Plan

March 2007

Table of Contents

Executive Summary

EDC's 2006-2010 Corporate Plan introduced a new business development structure focused on the customer. This reorganization reflects the realities of an integrated, globalized world in which customer needs are increasingly sector based, matching global supply chains. The 2007-2011 Corporate Plan picks up where the last Plan left off.

- *The global economy is expanding at a slower pace; risks are increasing, and competition is intensifying. In addition to increasing productivity, companies need a wide range of trade finance and risk management services to compete.*
- *EDC is committed to the success of Canadian companies; its new business integrated structure is about better connecting with customers to more fully serve their needs.*
- *EDC has the capital to expand capacity and to increase risk appetite.*
- *EDC is dedicating additional resources to better connect with and serve Canadian companies.*

As a result, in 2007 EDC's customer base is expected to increase by 10% (for a total of 6,800 customers) and exports and investments facilitated by EDC are forecast to grow by 10% (for a total of $66.2 billion).

Chapter 1: Export Development Canada

Export Development Canada (EDC) is a Crown corporation which provides trade finance and risk management services to facilitate the trade and investment activities of Canadian companies. EDC is committed to the success of Canadian companies as they look to compete in a global economy. Chapter 1 provides general information on EDC, its mandate and evolution. It also describes the Government's expectations for EDC as outlined by the Minister of International Trade in a statement of priorities. The key themes of the statement are:

- Adapt to the international environment as it evolves; the customer-centric approach adopted by EDC is a meaningful step
- Work in partnership with the private and public sectors
- Actively support Canadian direct investments abroad and facilitate equity investments
- Focus on the U.S. market, increase foreign representation and forge relationships with international financing providers and foreign buyers
- Leverage capital: take more risk in emerging markets, deepen sector penetration, assist SMEs
- Maintain high standards of accountability and good governance
- Work with DFAIT and other Crowns to more effectively share knowledge in order to generate and capitalize on opportunities for Canadian companies
- Share information on significant issues with DFAIT and the Department of Finance

CHAPTER 2: PLANNING ENVIRONMENT

The planning environment section speaks to the evolution of the global marketplace and the challenges and opportunities facing Canadian exporters and investors. Highlights include:

- Global growth has begun to moderate and competition is intensifying
- Integrative trade is changing the way companies do business; supply chains have become the dominant feature of international trade
- Companies need to adapt; they can participate in a global supply chain, import more to export more, set up shop abroad to source supply or better serve customers
- Lowering costs/increasing productivity is essential to a company's competitiveness
- Having access to a broad range of trade finance and risk management services is also a key part of a company's competitiveness equation

CHAPTER 3: EDC'S BUSINESS STRATEGY

EDC's Business Strategy is positioned to assist Canadian companies in a highly competitive global economy. The overall goal is to serve more customers and more fully respond to their needs, in all markets.

This Strategy is driven by a commitment to better understand the needs of Canadian companies and to leverage all of EDC's resources in order to provide solutions which respond to those needs. EDC is dedicating additional resources to better connect with and serve Canadian companies. There are three pillars to EDC's Business Strategy:

FIRST PILLAR: Connect with exporters and investors

Objective

To more widely reach out to Canadian companies engaged in integrative trade, better understand their needs and bring all of our expertise and solutions to serve them, directly or indirectly with other financial institutions

Strategy

- Fully implement the integration structure
- Enhance regional and foreign representation
- Increase focus on partnerships

Performance measures and targets

	2005 Actual	2006 Plan	2006 Forecast	2007 Plan	Increase 2007P/2006F
Customer acquisition and retention	5,974	6,400	6,200	6,800	10%
# of multiple program users	324	n/a	395	480	22%
Customer Service Index	83.2	83.3-85.2	achieve	improve	
Customer Value Index	77.1	77.2-78.9	achieve	improve	
Partnership Volume ($B)	9.7	9.0	9.7	10.9	12%

SECOND PILLAR: Facilitate Integrative Trade

Objective

To increase the competitiveness of Canadian exporters and investors by providing a wide range of trade finance and risk management solutions, in particular with respect to their investments abroad as well as their business in emerging markets

Strategy

- Increase overall support of customer needs
- Support business in emerging markets
- Facilitate Canadian direct investments abroad that create benefits to Canada

Performance measures and targets

	2005 Actual	2006 Plan	2006 Forecast	2007 Plan	Increase 2007P/2006F
Total volume of business (B$)	57.4	59.6	60.4	66.2	10%
Volume in emerging markets ($B)	13.3	14.2	15.6	18.0	15%
Foreign investments facilitated:					
- Volume ($B)	3.9	5.0	5.0	6.0	20%
- Number of transactions	47	65	65	85	31%

THIRD PILLAR: Leverage the organization

Objective

To optimize the use and allocation of EDC resources to better serve the global needs of Canadian companies

Strategy

- Use capital to expand capacity and risk appetite
- Streamline processes to provide timely, responsive and flexible solutions
- Leverage technology to support the business strategy
- Secure employee engagement

Performance measures and targets

	2005 Actual	2006 Plan	2006 Forecast	2007 Plan
High risk volume ($B)	-	-	-	0.9
VfM to TCO ratio*	37:63	-	47:53	50:50
Employee engagement	-	-	-	rank above high quality organizations**
Employee retention (%)	94.2	92.5	92.5	≥CB rate ***

* new technology measure: ratio of Value for Money to Total Cost of Ownership
** measured by the climate assessment independently reported by Hay
*** Conference Board rate for financial institutions

CHAPTER 4: FINANCIAL PLAN

EDC is committed to operating in a financially self-sustaining manner. EDC's financial management strategy is focused on ensuring that the Corporation has at all times sufficient financial capacity to support the ongoing fulfillment of its mandate and respond to the evolving need of Canadian exporters and investors. To achieve this, EDC seeks to obtain adequate returns for risk taken, to contain costs and to manage risks appropriately.

Projected financial performance

	2005 Actual	2006 Plan	2006 Forecast	2007 Plan
Net income ($M)	1,287	892	951	474
Financial Sustainability Ratio (%)	10.2	8.7	7.5	8.5
Return on Equity (%)	27.0	16.2	16.6	7.6
Gross Efficiency Ratio (%)	20.5	26.3	27.5	25.0

1. EXPORT DEVELOPMENT CANADA

1.1 INTRODUCTION AND OVERVIEW

Export Development Canada (EDC) is a Crown corporation which provides trade finance and risk management services to facilitate the trade and investment activities of Canadian companies. EDC is committed to the success of Canadian companies as they look to compete in a global economy.

The Corporation provides commercial solutions in support of Canadian companies' global business activities. In addition, EDC serves as Canada's Export Credit Agency (ECA) offering terms consistent with its obligations under the OECD "Arrangement on Officially Supported Export Credits" (the OECD Consensus). This blended model provides EDC with the flexibility to respond to the wide range of business needs and market pressures.

In 2005, EDC extended a record $57.4 billion in trade finance and risk management services to finance or insure export sales and investments by 6,828 Canadian companies – 91% of which were SMEs – in 171 countries and territories. Of this total, $13.3 billion represented services extended to facilitate Canadian business in 137 emerging markets.

EDC estimates that the business it facilitated in 2005 generated approximately $37.4 billion in GDP for Canada and is associated with sustaining some 457,000 jobs, which represents 2.8% of national employment.

EDC conducts its operations on a self-sustaining basis, generating sufficient income to protect its assets and to support future business. The Corporation does not receive annual appropriations from Parliament.

EDC's results underscore its unique role as a trade finance institution – executing its mandate with a focus on customer service – and its place as the largest pool of trade finance expertise under one roof in Canada.

EDC's head office is located in Ottawa, as prescribed by the *Export Development Act*. A strong regional presence is maintained with offices in St. John's, Halifax, Moncton, Montreal, Quebec City, Toronto, London, Winnipeg, Calgary, Edmonton and Vancouver.

To better serve Canadian companies, EDC also maintains representation in China (Beijing and Shanghai), Brazil (São Paulo and Rio de Janeiro), Malaysia, Mexico (Mexico City and Monterrey), Poland and India. EDC's newest foreign representation will be in Russia, and is scheduled to open in 2007. EDC's representatives abroad are co-located in the Canadian Embassy and work closely with the members of Foreign Affairs and International Trade Canada's (DFAIT) Trade Commissioner Service (TCS) in support of the international business activities of Canadian companies.

1.2 Mandate and Operating Principles

1.2.1 Mandate

EDC was established in 1969 by an Act of Parliament – the *Export Development Act*. The Corporation reports to Parliament through the Minister of International Trade and works within the International Trade portfolio in order to provide a continuum of trade promotion, finance and risk management services to Canadian business.

EDC's Mandate

"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."

(Section 10, *Export Development Act*)

EDC fulfills its mandate by providing a range of services in support of Canadian global business activity (exports of goods and services; facilitation of investments abroad). As well, EDC makes a wide range of market information and economic forecasts available to Canadian companies.

These services are designed to provide Canadian companies with the information and services they need. As their needs evolve, EDC must continue to be ready and able to support their efforts to compete and succeed. Accordingly, EDC is committed to being a reliable, dedicated and flexible partner through all phases of the economic cycle.

1.2.2 Operating Principles

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

1.3 The Evolution of EDC

Virtually every industrialized nation in the world promotes its national exports through a range of trade facilitation activities, including the provision of international finance services such as insurance, guarantees, direct lending and bonding. In most countries, these activities are carried out through a range of both public- and private-sector financial institutions.

The trade facilitation offerings of most modern economies have changed dramatically over the past decade to keep pace with changes in the market and, more importantly, the changing needs of the businesses they serve. EDC is no different.

Over the past 60 years, EDC has evolved from being solely a provider of credit insurance (as it was when its predecessor, the Export Credits Insurance Corporation, was created in 1944), to an organization which provides a broad range of trade finance and risk management services. In so doing, EDC serves as Canada's ECA, offering terms consistent with its obligations under the OECD Consensus.

However, business facilitated under the OECD Consensus only represents a small portion of EDC's total volume and of Canada's overall export volume. The Corporation also provides commercial solutions in support of Canadian companies' global business activities, consistent with terms offered in the private market.

EDC employs this blended model in order to have sufficient flexibility to respond to the wide range of business needs and market pressures. In this regard, EDC is somewhat unique.

EDC's Canadian Benefits Policy

All business facilitated by EDC is reviewed under EDC's Canadian Benefits Policy to ensure that an appropriate level of economic benefits are generated in Canada. Over the years, EDC's Canadian Benefits Policy has evolved to keep pace with the way international trade is conducted in an increasingly globalized economy. Canadian benefits are no longer defined exclusively in terms of Canadian content. Today, other benefits such as future trade creation, R&D investment, high-quality jobs in Canada, and participation by smaller companies in global supply chains are more important than ever and are considered when EDC reviews transactions under the policy.

Since its creation as EDC in 1969, the Corporation has continued to evolve its offering in response to changing exporter and investor needs. This evolution has seen EDC establish: a project finance team; pre-shipment financing; working capital services; political risk insurance; contract surety insurance; bank guarantees; a small business program; and an equity program.

Most recently, EDC's activities have focused on enabling companies to compete in an integrated global economy. This has meant being responsive to the investment plans of Canadian companies and the needs of their foreign affiliates. It has also resulted in a reorganization of EDC's structure around the customer (see Chapter 3 for more details).

The bottom-line is that the global economy and the international financial intermediation market will always be evolving. In order for EDC to remain relevant to Canadian companies, it needs to evolve and keep pace with these changes.

1.4 Canada's Global Commerce Agenda

As an instrument of public policy, EDC's activities must support and be aligned with the Government of Canada's global commerce agenda. The International Trade portfolio, made up of DFAIT, EDC and the Canadian Commercial Corporation has a critical role to play in advancing this agenda. To this end, the Minister of International Trade has outlined the Government's expectations for EDC in a statement of priorities.

In its 2006-2010 Corporate Plan, EDC articulated an ambitious Business Strategy which was focused on positioning the Corporation to respond to the evolving needs of Canadian companies. The Corporation's integration of its business operations was highlighted as a key component of this Strategy, as was its intention to expand global market reach, facilitate integrative trade and leverage its balance sheet.

For 2007 and into the planning period, the Minister has highlighted his interest in seeing EDC continue its efforts to make the organization more customer centric, while at the same time maintaining its strong track record of accountability and good governance as it implements its Business Strategy. In addition, the Minister has asked EDC to:

- continue to focus on how it can facilitate integrative trade by providing support for Canadian Direct Investment Abroad and by facilitating equity investments for newly developing exporters;
- increase its representation abroad in order to forge relationships with international financing providers and foreign buyers;

- focus on how it can enhance Canada's position in the U.S. market and in emerging markets; and
- continue to support Canada's participation in the OECD negotiations to modernize the Aircraft Sector Understanding.

The Minister's letter recognized the Corporation's commitment to work in partnership with public and private-sector institutions as it implements its Business Strategy. Accordingly, EDC has been asked to continue to seek out new ways to develop effective partnerships, including with other Crown corporations such as the Canadian Commercial Corporation and the Business Development Bank of Canada.

The Business Strategy is presented in Chapter 3 of the Corporate Plan and is aligned with and reflective of these priorities.

2. PLANNING ENVIRONMENT

2.1 INTRODUCTION

The world is being reshaped by the forces of technology and globalization. Nowhere is this truer than in the case of the global economy, where these forces have brought industries from around the world together to such an extent that geographic distance means less today than it did 20, 15 or even 10 years ago. Quite simply, the world is a smaller place.

The concept of a smaller, more closely connected world was described by Thomas Friedman in his book "The World is Flat."[1] His apt characterization helps to illustrate how global connectivity has changed the way that companies around the world do business and has made the economy extremely competitive.

Against the backdrop of this structural change, the cyclical nature of the global economy is also affecting the environment in which companies do business. Today, the global economy is experiencing a growth "downshift." With the high point in the credit cycle having passed, global growth is expected to moderate, interest rates to rise, liquidity levels to fall, and risks to increase. While this return to more sustainable levels of growth is expected to be gradual, it will nevertheless expose vulnerabilities in certain sectors and companies.

What does all of this mean for Canadian companies? For those companies in the energy sector, the outlook remains very positive. However, the outlook is less positive for others. For example, companies in the commodity sector will see profits ease as prices fall from near-record levels. Similarly, companies in the manufacturing sector will still need to contend with both persistently high energy prices and a higher dollar. This translates into higher costs and tighter margins.

However, a silver lining exists. A strong dollar also presents opportunities for Canadian companies to increase their productivity and become more competitive. It has become less expensive for companies to make investments in machinery, equipment and technology to increase productivity here in Canada, or to make investments in supply chains that will enable them to source materials and expertise from around the world, particularly from emerging markets. In truth though, these are more than opportunities – they are necessities.

The following chapter explores both the challenges and opportunities described above in more detail. The conclusion is a simple one: in order to succeed in this environment, companies must always be looking at how they can improve productivity and innovate to stay ahead of their competitors. EDC is committed to the success of Canadian companies as they look to compete in a global economy. The Business Strategy which is presented in Chapter 3 outlines the role that EDC can play in assisting companies improve their productivity and enhance their global competitiveness through the provision of timely, relevant and effective financial intermediation.

2.2 THE GLOBAL ECONOMY

The global economy is experiencing a growth slowdown. Over the past four years global economic conditions have been extremely robust, with growth averaging 4.8% – well above the 3% rate considered to be normal or sustainable over the long term.

[1] Thomas L. Friedman, The World is Flat: A Brief History of the Twenty-First Century, (Farrar, Straus and Giroux), 2005.

This expansive economic environment, largely driven by low interest rates, saw high levels of liquidity not only in developed markets, but also in those considered to be higher risk. In this environment consumer spending was strong, corporate profits rose, and emerging market countries refinanced or even paid back debt at unprecedented levels.

At the same time, the level of capital invested in machinery, equipment, technology and infrastructure grew at an extremely high rate. Capital was also funnelled towards cross-border investment, which increased by 30% in 2005 to an estimated USD 900 billion. This strong level of investment, both foreign and domestic, helped to fuel global trade.

Today, EDC is forecasting that global economic growth will lose momentum and return to reality. This slowdown, although gradual, will have repercussions as interest rates rise, profits in many sectors fall and credit conditions move away from the high point in the economic cycle.

2.2.1 Global Economic Outlook

In its latest Global Export Forecast[2], EDC Economics is forecasting a moderation in U.S. economic growth which will be followed by a loss of momentum in most economies by the end of 2006 and through 2007. As a consequence, while global growth in 2006 is forecast to come in at 4.8% (as it did in 2005), it is expected to ease down to around 4.0% in 2007.

The U.S. economy is expected to begin to slow towards the end of 2006. Growth for 2006 is forecast at 3.3%, easing further to 2.2% in 2007. This will represent the first time that U.S. growth has fallen below 3% since 2002. The slowing of the U.S. economy will largely be a consequence of higher interest rates and lower demand in the housing sector.

The slowdown in the U.S. will be followed by a similarly paced easing in other markets. Growth is expected to moderate to 3.0% in Mexico, while China, India and Russia will ease to about 9%, 7% and 5% respectively. South America's growth will slip to 4%. However, it is important to note that there is no precipitous drop being forecast, either in the U.S. or in other markets. As Table 1 illustrates, most economies are expected to fare reasonably well over the planning period.

[2] Export Development Canada, Global Export Forecast, October 2006 Update.

Global GDP – 2005	% Share of Global Economy (2005)	Forecast Average Annual Growth (2007-2011, %)
United States	20.9	2.8
Eurozone	15.3	1.8
China	13.2	9.4
Japan	6.9	2.1
India	5.9	7.4
Central and Eastern Europe	4.5	4.7
Africa	3.7	4.4
ASEAN-4	3.5	4.6
United Kingdom	3.1	2.1
Brazil	2.6	3.1
Russia	2.6	4.9
Middle East	2.3	4.9
Asian NIE's	3.5	4.3
Canada	1.9	2.9
Mexico	1.8	3.1
Other Asia	1.7	4.9
Other Western Europe	1.6	2.0
Other Latin America	1.3	3.8
All Others	3.7	3.6
Total	**100.0**	**4.0**

Source: World Bank, EDC Economics. GDP on a purchasing power parity (PPP) basis. *May not add up due to rounding.*

2.3 A Competitive, Supply Chain Driven Market

The forces of technology and globalization have essentially made the world smaller and the global economy more competitive. Today, Canadian companies face a growing number of competitors at home and in markets around the world. Who are these competitors? In a word: everyone. Canadian companies are competing with one another here in Canada and across the world. They are also competing with companies from other developed markets, and with companies from emerging markets. The nature of this competition is such that in many cases, a company needs to do more and work harder just to maintain its market position.

In such an environment, success depends on a number of factors. In addition to developing innovative products, companies must also be focusing on productivity and cost control. They must be able to maintain a competitive price or their buyers will look elsewhere. Today’s world gives the buyer unprecedented choice and the ability to source the goods or services they want at the best possible price from anywhere.

That being said, companies also have opportunities to lower their own costs by sourcing inputs from across the globe. Increasingly, companies are globalizing their production processes so that each segment of the process can be performed at the lowest possible cost.

2.3.1 Supply Chains and the Role of Investment

In the highly globalized economy of the 21st century, trade has moved beyond simply meaning making something in Canada and selling it to someone abroad. Today, trade connects a network of business activities conducted in various parts of the globe.

The result is a global product with production and the provision of services spread out along a supply chain. Trade is now a tool of production rather than simply a sale and is increasingly organized around sectors, rather than the more traditional concept of a "market."

This is the integrative trade model, wherein traditional export sales are integrated with foreign sourcing and cross-border investment into one package that maximizes companies' productivity and enhances their competitiveness. Increasingly, companies are also relying on a network of foreign affiliates to conduct their global business.

Global investment is driving integrative trade. According to UNCTAD (the United Nations Conference on Trade and Development), global investment flows reached an estimated USD 900 billion in 2005, representing a 30% increase over 2004. While growth may moderate somewhat in 2006 and 2007 as the global economy slows, the integrated nature of the global economy means that investment will continue to drive trade.

Where are these investment dollars going? While developed markets (led by the U.S.) continue to be the major recipients of global investment flows, emerging markets' share has been steadily growing.

Typically, companies have looked to emerging markets as potential export destinations; as a means to diversify beyond traditional markets. Certainly this is still the case, particularly in light of the emergence of a middle class with strong purchasing power in markets such as India and China.

Today, however, these markets are also seen as crucial investment destinations. Companies are setting up parts of their production operations abroad to take advantage of lower costs, particularly for labour, and to free up their own resources to move up the productivity ladder to higher value-added products. Companies are also choosing to set up production facilities abroad to secure access to a growing consumer base.

2.4 The Environment for Canadian Companies

Like the global economy, Canada's economic picture is expected to follow a similar, moderating trend. Overall growth is forecast at 2.8% in 2007, while exports are forecast to increase by 3% in 2006, but contract by 2% in 2007. This compares with 5.4% growth in 2005. A drop in automotive, consumer goods and forestry shipments, as well as some easing in commodity prices, accounts for the lower pace of export growth in 2006 and 2007. In addition, the continued strength of the Canadian dollar and persistently high input costs are negatively affecting growth, particularly in the manufacturing sector.

As has been the case in recent years, exports to emerging markets will continue to grow at a higher rate than those to developed markets. For example, exports to the U.S. are forecast to grow by 2% in 2006 and then decline by 2% in 2007. However, in 2006 exports to Russia are forecast to grow by 19%, to India by 23% and to Mexico by 21%. While a more modest expansion is forecast for 2007, export growth to these markets is still expected to outpace the rate of growth to most developed markets.

2.4.1 The Outlook for Canadian Companies

So, what does slower global growth mean for Canadian companies? Without question, the environment will be more competitive. Over the past few years, companies around the world have invested to increase capacity. However, this capacity is coming on line at the same time global demand is slowing and risks are on the rise. In addition, the Canadian dollar and energy prices are expected to remain relatively high.

These factors are having an impact on the confidence levels of Canadian exporters and investors. Results from EDC's semi-annual Trade Confidence Index suggest that overall Canadian companies are anticipating a tougher export environment. In fact, all sectors showed a decline in confidence levels. Overall, the index declined from 71.5 in the fall of 2005 to 70.6 in May 2006.

However, as Annex II (Page 45) illustrates, the effects of a slowing global economy will nevertheless vary from sector to sector. For example, as global economic growth moderates, the demand for raw materials will do the same. Canada's resource industry, which is currently benefiting from extremely high commodity and energy prices, will likely begin to see prices return to more sustainable levels. Exports in the forestry, auto and consumer goods sectors will remain under pressure as companies contend with higher costs and tighter margins. Export sales in these sectors are forecast to decline in 2007, but modest growth is expected in the outer years of the forecast.

Other industries will be more resilient. Advanced technology, telecommunications and niche machinery and equipment companies are expected to maintain relatively solid export shipments. Over the past several years, companies in these sectors have tightened their balance sheets and operating processes, and have taken advantage of the strong Canadian dollar to incorporate less expensive foreign inputs, all of which is helping them control costs in order to remain competitive.

This last point is important. Since dipping below 62 U.S. cents in January 2002, the Canadian dollar has appreciated by nearly 40%, briefly reaching a high of 91 U.S. cents in June 2006. The rise of the dollar from 62 to 80 cents reflected a return to a more normal rate of exchange as a result of strengthened global conditions. Canadian companies were able to adapt to this rise relatively easily. However, as oil prices have continued to rise, so too has the dollar. The result is that a 90 cent dollar is more dramatically affecting the way companies do business. For many, the solution is through investments in productivity, and enhancements in equipment and process logistics.

2.4.2 Integrative Trade and Canada

Like other companies around the world, many Canadian companies have been engaging in integrative trade. This is being done in a variety of ways.

Companies are importing products in order to produce and sell goods in Canada. They are also importing to export – again sourcing materials at the lowest possible cost and then integrating them into a product which is marketed and sold around the world. For smaller companies, their participation may simply involve finding their niche in some other company's supply chain; that is being a supplier of a component or service which is part of a larger product or corporate activity. What this participation has done is enable many companies to lower their costs, improve their productivity and enhance their competitiveness.

The U.S. continues to be the primary destination for Canadian Direct Investment Abroad (CDIA). In 2005, Canadian companies invested $23 billion in the U.S. This investment took the form of straight acquisitions, investments in new facilities, the flow of working capital from parent companies in Canada to their foreign affiliates in the U.S., and reinvested earnings.

In 2005, the value of Canada's flow of CDIA was $41.3 billion. Of this amount, 56% went to the U.S., 12% went to other developed markets and 32% went to emerging markets.

However, the U.S. is not the only destination for CDIA. Over the past decade, Canada's investment in other markets (developed and emerging) has grown.

2.4.3 The Implications of a Supply-Chain Economy for Canada

As a nation highly dependent on trade for its prosperity, Canada must continually look at how it can best leverage its own competitive advantages and make the investments necessary in order to facilitate international commerce in the 21st century. This is particularly true today, as we face a global slowdown and a highly competitive market.

So, what does this mean for Canada? First, Canada's reliance on trade makes the need for an infrastructure which supports trade and investment a priority. Companies must physically be able to tap into supply chains – this means having state-of-the-art capacity in places such as ports roads, and border infrastructure.

> *"We absolutely must position Canada as a magnet for investment, and we also have to support investments by Canadian companies in key global markets. It's not enough any more to simply bring investment to Canada. We've got to have Canadian companies investing in foreign markets and building global supply chains, because we are in a world where the fundamental reality is that investment drives trade. Trade drives our economy, but increasingly it is international direct investment that is driving trade."*
>
> Honourable David Emerson, Minister of International Trade,
> "Shaping a Global Commerce Agenda for Canada", June 8, 2006.

Second, it means that Canada must promote an environment in which Canadian companies can participate in the global economy, by negotiating and securing expanded access for Canadian goods, services and investment in all markets.

Third, it means that Canada, through the public and private sector, must be able to offer Canadian companies competitive financial intermediation services. Together, these three areas will help create an environment which encourages and supports Canadian companies' efforts to tap into supply chains and develop products and services which can be sold in Canada and around the world.

At the same time, Canadian companies must be looking at how they can leverage the advantages of the North American Free Trade Agreement and use North America as a jumping off point from which they can showcase their products and expertise to the world.

2.5 The Importance of Financial Intermediation

Access to financial intermediation is a key component of a company's competitiveness equation. In order to improve productivity and develop, produce, ship and get paid for their goods and services, companies require a range of financial services. These services can be accessed from either private-sector or public-sector sources.

Typically, when the global economy is strong and risks are lower, the private sector will have more capital and risk appetite to support international trade and investment. However, when conditions deteriorate and risks increase, private institutions often retreat from foreign markets towards safer business. Conversely, public-sector players like EDC look to facilitate trade and investment through all parts of the credit cycle, including when the risks are higher.

Like the global economy, the business of financial intermediation is evolving. There are more players providing services to companies than ever before. However, the availability of these services is not consistent, as companies in one country often have access to more services than companies in another.

2.5.1 A Multitude of Players

The market for financial intermediation is much broader than the private sector and ECAs. In fact, there are a multitude of players providing trade finance and risk management services to international companies, including:

- private-sector players (e.g. banks and insurance companies);
- OECD ECAs, which provide services to exporters active in higher-risk markets and traditional sectors;
- non-OECD ECAs, which are not subject to the terms under the OECD Consensus and which often have broader mandates than OECD ECAs; and
- multilateral institutions like the International Finance Corporation, bilateral institutions such as Germany's KfW, and Development Financial Institutions (DFIs).

The manner in which governments have chosen to employ tools in support of their exporters and investors is of great interest to EDC. By having multiple institutions or programs, these governments are able to offer their exporters and investors a wide range of services in support of exports, investments, development finance and aid. This is particularly true in the case of non-ECA vehicles, such as DFIs.

To date, EDC's experience in the market suggests that foreign companies may have a competitive advantage over Canadian exporters in certain sectors or markets. For example, companies may benefit from import support in strategically important sectors or from forms of tied aid to support exports. These are two areas where Canada does not provide similar services.

2.5.2 The Need for a Competitive Canadian Offering

In Canada, the size of the economy, the presence of comparatively few transnational companies and fewer financial institutions focused on trade have collectively resulted in a situation in which the market for trade finance and risk management services is less complete than in other countries.

In practical terms, this means that there are shortfalls in the availability of trade finance and risk management services such that Canadian companies do not always have access to the same breadth of financial services as their foreign competitors. This is particularly true for smaller companies, for young, high-growth firms, for firms that do not have a long-standing relationship with their financial institution, and for business that carries a higher-risk profile (in developed and emerging markets). EDC's own research and experiences in the market support this view.

EDC's role is to provide services which position Canadian companies to successfully compete on a level playing field. Nevertheless, the international financial intermediation market continues to evolve. Accordingly, over the next year EDC will undertake comprehensive research to examine and document how this market is evolving. This research will focus on the need for and the availability of financial intermediation services in Canada. This work is currently underway and the findings will be presented in the 2008-2012 Corporate Plan.

This research will be complemented by an assessment of Canada's service offering vis-à-vis the availability of such services around the world to determine whether Canadian companies may be at a competitive disadvantage. By identifying the financing continuum for Canadian exporters and investors, and assessing those areas where Canada's offering may fall short, EDC will be better placed to determine how its offering may need to evolve to keep pace with the financial intermediation environment.

3. Business Strategy

3.1 Introduction

As an instrument of public policy, EDC plays a vital role in facilitating the global business activities of Canadian companies. The Corporation has fulfilled this role for over 60 years, continually evolving its service offering to respond to the changing needs of Canada's exporters and investors.

EDC's activities are aligned with and supportive of the Government of Canada's international commerce priorities. As it pursues its mandate, EDC works in close collaboration with DFAIT, other government departments, agencies and Crown corporations in order to effectively leverage Canada's resources, at home and around the world. EDC also works in partnership[3] with a range of domestic and foreign financial intermediaries.

This Plan has described a world which is highly competitive, where the success of Canadian companies depends on their ability to adapt to a changing marketplace. Access to relevant trade finance and risk management services is a critical part of a company's competitiveness equation.

EDC's Business Strategy is focused on ensuring that the Corporation is positioned to effectively serve Canadian companies in this environment; to position them – and by extension Canada – to succeed. The goal is to serve more customers and more fully respond to their needs, in all markets.

EDC's National Stakeholder Panel

Following from a commitment made in the 2006-2010 Corporate Plan, EDC established a National Stakeholder Panel in 2006. The panel includes members from 18 business associations, ranging from the Canadian Manufacturers and Exporters Association, the Canadian Chamber of Commerce, the Canadian Federation of Independent Business, to various industry-sector associations.

The panel's inaugural meeting was held in June 2006, with members being joined by EDC's senior management and its chief foreign representatives. During the discussion participants had an opportunity to discuss a range of issues related to the challenges facing Canadian business. Going forward, the panel will hold an annual meeting, with other meetings held periodically to deal with specific issues or areas of interest.

This Business Strategy builds on the initiatives described in the 2006-2010 Corporate Plan, reinforcing EDC's drive to be a customer-centric organization. It represents the next stage in EDC's evolution as a Crown corporation which is committed to the success of Canadian companies.

[3] In this Corporate Plan, the term partnership is used in its broadest sense to capture various forms of associations between entities; some are formal in nature while others are intended to capture collaboration between two or more institutions.

There are three pillars[4] to EDC's Business Strategy:

- **Connecting with Canadian exporters and investors:** EDC will more widely reach out to Canadian companies to better understand their needs and bring all of our expertise and solutions to serve them, directly or indirectly, with other financial institutions.

- **Facilitating integrative trade:** EDC will increase the competitiveness of Canadian exporters and investors by providing a wide range of trade finance and risk management solutions, in particular with respect to their investments abroad and in global supply chains, and in their business in emerging markets.

- **Leveraging the organization:** EDC will optimize the use and allocation of its resources to better meet the global needs of Canadian companies.

EDC has put in place a program to measure its success at implementing this Business Strategy. The performance measures and targets are presented in Section 3.5.

3.2 Connecting with Canadian Exporters and Investors

EDC's ability to serve Canadian companies will depend in large part on its understanding of their needs and the challenges and opportunities they face. The Corporation is positioning itself to respond by facilitating cross-corporate sharing of information, developing integrated solutions and delivering those solutions the way customers want, in all sectors, in all markets and for companies of all sizes.

Connecting also means developing partnerships with private- and public-sector players in order to enhance EDC's ability to reach its customers, to better serve them through the channel of their choice and to increase capacity in the market.

3.2.1 An Integrated Business Structure

In 2005, EDC initiated a reorganization of its business structure. This reorganization reflects the evolving realities of an integrated, globalized world in which customer needs are increasingly sector based. The purpose of this reorganization is to:

- better understand the business needs and competitive pressures of Canadian companies;
- coordinate EDC's customer relationship activities to respond to those needs;
- improve relationship management with banks, brokers and insurance companies in order to more effectively leverage these important delivery channels; and
- get closer to the customer in Canada, and in markets around the world.

In other words, the goal is to ensure that Canadian companies are at the centre of everything EDC does. It means understanding their business and positioning EDC to be a relevant and valued partner today and in the future.

[4] The 2006-2010 Corporate Plan had four pillars. In the 2007-2011 Corporate Plan "Expanding EDC's Global Market Reach" has been merged with "Facilitating Integrative Trade" to reflect the fact that integrative trade is about everything EDC does to facilitate trade and investment, in all markets.

Under this new structure, EDC will be:

- **Relationship-driven** to create a consistent and seamless customer experience by identifying customer needs and efficiently providing solutions through their channel of choice, in a predictable fashion;

- **Market-engaged** to proactively identify and match international opportunities with Canadian capacity and interest; and

- **Trade-enabling** to align EDC's delivery mechanisms with the broad industry sector requirements to capture future and present trade opportunities and to share what the Corporation knows about the market with its customers.

In order to support these objectives, EDC will be dedicating additional resources to its customer-facing activities. This will be accomplished by adding employees and redeploying existing employees to the front-line. In addition, EDC is enhancing its representation across Canada and around the world.

3.2.2 Focus on Account Management

As part of its move towards an integrated business structure, EDC recognizes that company needs vary depending on a range of factors (e.g. sector, size, priority markets). In order to ensure that these varied needs are understood and reflected in its solutions, EDC has segmented its customer base and made account management a cornerstone of its new business structure.

The domestic market has been divided into three segments: the **Strategic** segment, made up of approximately 100 large exporters and investors who are industry leaders; the **Medium and Large** segment, composed of all companies with total sales above $5 million (but excluding the strategic customers); and the **Small Business** segment, made up of all exporters and investors with less than $5 million in total sales.

As of the fall of 2006, all of EDC's customers will benefit from account management, which will be supported by the development of a Customer Relationship Management (CRM) system. The objective of CRM is to provide client-facing staff with an operational system to manage their accounts, to capture and respond to business development opportunities, and to route incoming inquiries more efficiently. It is a key element of the long-term success of the integration exercise. EDC's CRM will be rolled-out in phases, beginning in 2007.

3.2.3 Focus on Sectors: Matching Global Supply Chains

In addition to the segmentation described above, EDC has realigned its existing sector-based structure by moving to six, more broadly based business teams, which more closely match global supply chains. The Corporation has also established a specific, cross-sectoral team to address the needs of small business. The six sector teams were rolled out in 2006, while the small business team has been in place since 2005.

As EDC develops a more holistic understanding of companies' needs, the Corporation will be able to refine and tailor its business plans for each sector. These plans will be profiled for its Board of Directors and highlights will be presented in future Corporate Plans.

3.2.4 Connecting with Small Business

EDC's commitment to Canada's SMEs is long standing. In 2005, the Corporation facilitated $15.5 billion of trade and investment in support of 6,203 SMEs, representing 91% of its customers. The bulk of this business was concluded under EDC's accounts receivable insurance program in support of exports to the U.S. and Mexico.

The Corporation has had a long-standing commitment to providing SMEs with information about doing business in foreign markets. This is done through EDC's website, its publications and research pieces (e.g. the Global Export Forecast), the "Let's Talk Exports" tour and through its participation in the Forum for International Trade Training.

EDC has supported the Forum for International Trade Training (FITT) in its mission to expand the skill base and competencies of SMEs. By partnering with the Canadian Federation of Independent Business (CFIB), community colleges, universities and private organizations, FITT supplies programs that build the capacity of businesses to successfully compete in world markets and delivers on the government's priority to build a skilled workforce for Canada. EDC has been a sponsor of the FITT Annual Conference for many years and has contributed its trade finance expertise to the development of the FITT course curriculum. In addition, EDC's Vice-President of Small Business Development represents EDC on the FITT Board of Directors, providing strategic advice and sharing the experience of our Corporation.

EDC's **Small Business Development Group (SBDG)** and the small business underwriting team serve those Canadian companies with less than $5 million in total sales (approximately 70% of the exporter population). SBDG was established in 2005 to bring together all of EDC's business development activities for small business.

Small business is a driver of job creation and a key contributor to the Canadian economy. However, many smaller companies do not enjoy the same access to financial intermediation as larger companies do. This unfortunately can affect a company's ability to grow, and in fact often results in situations where companies will decide to forego export opportunities.

Over the planning period, SBDG will continue to focus on better understanding the challenges these companies face and adapting its service offering in response. Regular engagement with business, industry stakeholders, government, including the Business Development Bank of Canada (BDC), and financial institutions will position the Corporation to develop and deliver relevant solutions on its own and in partnership with others.

Refinements to existing programs such as simplified accounts receivable insurance cover, and new initiatives such as micro-lending to the smallest companies are under consideration.

3.2.5 Being There: EDC Representation in Canada and Around the World

EDC's success at serving Canadian companies is facilitated by its regional representation. This representation enables the Corporation to connect with its customers here in Canada, and with foreign buyers, financial institutions and other stakeholders around the world.

EDC's Canadian Regional Representation

As noted in Chapter 1, EDC maintains a strong regional presence in Canada. A key principle behind EDC's business integration is the need to get closer to its customers – to be where they are. EDC has therefore enhanced its account management capabilities by placing many of its new employees in its regional offices. The Corporation is also locating several of its Small Business Managers in its regional offices to enhance its support to this important segment of the market.

As part of the roll-out of EDC's new Canadian Financial Intermediaries Group (see Section 3.2.6) the Corporation has placed relationship managers in the major financial centres to facilitate a more tailored engagement between EDC and Canada's banking and brokerage community.

Finally, although the majority of EDC's underwriting is done in Ottawa, the Corporation has underwriting capability in Atlantic Canada and in the West. Additional strengthening of EDC's overall regional capabilities across Canada will be considered over the planning period.

EDC's Foreign Representation

Connecting with Canadian companies means being where they are, but also being where they are going. To that end, EDC has a network of foreign representatives which enhances the Corporation's ability to serve Canadian companies by identifying business opportunities earlier, leveraging relationships in key markets and providing market intelligence.

EDC has maintained representation in select markets around the world since 1997, when it co-located a representative within the Canadian Embassy in Beijing. Today, EDC has foreign representatives located in six key markets (China, Brazil, Mexico, Poland, Malaysia and India). All of EDC's representatives abroad are co-located in the Canadian Embassy and work closely with members of DFAIT's Trade Commissioner Service in support of Canadian companies' global commerce activities.

Russia is becoming one of Canada's and EDC's most important emerging markets. Canada's export strengths match up very well against Russia's import needs. This is particularly true in four sectors: Extractive, Information and Communications Technologies, Transportation and Resources. In addition, Russian financial institutions such as local banks and leasing companies are seen as key partners that can assist EDC in taking risk on small- to medium-sized Russian companies.

In 2006, EDC announced that it is expanding its network by establishing representation in Moscow, with market coverage responsibility for Russia and the other member countries of the Commonwealth of Independent States (CIS). The Corporation's decision to establish this representation reflects the growing importance of Russia as a strategic market for Canadian companies.

3.2.6 Partnerships: A Key to Success

EDC's ability to effectively serve Canadian companies is enhanced by partnering with private (banks, insurance companies, sureties, brokers) and public-sector players. By leveraging its extensive network of partners, EDC is able to combine its expertise and risk capacity with that of other players. As well, partnerships offer the Corporation an opportunity to serve Canadian companies through their established financial intermediaries.

Partnering with the Private Sector

EDC works with the private sector to ensure that Canadian companies have access to the financial intermediation they need, and in a manner that is compatible with the way they do business. This commitment to partnering is perhaps best illustrated by the fact that more than half of EDC's business volume is concluded in collaboration with financial institutions (see Annex III, Page 46).

It is often more convenient for exporters, in particular small business, to access EDC services through existing bank channels and by working together, clients benefit from a broader range of financial options. However, partnering with the private sector is more than simply utilizing financial institutions as delivery channels. It means risk sharing with them in order to increase capacity in the market. In this sense, EDC's financial capacity and willingness to take on risk enables the private sector to extend support to a Canadian company.

For example, new export contracts often require working capital to fund pre-shipment costs. For many companies – particularly small business – this requirement can prove challenging. In these situations, EDC's risk-sharing guarantees can be used to encourage domestic banks to advance pre-shipment loans to exporters, thereby easing the cash flow demands on the company.

EDC's revised Bank Guarantee Program is another way in which the Corporation partners with banks. The Program complements EDC's direct lending program by leveraging EDC's and banks' financing capacity to provide Canadian exporters with incremental medium- and long-term financing for their foreign buyers in emerging markets. Since its launch in 2005, a pipeline of potential transactions has developed. Moreover, the program has promoted a wider dialogue between the banks and EDC and has resulted in a range of solutions being deployed to assist Canadian companies, such as the use of political risk insurance and non-honouring sovereign coverage which enhance banks' capacity to lend in support of international business activities.

The relationships the Corporation maintains with financial intermediaries are an important component of its Business Strategy. Given this importance, in 2006 EDC established a **Canadian Financial Intermediaries Group (CFIG)** to coordinate its multi-faceted relationship with Canadian banks and brokers.

CFIG is a dedicated group of account managers, responsible for facilitating a systematic and tailored engagement between EDC and Canada's financial intermediaries. The overall goal is to develop more coordinated and effective relationships with financial intermediaries, which will in turn help increase the financial capacity available to Canadian companies engaging in international business.

Partnering with the Public Sector

EDC recognizes the importance of working in tandem with its public-sector partners to identify opportunities where Canadian companies can benefit from a more effective leveraging of the Government of Canada's trade and investment services.

As part of the international trade portfolio, EDC works closely with DFAIT in Canada and around the world. This collaboration includes the sharing of market intelligence and on the ground co-operation between EDC and the TCS in markets where EDC has representation. It also includes working collaboratively to develop solutions which enable Canadian companies to respond to international opportunities.

In addition to its work with DFAIT, EDC is working with other public-sector players to better understand the range of services they provide to Canadian companies. For example, over the past year EDC senior management has met with their counterparts from the BDC to discuss each institution's priorities and areas of activity.

This engagement will continue in 2007, and is intended to not only map out how EDC and BDC currently serve Canadian companies, but also to identify areas where the two organizations may be able to work in tandem. Similarly, EDC is engaging with the Canadian Commercial Corporation (CCC) to better understand its business model and the role it can play in facilitating trade.

Finally, EDC will continue to support government-wide efforts to provide companies with information about the range of trade-related services provided by the Government of Canada through the Virtual Trade Commissioner and the Export Finance Guide. EDC will also be working with its partners in government to develop a single internet window through which companies can learn about and access all Government of Canada trade-related services.

3.3 Facilitating Integrative Trade

In the highly globalized economy of the 21st century, trade has moved beyond simply meaning making something in Canada and selling it to someone abroad. Today, trade is a network of business activities conducted in various parts of the globe.

This integrative trade model was presented in Chapter 2. It is a model in which trade has evolved to become more than just a sales tool. It is also a tool of production, and production occurs at a global level, with traditional export sales being integrated with foreign sourcing and cross-border investment into one package that maximizes a company's productivity and enhances its competitiveness.

EDC is committed to the success of Canadian companies as they compete within this integrative trade model. How? The Corporation facilitates Canadian companies' international trade and investment activities in developed markets like the U.S., and in emerging markets around the world and ensures that they have the products and services needed to help them compete.

3.3.1 Expanding Global Market Reach

Canada's dependence on global commerce for its prosperity is well documented. Exports generate one-third of every dollar earned in Canada.

Some 80% of Canadian goods and services exported in 2005 went to the U.S. market while only 8% went to emerging markets. Business facilitated by EDC showed a different profile: 56% of the volume concluded supported exports and investments to the U.S. and 23% to emerging markets.

Not surprisingly, the vast majority of Canada's trade has been with the U.S. However, exports to emerging markets are growing at a higher rate than those to developed markets. For example, over the past five years exports of goods to emerging markets have grown by 41%, while those to the U.S. have grown by 2.7%.

EDC is committed to assisting companies as they look to secure their position in markets where they are already active, or expand into new markets.

Securing and Enhancing Canada's Place in the U.S. Market

The U.S. remains Canada's largest trading partner and a key strategic destination for Canadian exports and investments. Proximity, language and the relatively unfettered access afforded under the North American Free Trade Agreement have all contributed to the success of the largest bilateral trading relationship in the world.

The importance of the U.S. as a strategic market for Canadian exports is often taken for granted. The U.S. position as the largest and most developed economy in the world makes it a "showcase" market where Canadian companies can profile their leading-edge products and services. At the same time, for many exporters – including the vast majority in the small-business sector – the U.S. represents the first market to which they will export. Their "export experience" in the U.S. will often weigh heavily in their decision to export to other markets.

The U.S. is also the primary destination for CDIA. In 2005, Canadian companies invested $23 billion in the U.S. This investment took the form of straight acquisitions, the creation of new facilities, the flow of working capital from parent companies in Canada to their foreign affiliates in the U.S., and reinvested earnings.

The importance of the U.S. market is further demonstrated by the role that U.S. multinationals play in pulling Canadian suppliers with them as they expand their own global market reach. In this case, Canadian suppliers not only benefit from expanded trade opportunities, but also develop valuable skills in supply chain management. One area where this has had an enormous benefit to Canada is in the automotive sector.

Not surprisingly, EDC's facilitation of exports and investments to the U.S. represents the largest portion of the Corporation's business volume, some $31.9 billion in 2005 or 56% of total volume. Although the U.S. is a friendly territory for Canadians, it is nevertheless a risky market given the high rate of corporate turnover. Almost 80% of the volume in the U.S. facilitated by EDC was concluded under the accounts receivable insurance (ARI) program.

As noted in Chapter 2, Canadian companies are facing competition in established markets like the U.S. One of EDC's priorities over the planning period will therefore be to provide companies with the services they need to enhance and expand their activities in the U.S.

EDC's new sector teams will be developing business plans for 2007 which will outline areas of priority and tactics for serving Canadian companies, including those competing in the U.S. Similarly, the SBDG will continue to work with small business to facilitate their global commerce, the majority of which is in the U.S.

Creating Opportunities in Emerging Markets

Although developed markets remain important trade destinations for Canadian companies, stronger relative growth in emerging markets make them extremely attractive. In fact, Canadian trade with emerging markets has grown by 7% annually over the past five years (2000-2005), while trade with developed markets has increased by 0.8% annually.

While emerging markets offer more opportunities, they also present higher risks. EDC's role is to provide financial intermediation to mitigate these risks and to position Canadian companies to capitalize on these opportunities. In 2005, EDC facilitated $13.3 billion worth of exports and investments to emerging markets, representing 23% of its total business volume. However, as the global economy moves down from the high-point in the credit cycle, risks are forecast to rise. Accordingly, the demand for EDC's services in emerging markets is also expected to rise.

Over the past 60 plus years, EDC has developed very strong relationships with local buyers, project sponsors, and host governments all over the world. These relationships are a key asset both for EDC and for Canadian exporters and investors, and are managed by EDC's **International Business Development Group (IBDG)**, which includes EDC's network of foreign representatives.

This focus on relationship management is complemented by a range of financial products and services targeted specifically to the dynamics of emerging market business. Products like Political Risk Insurance and local currency financing help exporters and investors mitigate the risks these markets often present and help position companies to succeed. In addition, the creation of a pool of Strategic Risk Capital (see Section 3.4.1) has made capital available for higher-risk business in emerging markets.

The International Business Development Group (IBDG) is working to identify, develop and leverage our business relationship with key buyers in emerging markets. As a starting point 61 accounts have been identified as "International Strategic Accounts" for EDC. IBDG will be working, in conjunction with the new sector teams, to develop comprehensive account plans to enhance these relationships. Over time EDC's relationships with these key buyers will become an integral part of the value proposition EDC offers to Canadian companies as they look to penetrate new markets.

Another way in which EDC helps grow business to these markets is by working with prospective buyers to identify new opportunities to buy from Canadian companies. Over the past several years EDC has demonstrated that, by developing relationships through the provision of financing to high-potential buyers, the Corporation is able to enhance its understanding of project procurement practices, identify new opportunities, and match those opportunities up with Canadian capabilities, thereby developing additional Canadian exports.

3.3.2 Support Canadian Direct Investment Abroad (CDIA)

Chapter 2 described the role that investment is playing in an integrated global economy. It is driving trade and providing companies with the means to lower costs and access new markets.

EDC has been supporting the investment activities of Canadian companies for many years, originally under the Political Risk Insurance program and more recently also with financing. In 2005, EDC facilitated nearly $4 billion of international investments by Canadian companies. As noted in Chapter 1, all business facilitated by EDC, including investment transactions, is reviewed under EDC's Canadian benefits framework to ensure that an appropriate level of economic benefits are generated for Canada.

In 2005, the Corporation developed a strategy to expand its support of Canadian businesses investing in foreign markets. This strategy is focused on:

- extending existing Political Risk Insurance and project finance programs to a broader base of customers and sponsors;
- increasing support for international acquisitions and expansions to help companies access new markets, increase their scope of operation or integrate supply inputs; and
- developing and delivering services for foreign affiliates of Canadian companies.

As part of this strategy, EDC will be actively promoting its services in support of CDIA by Canadian companies. As well, the new sector teams will be considering CDIA solutions as part of the sector plans that will be developed. This will include identifying opportunities to assist mid-market companies in their international investment activities.

Moving forward and over the planning period, EDC will be assessing how its support for CDIA may be enhanced. For example, to date, EDC's investment support has largely focused on the mining, energy and infrastructure industries. However, as the new sector teams develop their plans the Corporation will consider how its investment solutions may be tailored to respond to the needs of companies of all sizes in other sectors.

Beyond working with Canadian companies investing abroad, EDC is looking at how it can support the foreign investment activities of large Canadian investment institutions like pension funds. In addition to direct economic benefits, investments made by these institutions can have spin-off procurement opportunities for Canadian companies and can be used to pull Canadian companies into foreign markets as suppliers.

3.3.3 An Enhanced Equity Program

EDC's equity program was introduced in 1997. Under this program, the Corporation has invested private equity and venture capital funds to facilitate the business expansion and international growth of Canadian companies.

The program plays a crucial role in assisting Canadian companies with their growth initiatives in several areas: as a direct Venture Capital investor EDC has been a key catalyst in leveraging capital and filling funding gaps; and as a limited partner in private funds EDC has provided support and acted as a sounding board for emerging fund managers.

EDC introduced enhancements to its equity program following the approval by the Board of Directors in 2005. These enhancements are intended to better position EDC to assist companies in their pursuit of international commercialization activities.

The Corporation has discussed its plans for the equity program with officials from government and the BDC. Discussions with the BDC focused on the role of EDC's equity program vis-à-vis BDC's venture capital program.

It is understood that a small degree of overlap exists between the two programs. However, this overlap is seen as necessary as it establishes a "hand-off" zone where companies who start to look at exporting move away from being served by BDC towards being served by EDC. In this regard the programs complement one another, with BDC focusing on early stage, pre-export, seed initiatives and EDC focusing more on early-stage, mid-market companies that are looking to export to emerging markets. Where BDC is focused on "company building," EDC is focused on exporting and using its knowledge of foreign markets, its suite of services and its international networks to provide value to Canadian companies.

There are four key components of the enhanced equity program which EDC will deploy over the next five years.

- The **Next Generation Exporters** component facilitates the creation and growth of Canada's next generation of exporters through vehicles such as funds and direct investments.

- The **Middle Market** component is intended to provide capital and support for companies with high growth potential, particularly in relation to mid-sized companies looking at exporting or international expansion.

- The **Emerging Markets** component is focused on facilitating the business transition of Canadian technology or small/medium companies into emerging markets, with the greatest emphasis on large emerging markets.

- **Direct and Project Equity** provides support of export contracts or international expansion of companies on a case-by-case basis. Support is provided on a reactive basis for companies with a unique and compelling "Canadian" mandate story.

Collectively the components of the program are designed to assist companies, particularly small- and mid-market companies, to successfully establish business activities outside of Canada and eventually transition into effective global companies.

Over the next year, EDC will continue to grow its existing venture capital activities and expand its current focus on advanced and clean technologies to include biotechnology and nanotechnology. As well, the Corporation will be building out two additional components of the program: middle-market private equity and emerging markets. The vision is to eventually form a continuum, whereby EDC is assisting (with capital, networks and knowledge) young and/or small high growth Canadian companies from early stages through expansion mode to successful entrance into foreign markets, with particular emphasis on the large emerging markets.

3.3.4 Developing Innovative Financial Solutions

Canadian companies rely on EDC to be an innovative, dedicated and flexible service provider. By incorporating industry-wide best practices and greater stakeholder involvement, EDC has enhanced its ability to bring new products to the market in a timely and meaningful way.

EDC has introduced an integrated process for generating, analyzing and developing new product ideas. This new process has gone a long way to improve the timeliness and success of new product development. Product development is now prioritized based on a strong understanding of customer and partner needs. Two product initiatives – local currency financing and the EDC's Trade Opportunities Matrix – are being introduced.

In recent years, EDC has seen increased demand for **local currency financing** for emerging market borrowers. Emerging market entities that earn revenues denominated in local currencies incur exchange rate risk when they borrow in a foreign currency. By providing financing in local currency, EDC can help to mitigate the borrower's risk, while also improving the transaction's credit risks for its own account. A growing number of market players – including some ECAs, IFIs, DFIs and commercial financial institutions – are becoming engaged in this area.

In 2006, EDC conducted its first such transaction, providing financing in Mexican pesos to facilitate sales to Mexican buyers of vehicles manufactured by DaimlerChrysler Canada. In addition to Mexico, EDC has made Russia, Brazil and India target markets for this product.

In an attempt to assist exporters in their information search, EDC has developed a new tool called the **Trade Opportunities Matrix (TOM)**. TOM is a piece of intelligent software built on 10 years of data on Canadian trade with 69 foreign countries in 45 industries. It combines economic and political information and estimates of Canada's comparative trade advantage in specific sectors to identify: which markets offer the best opportunities for a given industry; what Canadian exports are likely to succeed in a specific market; and what markets offer the best overall potential.

Currently TOM is only available as an internal tool to assist EDC in its research on export trends and opportunities. The Corporation is, however, developing a platform from which TOM can be launched as a product available to Canadian companies. A formal launch will occur in 2007.

EDC is also assessing how **Global Trade Management (GTM)** is impacting the way Canadian companies do business. By effectively leveraging people, process and technologies at all stages of a transaction, companies are able to maximize productivity and enhance competitiveness. In 2007, EDC will be researching trends in GTM in order to better understand the opportunities for Canadian companies, and to identify areas where EDC's expertise may be leveraged to assist companies engaged in GTM.

3.4 Leveraging the Organization

EDC's success at implementing and delivering on its Business Strategy will depend on its ability to leverage the resources of the Corporation. This means leveraging its capital, processes, technology and people to facilitate the global business of Canadian companies at a time when risks are on the rise and competition is increasing.

3.4.1 Leveraging Capital

EDC's growth over the last decade has meant higher business volumes and more customers served. This growth has also allowed EDC to build its equity or capital base, often referred to as its risk capacity, to a level beyond that currently needed for existing credit commitments. As a result, EDC is very well positioned to further expand its risk appetite by more fully accessing this risk capacity for the benefit of Canadian companies.

In its 2006-2010 Corporate Plan, EDC highlighted its intention to review its capital management policies in order to position the Corporation to leverage its strong balance sheet. As part of this process, EDC considered allocating strategic risk capital to enable it to respond to customer needs during volatile market conditions, as well as to support higher risk business.

In June 2006, the Board of Directors approved a new Capital Adequacy Policy which established the basis on which EDC will manage its capital capacity going forward. A key feature of the Capital Adequacy Policy is the introduction of a defined amount of capital, referred to as Strategic Risk Capital (SRC).

By introducing the SRC component, EDC has made available capital for higher risk business opportunities of strategic importance to its customers and their industries under both the financing and the insurance programs. SRC will also be set aside for purposes of unforeseen or unexpected changes in our existing portfolio.

EDC's ultimate measure of success will be whether the Corporation is able to expand the envelope in which it does business by broadening its risk appetite across all product lines and increasing its support for higher risk transactions.

Deploying SRC

Over the past 10 years, EDC has experienced all phases of the credit cycle, including periods of sustained credit deterioration and market instability (e.g. Asian and Russian crises; aerospace and telecommunication sector challenges). The Corporation has come out of this period with a strong capital position. Moreover, EDC has gained valuable perspective on the level of risk it could take should similar circumstances arise in the future. This perspective will guide EDC as it considers how it can deploy SRC. EDC's plan is to employ a structured, three-pronged approach to: create capacity; promote the capacity; and utilize the capacity.

3.4.2 Streamlining Processes and Improving Efficiency

As a service-based organization, EDC must continually consider how it can improve customer service and ensure that a company's experience with EDC is consistent and predictable. In this regard, EDC has reviewed its transaction approval process and introduced measures to streamline it by establishing more precedents around business activity, mandate applicability and risk appetite in order to provide clarity to employees and predictability to its customers.

In 2007, EDC will be conducting a wider review of its internal processes and activities in order to identify areas in which the Corporation may be able to take additional steps to improve its efficiency. Success will be measured at the activity and program level.

3.4.3 Leveraging Technology

Technology is a critical force changing the global marketplace. EDC must leverage it intelligently in order to help Canadian business face today's dynamic challenges and opportunities and to ensure its employees can respond with agility to Canada's evolving trade and investment needs.

Technology and Integrative Trade

With the acceleration of integrative trade, Canadian companies are looking to enhance their competitiveness through globalized supply chains. The volume of trade and trade financing transactions being conducted online through global e-marketplaces and trade hubs is growing at a fast pace.

EDC is committed to helping Canadian companies connect to the intelligence, services and partnerships they need to prosper in this environment and to equipping its employees with the tools and knowledge they need to effectively carry out this mandate. EDC's Information Technology (IT) Strategy is intended to help drive its business response to integrative trade, while ensuring a stable, efficient technology infrastructure for its employees, customers and other stakeholders. The objectives of EDC's IT Strategy are aligned with and supportive of its Business Strategy.

In 2007 and over the planning period, EDC will be focusing its technology-related expenditures on customer sales and service initiatives. Financial projections of technology investment expenditures are presented in Chapter 4.

EDC Online

The web has emerged as a vital business channel for EDC. More than simply an internet site, the web is now viewed as a critical business development and customer service tool that needs to be seamlessly integrated with the Corporation's other channels such as its call centre and domestic and international sales forces.

Over the planning period, EDC will focus on enhancing its online service offering by:

- implementing a portals platform upon which to securely and efficiently deliver services that are tailored to specific market segments;
- responding to customer demands for greater online self-service;
- facilitating access by Canadian business and other stakeholders to the trade development and financing expertise of EDC and its private- and public-sector partners; and
- connecting EDC's services with other online trade management platforms in support of Canadian companies' global supply chain automation and integration.

In addition to these "customer-facing" initiatives, EDC remains committed to providing its employees with improved access to corporate information and online tools that will enhance their effectiveness.

3.4.4 Leveraging EDC's People

EDC's success in implementing its Business Strategy is primarily accomplished through the quality and performance of its people. Launched in late 2005, the Corporation's People Strategy is the cornerstone for its people programs and practices.

In the competitive and evolving environment within which EDC operates, the key factor that will drive success is "knowledge equity". EDC's efforts to secure a pipeline of talent in an increasingly competitive labour market, and to enhance and leverage our knowledge equity are critical. These objectives will be achieved through Planning, Engagement and Leadership.

A number of changes to people management systems and practices were introduced in 2006. Efforts in support of these key changes will continue throughout the planning period.

Resource Planning

EDC is initiating a **Strategic Workforce Planning** approach to identifying and planning for its key human resource needs. Focusing on critical workforce segments, this process is based on an understanding of current and future business needs and reflects external business and labour market trends. The ability to effectively plan for our human resource needs at an enterprise-wide level will be fundamental to EDC's success over the next decade, and this area of programming will be a priority for the 2007 planning period.

Specific recruitment strategies will be executed beginning in 2007 to ensure a steady influx of new talent. These include a focus on greater diversity and an enhanced University Recruitment Program. This investment for the future will assure EDC of ongoing fresh perspectives and ideas, and a workforce that will reflect and evolve alongside the client base it serves.

Finally, to ensure that resources are appropriately leveraged, EDC will explore process improvements and opportunities to gain efficiencies within our operations. Growth in our overall resources will be principally directed to those areas of the Corporation that will have the greatest impact on our customers.

Employee Engagement

EDC undertakes a comprehensive Employee Opinion Survey (EOS) biennially to assess the climate for employee engagement and to identify areas of opportunity for improvement. The most recent EOS reinforced EDC's strengths and highlighted communication, performance management, customer focus, innovation, and decision making as those areas with the greatest opportunities for improvement.

The Business Integration project was initiated subsequent to the 2005 EOS, and is a tremendous step forward in addressing some of the issues identified in the survey. In particular, the new integrated structure and supporting processes allow our people to more effectively serve our customers.

EDC's learning programs support employees in developing their technical and product knowledge, as well as building their requisite behavioural competencies. Training activities in support of the integrated business model will continue to be an important focus over the year to come, as will the ongoing support of EDC's Change Practice.

Voluntary turnover remains relatively low compared to averages reported for the Canadian financial sector, but is expected to increase as the market for talent continues to contract.

Leadership

EDC's Succession Planning practices are well established. Throughout 2006, individuals identified through these practices took on key leadership roles. This program's success has resulted in a contraction of the identified internal talent pools, and therefore a process of replenishing these pools is being initiated for 2007.

In an environment which demands that organizations be increasingly nimble, continued recognition of the importance of strong people management skills is essential. People practices at EDC are owned by everyone and leaders play the pivotal role in determining the success of these programs. Over the longer term, EDC will continue to focus on people leadership, helping managers understand what good leadership is and what each individual needs to do to evolve as a leader.

3.5 Performance Measures and Targets

3.5.1 The Creation of Benefits for Canada

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

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

Other less tangible benefits derived from EDC's role fall under the objective of enhancing Canada's export capacity. And that means helping small companies participate in integrative trade and using our financial capacity to support riskier business, often in new emerging markets.

The Canadian benefits scorecard for the past three years is presented below. Work is ongoing to determine what other elements can be added to this scorecard to more fully capture the benefits derived from EDC's support of Canadian exports and investments.

Canadian Benefits Scorecard	2003	2004	2005
Total volume facilitated ($B) % of exports facilitated	51.8 7	54.9 7	57.4 7
SME – number served SME – volume ($B)	6,542 10.4	6,345 11.8	6,203 15.5
Volume in emerging markets ($B)	10.5	11.6	13.3
Contribution to Canada's GDP ($B) Contribution to Canada's GDP (%)	32.5 3.3	34.7 3.4	37.4 3.4
# of jobs supported % of national employment	413,000 2.6	438,000 2.7	457,000 2.8

3.5.2 Measuring the Success of EDC's Business Strategy

EDC uses a number of measures to track its performance against each of the three pillars of the Business Strategy as described in the following section. EDC also tracks its performance under the goal of financial sustainability, the details of which are found in Chapter 4. For ease of reference, a summary of performance measures and targets for 2006 and 2007 is found in the table on Page 34.

Business targets for 2007 were set taking into account the external environment for Canadian companies and for EDC, as well as the objectives set under EDC's Business Strategy. They were sent in the fall of 2006, based on a forecast of 2006 results.

The global economy is expected to present many opportunities for Canadian companies but also increased competition, complexity and risk. This should translate into more demand for EDC services as companies pursue their global strategies. EDC is poised to meet that demand. In fact the new integrated business structure focused on the customer, the availability of strategic risk capital which allows EDC to expand its risk envelope, and the dedication of additional resources to its business development efforts should produce record business results for EDC in 2007.

Connecting with Exporters and Investors

The objective under this pillar is for EDC to more widely reach out to Canadian companies engaged in integrative trade, understand their needs and bring all of its expertise and solutions to serve them, directly or in partnership with other financial institutions. There are four areas of measurement associated with this objective.

Customer Acquisition and Retention

There are some 35,000 companies in Canada engaged in trade and knowing who they are is the responsibility of our sector teams. At any point in time, these companies may need EDC to facilitate their export sales or foreign investments. As they become customers of EDC, efforts are made to retain these customers in order to continue to provide effective service that meets their needs.

Our objective is to grow our customer base by retaining existing customers and acquiring new ones. A measure of customer acquisition and retention was initially introduced in 2005 and is part of our program in 2006. A target of 6,400 customers was set for 2006 representing a 7% increase over 2005 results. We forecast ending the year at 6,200 customers, 4% higher than in 2005.

All of our sector teams should be operational by the fall of 2006 and should have strategies in place with respect to serving their customer base in 2007. The target for 2007 is set at 6,800, an increase of 10% over 2006 forecast.

Multiple Risks; Multiple Solutions

Global trade is becoming more complex and companies are facing a wider array of risks. In the past, a customer was served primarily under one EDC program. Starting in 2006, companies are benefiting from a more fulsome account management program that covers the full gamut of our services.

A measure of our success in expanding our coverage of individual customer needs is the number of multiple program users. Although we have tracked this occurrence for some time, we are only introducing it as a measure of success in the coming year. Some 370 customers were multi-program users in 2005 and we forecast that number to increase to 395 by the end of 2006, which represents 5.6% of customers served. Our goal is to increase that number to 480 customers in 2007, or 6.4% of customers served.

Customer Loyalty

For more than 10 years, EDC has sought the views of customers on a wide range of issues. Each month, a sample of customers is surveyed to assess their perception of the service and value they receive from EDC. Individual responses are passed on to sector teams who are charged to take action for those customers whose responses fall below a certain level. All scores received are aggregated in indices that allow us to track progress in customer satisfaction and customer loyalty over time. This area of measurement is important to assess the success of our new customer-centric model.

The Customer Satisfaction Index (CSI) has been in place for many years and a minimum score of 80 (out of 100) is needed to achieve satisfactory results. In 2005, the CSI registered 84.8, an all-time high. We expect to do even better in 2006 and in 2007 as we fully implement our new integrated model.

Two other indices are tracked to measure customer loyalty. One, the Customer Service Index, measures product and service quality while the other, the Customer Value Index, measures the value realized by Canadian companies using our services. These two indices are targeted to demonstrate improvement from year to year. Based on results achieved to date from monthly customer surveys, we expect to reach target range for both indices in 2006. A further improvement in the scores will be expected in 2007 and targets will be set once final results are known for 2006 in late fall.

A new customer loyalty metric tailored to specific customer segments is currently being considered and may be introduced later in 2006 at the sector team level.

Partnering to Serve Canadian Exporters and Investors

EDC is committed to working with the private sector in the service of Canadian companies. More than half of our business volume is done in some form of partnership with financial institutions, while banks are increasingly viewed as a delivery channel for EDC services. The newly formed Canadian Financial Intermediaries Group is in the process of developing its action plan for 2007 which will include how best to assess and measure the increasing scope of our relationship with banks and brokers. Also under consideration will be the introduction of a Value Index to assess the banks' satisfaction level with EDC.

Until new measures are introduced, EDC will continue to track activity under an existing partnership volume measure. Since 2003, EDC has tracked the amount of contracted risk it assumes on behalf of financial institutions under a number of programs. These programs provide credit enhancements to banks and sureties, making it more attractive for them to extend coverage or financing to customers. In 2005, EDC concluded $9.7 billion of such volume and an equal level of activity is expected in 2006 against a target of $9 billion. The 2007 target is set at $10.9 billion, or 12% higher than our 2006 forecast results, as we expect increased activity under our contract insurance and bonding program.

Facilitating Integrative Trade

The demands placed on EDC by Canadian companies are ever increasing as they face new challenges and opportunities in the global marketplace. The objective under this pillar is for EDC to increase the competitiveness of Canadian exporters and investors by providing a wide range of trade finance and risk management solutions, in particular with respect to their investments abroad as well as their business in emerging markets. There are three areas of measurement associated with this objective.

Business Volume

A traditional performance measure for the organization is the total volume of exports and investments facilitated in a given year.

As indicated earlier, global economic conditions and EDC's own business development strategy are expected to yield an increased demand for EDC services in 2007. Details on the performance of each program are provided in Chapter 4. In aggregate, we expect to facilitate some $66.2 billion of exports and investments in 2007, or 10% more than our forecast for 2006. Increased activity is expected under each program.

Business in Emerging Markets

Exports to emerging markets are growing at a much faster rate than those to developed markets. This is reflected in the demand by Canadian companies on EDC for risk management and financial services to help them succeed in those markets. In 2005, EDC concluded some $13.3 billion of business in emerging markets or 15% more than in the previous year. The target set for 2006 was $14.2 billion and we fully expect to exceed that number by year end.

In 2007, we expect that emerging markets will continue to present excellent opportunities for increased export and investment activity by Canadian companies. Since doing business in these markets is often riskier, EDC's expanded risk appetite should facilitate the conclusion of more business in 2007. A target of $18.0 billion is set for 2007, which represents a 15% growth rate over 2006 forecast results. Although this number is very ambitious, we believe that the priority we have and continue to attach to serving companies venturing into emerging markets should produce strong results. If achieved, this level of activity would represent 27% of our total business volume, up from 21% in 2003.

The Facilitation of Canadian Direct Investment Abroad

Today, Canadian companies of all sizes are considering how foreign investment fits within their global strategy and an increasing number are taking the plunge in order to remain competitive and improve service to their international customers. In 2006 EDC implemented a pro-active strategy to facilitate foreign investments by Canadian companies in all markets. Two performance measures were introduced to assess the success of this strategy, both related to business concluded under our financing and Political Risk Insurance programs. Activity under other programs will be included in the measures when data with respect to that activity is more readily available.

The first measure, volume facilitated, was targeted at $5 billion for 2006 which represents an increase of 28% over 2005 results. We expect to meet the volume target based on activity currently in our pipeline.

The second measure, number of transactions facilitated, aligns well with our strategy to expand our support to a wider base of customers, in particular the mid-size market where the size of investments made may not be large but the need may be greater for EDC services. Our 2006 target was set at 65 transactions or 38% higher than 2005 results. We also expect to meet that target by year end.

We expect to see an increasing level of activity in 2007 as sector teams pro-actively engage with their customers on their investment plans and also as we reap the benefits of corporate promotional activities for our investment strategy. Consequently, targets of 85 transactions for a volume of $6.0 billion are set for 2007, representing increases of 31% and 20% respectively over 2006 forecast.

Leveraging the Organization

The objective under the third pillar of the Business Strategy is to optimize the use and allocation of resources to better serve the global needs of Canadian companies. Putting in place the right policies and processes with respect to financial capital, technology and employees should position EDC well to that end. There are three areas of measurement associated with this objective.

Expanded Risk Appetite

As described in Section 3.4.1, EDC has allocated Strategic Risk Capital (SRC) to enable it to expand its risk envelope. Success will be measured in a qualitative way (have we made structural changes to create capacity; have we informed companies of our expanded risk appetite) and in a quantitative way (i.e. business facilitated by the use of SRC). Each program area has identified a portion of its business volume with a higher risk profile for 2007 that, in aggregate, amounts to $0.9 billion. While a number has been set for 2007, it is difficult to quantify with precision how much business will be concluded but we are confident that, with the right structure and information to customers, the sector teams will identify business that fits our risk criteria. The actual usage of SRC will depend on the mix of business concluded.

Leverage Technology to Support the Business Strategy

As indicated in section 3.4.3, it is important for the organization to allocate its IT resources to initiatives that will help the business meet its goals. An industry benchmark measure is used by organizations to gauge the allocation of IT dollars between what is know as "Total Cost of Ownership" (TCO) and "Value for Money" (VfM) initiatives. TCO refers to technology investments that are either non-discretionary in nature or relate to maintaining core technology assets and infrastructure. VfM, on the other hand, refers to technology investments that drive business value, whether by enhancing customer service, corporate efficiency, employee satisfaction or revenue.

Over the last several years, EDC's expenditures on VfM initiatives have been growing as a percentage of total IT investment. While each organization must determine its own optimal allocation of resources based on corporate needs, EDC's ratio is reasonably in line with the industry benchmark.

For 2007, EDC has set a ratio of 50:50 as a target, reflecting the significant new technology requirements of the business as it better equips itself to serve Canadian companies as well as the stability of the corporate technical infrastructure.

Leverage People

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

An engaged workforce is a more productive workforce. EDC conducts an employee survey every two years on a wide range of issues affecting the work environment and employee engagement. We plan to continue to measure employee engagement in the context of this survey which will be next administered in the fall of 2007. Our goal is to rank above high-quality organizations on the key drivers of employee engagement.

EDC has had success in employee retention over the years but the market conditions are expected to remain competitive for the skills that we have in-house. Our 2005 retention rate was 94.2% and a target of 92.5% or better was set for 2006. At this time we expect to end the year at 92.5%. Keeping our well developed talent is essential and we have set as a target an employee retention rate that is no less than the Conference Board reported rate for financial institutions.

Performance Measures	2005 Actual	2006 Plan	2006 Forecast	2007 Plan
Connecting with Exporters and Investors				
Customer acquisition and retention	5,974	6,400*	6,200	6,800
# of multiple program users	324	n/a	395	480
Customer service index	83.2	83.3-85.2*	achieve	improvement
Customer value index	77.1	77.2-78.9*	achieve	improvement
Partnership volume ($B)	9.7	9.0	9.7	10.9
Facilitating Integrative Trade				
Total volume of business ($B)	57.4	59.6	60.4	66.2
Volume in emerging markets ($B)	13.3	14.2	15.6	18.0
Foreign investments facilitated:				
- Volume ($B)	3.9	5.0*	5.0	6.0
- Number of transactions	47	65*	65	85
Leveraging the Organization				
High risk volume ($B)	-	-	-	0.9
VfM to TCO ratio	37:63	-	47:53	50:50
Employee engagement	-	-	-	rank above high quality organizations**
Employee retention (%)	94.2	92.5	92.5	≥ CB rate***
Sound Financial Management				
Net Income ($M)	1,287	892	951	474
Financial Sustainability Ratio (FSR)	10.2%	8.7%	7.5%	8.5%
Return on Equity (ROE)	27.0%	16.2%	16.6%	7.6%
Gross Efficiency Ratio (GER)	20.5%	26.3%	27.5%	25.0%

*2006 targets were set after the 2006-2010 Corporate Plan was approved
** measured on the climate assessment independently reported by Hay
*** Conference Board data for financial institutions

ANNEXES

ANNEX I
EXPORT DEVELOPMENT CANADA – CORPORATE OVERVIEW

Export Development Canada (EDC) is a Crown corporation which provides trade finance and risk management services to facilitate the trade and investment activities of Canadian companies. EDC is committed to the success of Canadian companies as they look to compete in a global economy.

The 2007-2011 Corporate Plan has outlined an ambitious Business Strategy which is focused on ensuring that EDC is positioned to effectively serve Canadian companies in a highly competitive environment. The goal is to serve more customers and more fully respond to their needs, in all markets.

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

- **Mandate**, **Legislative Powers and Obligations**, as prescribed under the *Export Development Act* and the *Financial Administration Act*;

- **Managerial and Organizational Structure**;

- **Board and Committee Structure**; and

- **Products and Services**.

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

MANDATE, LEGISLATIVE POWERS AND OBLIGATIONS

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

Mandate

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 Powers

The Act and subsequent regulations provide the legislative basis for EDC's activities. Section 10 of the Act outlines the powers that EDC may exercise in pursuit of its mandate. Transactions supported under Section 10 are considered to be **Corporate Account transactions** as they are funded and supported by the Corporation's own balance sheet and income generating capacity, and not through annual appropriations.

In addition to its Corporate Account activities, under Section 23 of the Act, EDC may be authorized by the Minister for International Trade, with the concurrence of the Minister of Finance to undertake certain transactions of a financial nature to support and develop Canada's export trade. While EDC strives to find ways to structure transactions under its Corporate Account, there are a number of factors which might lead EDC to refer a transaction to **Canada Account**. For instance, the transaction could exceed EDC's exposure guideline for a particular country or involve markets or borrowers representing exceptionally high risks, amounts or financing terms in excess of what EDC would normally undertake. The monies required to discharge Canada Account transactions are made available from the Consolidated Revenue Fund.

The Act limits Canada Account's outstanding commitments to borrowers and liabilities under contracts of insurance and other agreements to an aggregate of $13 billion. As of March 31, 2006 such commitments and liabilities totalled $7.0 billion.

Finally, under certain circumstances, the Regulations under the Act permit EDC to undertake domestic financing or insurance transactions with the approval of the Minister for International Trade and the Minister of Finance. Such approved financing transactions or approved insurance transactions could be on EDC's Corporate Account or Canada Account depending on the risks.

Legislative Obligations

Section 25 of the Act requires that the Minister for International Trade, in consultation with the Minister of Finance, initiate an independent review of the provisions and operation of the Act five years after the coming into force of this section and every 10 years thereafter. A comprehensive mandate review of EDC began in 1998 and concluded in late 2001 with amendments to the Act. The next review must be initiated in 2008.

A Special Examination is mandated every five years under the *Financial Administration Act* (FAA) and a report on the findings must be submitted to the Board of Directors. During 2003-2004, the Office of the Auditor General of Canada (the OAG) conducted a Special Examination which found “no significant deficiencies in the systems and practices” examined. This report was presented to EDC’s Board of Directors in July 2004 and subsequently posted on EDC’s public website.

The Act also stipulates that an audit of the design and implementation of EDC’s Environmental Review Directive (the Environment Audit) must be undertaken by the OAG every five years. The last review was completed in 2004 and the report of the OAG was tabled in Parliament.

Accountability To Parliament

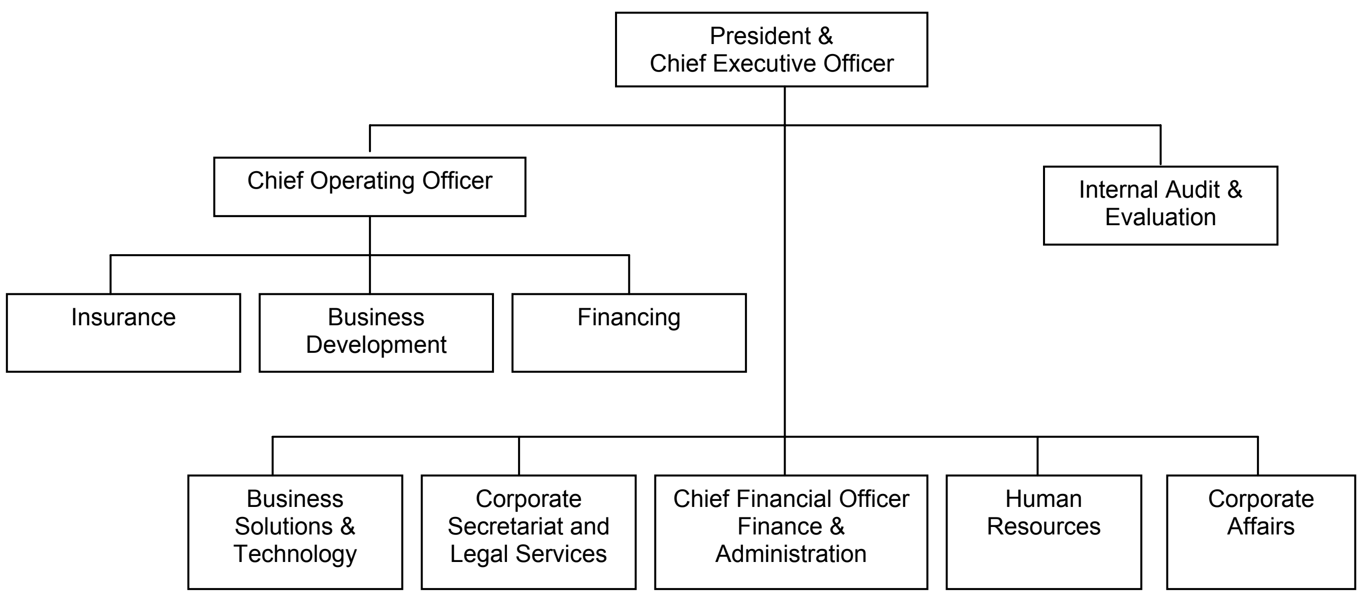
The Government of Canada primarily regulates Crown corporations through their enabling legislation and through the FAA. EDC is currently listed under Part I, Schedule III to the FAA, and as such is required to:

- submit an Annual Report, a Corporate Plan and an Operating Budget to the responsible Minister; and
- undergo regular audits by the Auditor General of Canada.

MANAGERIAL AND ORGANIZATIONAL STRUCTURE

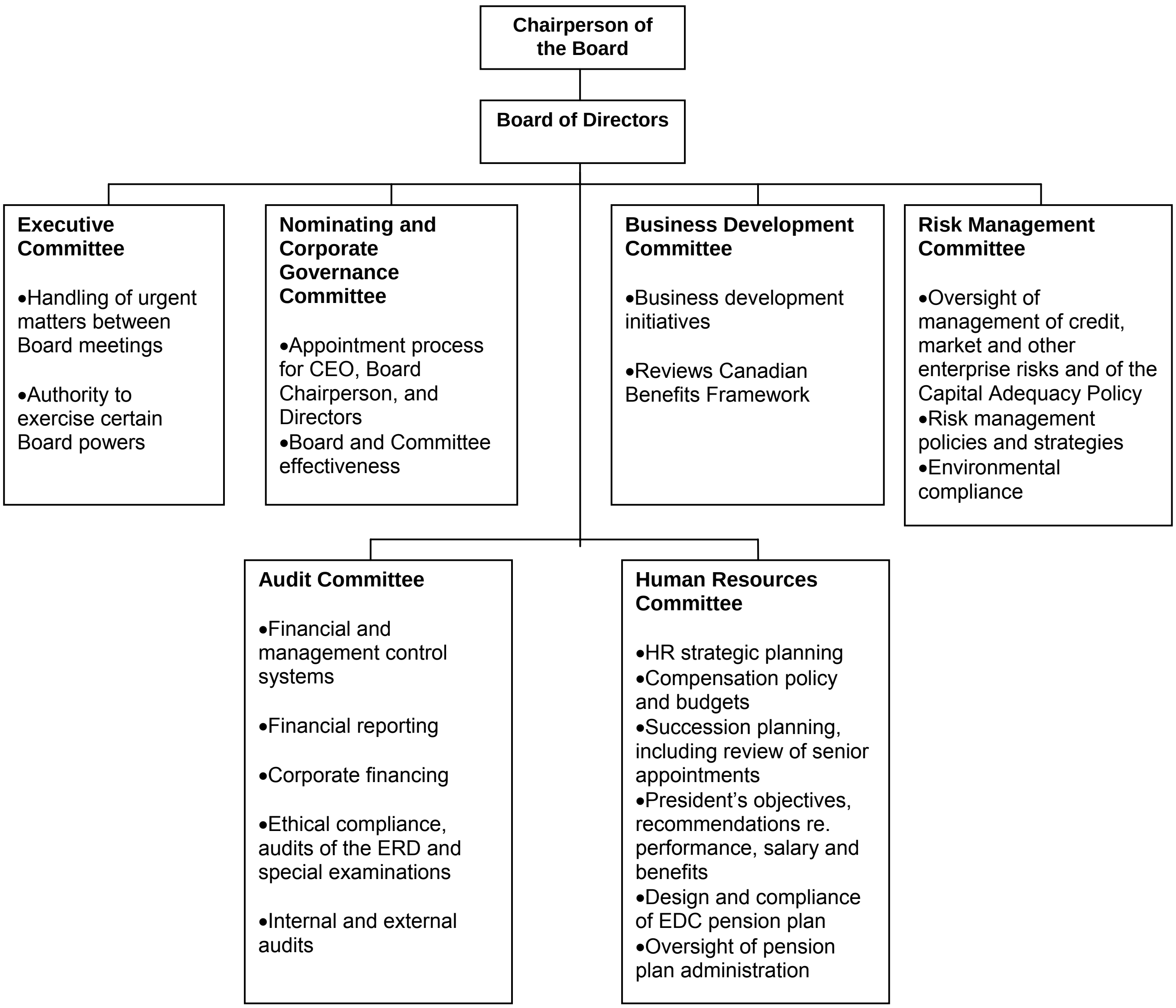
In 2005, EDC initiated a reorganization of its business structure. This reorganization reflects the evolving realities of an integrated, globalized world in which customer needs are increasingly sector based. The purpose of this reorganization is to:

- better understand the business needs and competitive pressures of Canadian companies;
- coordinate EDC's customer relationship activities to respond to those needs;
- improve relationship management with banks, brokers and insurance companies in order to more effectively leverage these important delivery channels; and
- get closer to the customer in Canada, and in markets around the world.



BOARD AND COMMITTEE STRUCTURE

The Act provides that a 15-member Board of Directors oversees the Corporation's activities. Thirteen members are appointed by the Minister responsible for EDC with the approval of the Governor-in-Council. The Chairperson and the President and CEO are appointed by the Governor-in-Council.



The Board plays a pivotal role in setting the strategic direction of EDC and in ensuring that public policy objectives are met by EDC in the most effective manner. The Board also reviews the development and refinement of the various financial services, approves certain loans, insurance and guarantee contracts, authorizes funding transactions, and monitors EDC's performance.

EDC's Products and Services

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

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

PRODUCTS	CUSTOMER APPLICATIONS
FINANCING	Enables Canadian companies to provide their customers with flexible, medium- or long-term financing. EDC offers a variety of structures that can be tailored to meet today's evolving market conditions the world over.
Lines of Credit	Provides a fast and inexpensive means by which exporters can promote sales via pre-arranged financing facilities between EDC and foreign banks or corporations. That is, EDC may lend to a foreign bank for on-lending to buyers of Canadian exports, or EDC can establish a line with a major foreign corporation which is purchasing from one or more Canadian exporters.
Loans	Loans between EDC and a buyer/borrower can be arranged for any export transaction. Two basic types of loans are available: Buyer Credit involves a financing arrangement between EDC and the buyer (or a separate borrower on behalf of the buyer) to finance Canadian exports generally related to a specific export contract. Supplier Credit transactions are structured to provide the exporter (supplier) with the ability to provide its buyer with extended payment terms. EDC can also provide pre-shipment financing to exporters, in conjunction with their bank, to finance costs directly related to an export contract. EDC may also provide financing to Canadian companies to support their export business or their foreign investments.
Project Finance	Provides limited recourse financing to fund the construction of industrial and infrastructure projects across various sectors in support of Canadian exports to, or Canadian sponsor investment in, such projects. Project sponsors can additionally benefit from EDC's considerable expertise in arranging such project finance transactions in cooperation with other lenders.
Guarantees	EDC may issue a guarantee to a financial institution to cover loans to foreign borrowers for the purchase of Canadian exports, or to exporters to provide financing to support their export business or their foreign investments.
Equity and other Forms of Related Investments	EDC may provide equity and/or other forms of related investments (including fund investments) in support of next generation Canadian exporters and to facilitate globalization of existing Canadian companies. This allows EDC to offer broader support to Canadian firms, leverage additional sources of financing, foster cooperation among Canadian firms and their partners, and assist Canadians to compete globally.

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

ANNEX II
CANADIAN EXPORT FORECAST BY MARKET AND SECTOR

Canadian Goods Exports by Region	2005 Exports ($Cdn billion)	% Share of Total (2005)	Forecast Average Annual Growth (2007-2011, %)
United States	343.1	84.2	4.1
Eurozone	13.5	3.3	2.4
Japan	8.9	2.2	2.1
United Kingdom	7.6	1.9	2.6
China	6.6	1.6	9.2
Asian NIE's	5.7	1.4	4.4
Latin America (excl Brazil, Mexico)	1.9	0.5	4.8
Mexico	3.1	0.8	6.4
Other Western Europe	3.2	0.8	2.2
Middle East	2.2	0.5	5.6
Australia & New Zealand	1.8	0.4	4.2
ASEAN-4	1.7	0.4	4.8
Africa	1.8	0.4	5.8
Other Asia	0.8	0.2	5.4
Eastern Europe (excl Russia)	1.5	0.4	7.6
Brazil	1.1	0.3	5.2
Russia	0.5	0.1	10.2
All Others	2.3	0.6	2.6
Total Goods Exports	**407.3**	**100**	**4.1**

Canadian Exports by Industry	2005 Exports ($Cdn billion)	% Share of Total (2005)	Forecast Average Annual Growth (2007-2011, %)
Total Goods Exports	**408.0**	**86**	
Automotive	80.9	17	2.4
Energy	87.6	19	4.7
Forestry	43.3	9	3.0
Metals and ores	42.5	9	5.9
Chemicals, Plastics, Fertilizers	36.1	8	4.6
Agri-food	30.5	6	5.2
Machinery and equipment	26.2	6	5.2
Telecom and computers	20.9	4	4.2
Consumer goods	10.1	2	1.4
Aircraft and parts	10.2	2	4.2
Other industrial goods	10.0	2	3.7
Ground transportation	1.9	0	3.5
Special Transactions	7.8	2	3.6
			4.1
Total Services Exports	**65.3**	**14**	
Other Services	47.9	10	2.5
Transportation Services	11.6	2	5.7
Financial Services	5.8	1	5.6
Total Exports	**473.3**		**4.0**

Source: Statistics Canada, EDC Economics. *May not add up due to rounding.*

ANNEX III
EDC'S TRADE FINANCE SOLUTIONS WITH PARTNERS

Buyer Financing Solutions	The availability of financing is often a key consideration to facilitate the sale of goods and services or foreign investment abroad. However, some financing needs are too large, too risky or too complex for a single financial institution to support. EDC will work with financial institutions to provide the support required by customers.	
Solution	**Description**	**Partners**
Political Risk Insurance (PRI on Loans)	When providing loans to support investments in developing markets, banks and institutional investors are exposed to a range of political risks over and above the business challenges they would typically face in developed markets. EDC's support of projects and investments through PRI provides increased security for lenders. Furthermore, such support provided by EDC can be used to leverage additional financing from other investors and lenders for projects in emerging markets.	Foreign Banks, Institutional Investors
Buyer Credit Guarantees	To facilitate the purchase of Canadian exports by foreign buyers, EDC will provide guarantees for a portion of a bank loan extended to eligible foreign borrowers. The availability of an EDC guarantee encourages banks to extend larger loan amounts to borrowers/buyers of Canadian exports.	Domestic and Foreign Banks, Export Credit Agencies
Project Finance	Due to their large financing needs, project loans are normally arranged and underwritten by a group of lead arrangers and then syndicated into the bank market. Such structures allow the banks to maintain a prudent and manageable credit exposure, yet still meet the financing needs of the project. EDC's role in these transactions can vary from being a financing participant, a sub-underwriter or a co-arranger.	Domestic and Foreign Banks, Export Credit Agencies, Regional Development Banks
Northstar Trade Finance	Northstar Trade Finance was created to support Canadian exporters by offering financing to foreign buyers of Canadian goods and services. While most exporters using Northstar are SMEs, the focus is financing export sales transactions between $100,000 and $5 million with repayment terms of one to five years. Northstar loans are provided on the basis of the availability of an EDC guarantee to cover a significant percentage of the credit exposure.	Northstar's shareholders include: banks, other financial institutions, and the provincial government
Lines of Credit	EDC establishes a financing facility with a foreign financial institution, which in turn lends to several buyers for subsequent purchases from Canadian exporters. This facility encourages foreign buyers to procure Canadian goods and services through their existing bank networks.	Foreign Banks

Working Capital Solutions	Working capital is an ongoing concern for many exporters. The delay between the awarding of a contract and the final payment can place undue strain on the ongoing operations of a company. EDC provides trade finance solutions to help exporters work with their financial institution to increase their working capital position.	
Solution	**Description**	**Partners**
Directions to Pay/Tripartite	Exporters can secure additional financing from their banks by assigning the proceeds of their EDC credit insurance policy to the bank. EDC insurance with a direction to pay covers the banks if the exporter defaults on their loan due to non-payment by their buyer. With this risk covered, financial institutions will advance a line of credit or a higher margin on their receivables.	Domestic Banks
Credit Reinsurance or Coinsurance	The request for credit insurance from some large Canadian exporters is of a size that no one insurer can fully support. In these instances, EDC will either participate as a coinsurer or reinsurer, providing the exporter with full coverage of their receivables.	Private sector insurers, Export Credit Agencies
Surety Reinsurance and Fronting (SBI)	Exporters bidding on foreign contracts are often required to guarantee their performance with surety bonds. However, bonding capacity may be unavailable or limited due to exporter, market or industry risks. EDC will reinsure a surety company in order to establish or expand bonding services. For the exporter, getting these bonds issued on time and in the amount needed can be critical to winning a deal.	Sureties
Performance/ Bid Security Guarantees (PSG) and Guarantee Bonds	Foreign buyers often require bank guarantees as security against an exporter's performance, bid or warranty obligations. However, exporters typically need to post 100% cash collateral with their bank in order to obtain a letter of guarantee. To alleviate this cash flow stress EDC offers coverage to the bank against any call made on the guarantee by a foreign buyer.	Domestic Banks, Caisses Populaires
Documentary Credits Insurance Policy (DCIP)	Payments related to export contracts can be settled through irrevocable letters of credit (ILC) issued from the buyer's bank to the exporter's bank. In such instances, EDC will work with Canadian banks to protect them against non-payment by the foreign bank. EDC's participation enhances the banks' ability to provide confirmations and advance funds to the exporter.	Domestic and Foreign Banks
Pre-shipment Financing Guarantees	New export contracts often require additional working capital to fund pre-shipment costs. EDC's risk-sharing guarantee was designed to encourage domestic banks to advance pre-shipment loans to exporters so that they can deliver on their contract.	Domestic Banks, Caisses Populaires
Bank Factoring	To help exporters convert receivables into cash quickly, EDC combines its accounts receivables insurance with the receivables management and discounting (factoring) offered by various financial institutions. Exporters can convert their receivables into immediate cash, offer extended payment terms to their buyers, and access capital to finance additional sales.	Factoring companies, Caisses Populaires, Domestic Banks, Trade Financial Institutions
Master Accounts Receivable Guarantee (MARG)	Under this arrangement, EDC provides a guarantee to a financial institution to protect them in the event the exporter is unable to repay their operating line. In turn, this guarantee is secured by the exporter's foreign receivables. With EDC's guarantee, a SME can obtain up to $500,000 in operating line financing from a participating financial institution.	Domestic Banks, Caisses Populaires, Credit Unions

4. Financial Plan

This Corporate Plan has described a world which is highly competitive, where the ability to access trade finance and risk management services plays a crucial role in a company's success in the global marketplace. EDC's Business Strategy, as presented in Chapter 3, is focused on ensuring that the Corporation is positioned to effectively serve Canadian companies in this environment. EDC will accomplish this by connecting with exporters and investors, facilitating integrative trade and leveraging its capital, technology, processes and people. The goal is to serve more customers and more fully respond to their needs, in all markets.

The financial implications of this Business Strategy – EDC's projected consolidated financial position over the planning period – are presented in the Financial Plan. This includes EDC's volume assumptions, projected consolidated income statements, balance sheets, economic capital and cash flow statements, as well as the Corporation's anticipated capital expenditures for 2006-2009. Projected consolidated income statements and balance sheets are also provided for the Corporation's subsidiary, Exinvest Inc.

4.1 Financial Management Strategy

4.1.1 General Principles

A key principle underpinning the Financial Plan is EDC's commitment to operate in a financially self-sustaining manner. EDC's financial management strategy is focused on ensuring that the Corporation has at all times sufficient financial capacity to support the ongoing fulfillment of its mandate and respond to the evolving needs of Canadian exporters and investors. Key elements of this strategy are:

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

In addition, EDC manages its capital in order to be able to support new and existing business and sustain the Corporation. In 2006, the Board of Directors approved a new Capital Adequacy Policy that establishes the basis on which EDC will manage its capital capacity. The Policy measures the capital required to support the credit, market, operational and business risks of the Corporation. Capital available beyond that required to support these core risks is then allocated and strategically deployed to respond to customer needs and support higher risk business.

4.1.2 The Aerospace Sector

EDC is in the unique position of managing a large aerospace loan portfolio, while at the same time continuing to support its aerospace customers by providing financing solutions. This is a highly capital intensive industry and one in which EDC financing has been, and will continue to be, instrumental in facilitating its growth and place in the global economy. In 2006, EDC set aside a pool of capital to support asset backed loans (mostly aircraft loans) in order to provide additional capacity to continue to serve customers in this strategic sector.

EDC manages its exposure to the aerospace industry through a combination of: (i) monitoring, assessment and insight into the industry and its counterparties; (ii) physical asset management of the aircraft underlying the loans; (iii) active portfolio management including loan asset sales and risk transfer; and (iv) capital attribution. This approach is intended to manage the portfolio to a risk level within EDC tolerances.

4.1.3 Sound Financial Management

EDC measures its financial management using four key elements:

- Net income
- Financial sustainability ratio (FSR)
- Return on equity (ROE)
- Gross efficiency ratio (GER)

These four measures depict the cornerstones of sound financial management at EDC and are consistent with other “best in class” measurements used in the financial services sector.

4.2 Accounting Policies and Future Accounting Changes

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

4.2.1 Future Accounting Changes

International Financial Reporting Standards

Early in 2006, the Canadian Accounting Standards Board concluded, given the increasing globalization of capital markets and other recent developments, that it is timely for publicly accountable Canadian enterprises to adopt globally accepted, high-quality accounting standards by converging GAAP with International Financial Reporting Standards (IFRSs) over a transitional period. At the end of that period, which is expected to be approximately five years, a separate and distinct Canadian GAAP will cease to exist as a basis of financial reporting for publicly accountable enterprises. EDC will be assessing the impact of these global accounting standards on its financial statements.

4.3 Assumptions

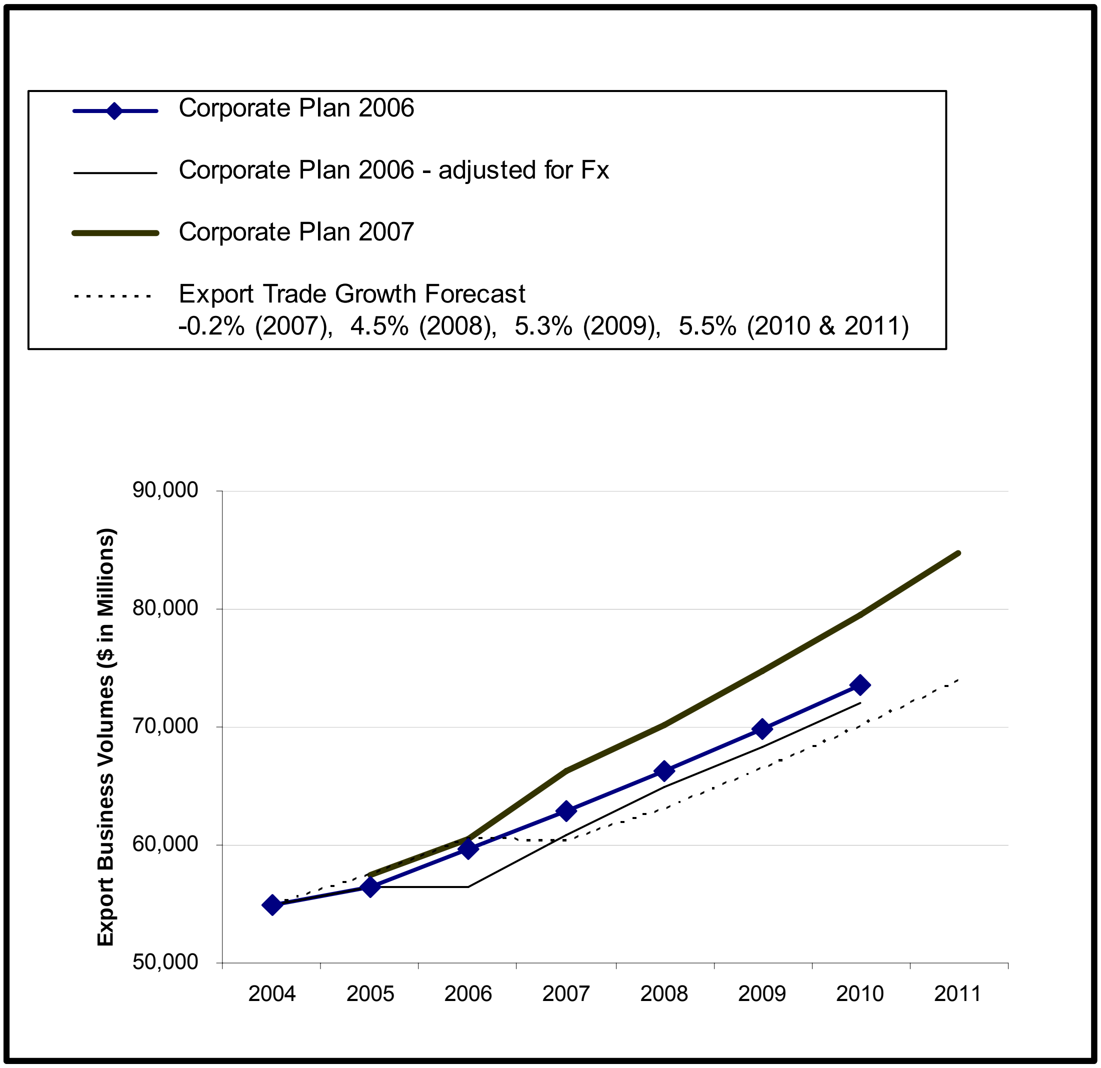
The Financial Plan combines a projection of future events within the parameters of the existing financial structure in order to produce a projection for the planning period. The plan for 2007 is prepared based on the forecast of the 2006 financial statements as the 2006 actual results are not yet available. The 2005 actual results are included for information purposes. The 2007 Plan is based on the current business strategy employed by the Corporation and on certain key assumptions, especially those regarding provisioning for credit losses. Any future changes to this business strategy or to provisioning assumptions may impact the projections over the planning period.

4.3.1 Volume Projections

EDC’s 2007-2011 Corporate Plan business volumes start out in 2007 approximately 10.0% higher than the volumes projected by the Export Trade Growth Forecast and continue to be in excess of the export trade growth forecast by approximately 12.0% per year. The 2007-2011 Corporate Plan volumes are, on average, 8.8% higher than the 2006-2010 Corporate Plan volumes adjusted for foreign exchange. The additional growth in business is the projected impact of EDC’s new integrated business model and the deployment of SRC.

Table 1 summarizes EDC's Business Volume projections compared to the Export Trade Growth forecast for the calendar year 2004 through to the year 2011. The table represents EDC export volumes only; domestic insurance is not included.

TABLE 1
BUSINESS VOLUME PROJECTIONS COMPARED TO THE EXPORT TRADE GROWTH FORECAST (2004-2011)



4.3.2 Foreign Exchange Assumptions

As a majority of the Corporation's business transactions are conducted in U.S. dollars, fluctuations in the U.S. exchange rate may significantly impact EDC. The financial assumption for the U.S. exchange rate is that U.S. dollars are converted to Canadian dollars at an average rate of $1.13 ($Cdn) for Forecast 2006, $1.19 ($Cdn) for Plan 2007 and $1.20 ($Cdn) for subsequent years.

4.4 Projected Income Statements

Table 2 summarizes EDC's Projected Consolidated Income Statement for the calendar year 2005 through to the year 2011.

Table 2
Projected Consolidated Income Statement (2005-2011)

($ in Millions)	2005 Actual	2006 Plan	2006 Fcst	2007 Plan	2008 Proj	2009 Proj	2010 Proj	2011 Proj
Finance and Investment Income								
Loans	1,155	1,226	1,150	1,429	1,536	1,711	1,898	2,059
Debt relief	64	58	265	4	4	4	4	4
Investment income	123	119	115	116	119	119	117	117
Interest expense	494	637	636	779	814	879	949	1,005
Net finance and investment income	848	766	894	770	845	955	1,070	1,175
Other income(expense)	-	(10)	(3)	-	-	-	-	-
Insurance premiums and guarantee fees	156	151	163	173	185	195	202	216
Provision for (reversal of) credit losses	(513)	(184)	(168)	243	442	495	641	655
Income after provision for (reversal of) credit losses	1,517	1,091	1,222	700	588	655	631	736
Administrative expenses	182	212	207	226	233	240	247	254
Income before UFVA /OCI	**1,335**	**879**	**1,015**	**474**	**355**	**415**	**384**	**482**
Unrealized fair value adjustment	(48)	13	(64)					
Net Income	1,287	892	951	474	355	415	384	482
Unrealized gains on available for sale assets				1	-	-	-	-
Comprehensive Income	**1,287**	**892**	**951**	**475**	**355**	**415**	**384**	**482**
Retained Earnings/AOCI... Start of year	2,494	3,628	3,781	4,732	5,291	5,646	6,061	6,445
Adjustment for unamortized UFVA and market valuation of bonds				84				
Retained Earnings/AOCI... End of year	3,781	4,520	4,732	5,291	5,646	6,061	6,445	6,927

Notes: (a) UFVA/OCI is Unrealized Fair Value Adjustment/Other Comprehensive Income

(b) AOCI is Accumulated Other Comprehensive Income

Net financing and investment income for 2006 is forecast to increase by $128 million or 17% compared to Corporate Plan. This is due mainly to an increase in income from debt relief related to Cameroon, offset by a decrease in loan revenue caused mainly by a reduction in the size of the performing loans portfolio.

Net financing and investment income for 2007 is planned to decrease by $124 million, a 14% decrease from 2006. Excluding debt relief, NFII is increasing by $137 million mainly due to an increase in the loan portfolios as well as a weaker Canadian dollar. Provision expense increases in the out years as the loan portfolios grow.

4.5 Projected Balance Sheets

Table 3 summarizes EDC's Projected Balance Sheets through to the year 2011.

Table 3
Projected Consolidated Balance Sheet (2005-2011)

($ in Millions)	2005 Actual	2006 Plan	2006 Fcst	2007 Plan	2008 Proj	2009 Proj	2010 Proj	2011 Proj
Assets								
Loans receivable	16,297	19,241	17,531	21,337	23,404	26,048	28,781	30,902
Allowance for credit losses	2,148	1,123	1,428	1,515	1,648	1,870	2,222	2,574
Risk mitigation insurers share of loan allowance	124		107	107	107	107	107	107
	14,273	18,118	16,210	19,929	21,863	24,285	26,666	28,435
Equipment available for lease	114	234	365	352	340	328	317	306
Cash and marketable securities	3,182	3,300	2,617	2,690	2,690	2,690	2,690	2,690
Investments	64	70	29	29	29	29	29	29
Accrued interest and other assets	331	480	265	334	331	332	321	310
Derivative related amounts	1,725	1,785	1,585	1,534	1,534	1,534	1,534	1,534
Reinsurers' share of allowance for claims	40	59	75	75	75	75	75	75
Total Assets	19,729	24,046	21,146	24,943	26,862	29,273	31,632	33,379
Liabilitites								
Medium and long term loans payable	11,622	14,835	12,402	15,413	16,895	18,690	20,288	21,245
Short term loans payable	1,802	1,880	1,475	1,678	1,616	1,706	1,950	2,130
	13,424	16,715	13,877	17,091	18,511	20,396	22,238	23,375
Accrued interest and other liabilities	317	302	229	255	284	322	367	401
Allowance for claims on insurance	536	618	583	631	663	697	732	768
Allowance for loan commitments and guarantee	355	610	389	474	557	596	649	707
Derivative related amounts	333	298	353	218	218	218	218	218
Total Liabilities	14,965	18,543	15,431	18,669	20,233	22,229	24,204	25,469
Shareholder's Equity								
Share capital	983	983	983	983	983	983	983	983
Accumulated Other Comprehensive Income				1	1	1	1	1
Retained earnings	3,781	4,520	4,732	5,290	5,645	6,060	6,444	6,926
	4,764	5,503	5,715	6,274	6,629	7,044	7,428	7,910
Total Liabilities and Shareholder's Equity	19,729	24,046	21,146	24,943	26,862	29,273	31,632	33,379
Position Against Statutory Limits								
Section 10(3), 10(4)								
Contingent Liability Limit (a)	20,000	20,000	20,000	20,000	25,000	25,000	25,000	25,000
Position against limit	16,534	17,156	16,716	19,567	21,556	23,318	24,839	26,490
Section 14								
Loans Payable Limit	52,155	69,165	71,460	85,725	94,110	99,435	105,660	111,420
Position against limit	13,424	16,715	13,877	17,091	18,511	20,396	22,238	23,375

Note: (a) EDC plans to increase the Contingent Liability Limit to $25 billion by submitting a Supplementary Estimates B in 2006.

Forecast 2006 loans receivable are $17.5 billion, $1.7 billion lower than the 2006 Corporate Plan. This is due mostly to the strengthening of the Canadian dollar, as well as a reclassification of assets from loans receivable to equipment available for lease.

Planned 2007 loans receivable are $21.3 billion, $3.8 billion higher than the 2006 forecast of $17.5 billion, a 22% increase. This is mainly due to planned volume and disbursement increases and the weakening of the Canadian dollar. Loans receivable are expected to grow in the out years as volumes increase.

The allowance for credit losses is declining from a level of $2.1 billion in 2005 to $1.4 billion in 2006, a decrease of $700 million. The principal causes of this reduction in 2006 are write-offs and foreign exchange. In addition, both the balance sheet and the income statement will be impacted by a reversal of the provision for credit losses. In 2007, the allowance for credit losses increases slightly mainly as a result of the weakening Canadian dollar and loan portfolio growth.

During the planning period, EDC may continue to effect transactions involving its acquisition of interests in other entities (EDC equity transactions) directly or may effect such EDC equity transactions 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 an amount corresponding to the amount 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 EDC equity transaction, and this Corporate Plan, in respect of both EDC and subsidiaries, shall be deemed to be amended accordingly. Any additional operating expenses resulting therefrom shall be deemed to be included in a revised Operating Budget of Exinvest Inc., which Operating Budget shall be deemed to be amended accordingly.

4.6 Capital Adequacy and Dividend Policy

The introduction of the Capital Adequacy Policy (CAP) in 2006 is a fundamental component in EDC's overall capital management framework. The goal of the Policy is to support EDC's business strategy, by ensuring EDC has adequate capital to support its current and future business.

The CAP has at its foundation a guiding philosophy and set of principles that balance the requirement for EDC to fulfill its public policy mandate while remaining financially self-sufficient. The CAP also contemplates the need for EDC to maintain sufficient capital to protect the Corporation from global shocks. While from time to time the Financial Plan may predict capital surpluses, these surpluses can be readily consumed by these shocks.

Capital refers to the capacity of EDC to fulfill its public policy mandate and sustain the Corporation into the future. A key principle is the establishment of a target solvency standard which determines the level of demand for capital that is required to cover EDC's exposures in normal circumstances. The established standard of AA is consistent with best practice benchmarking of financial institutions and with the key principles of financial self-sufficiency.

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

4.7 Projected Cash Flow Statement

Table 4 summarizes EDC's Projected Cash Flow Statement for the calendar year 2005 through to the year 2011.

Table 4
Projected Cash Flow Statement (2005-2011)

($ in Millions)	**2005 Actual**	**2006 Plan**	**2006 Fcst**	**2007 Plan**	**2008 Proj**	**2009 Proj**	**2010 Proj**	**2011 Proj**
Operating Activities								
Comprehensive Income	1,287	892	951	475	355	415	384	482
Items not affecting cash	(522)	(299)	239	255	445	499	659	659
Cash Flows from	765	593	1,190	730	800	914	1,043	1,141
Investing Activities								
Loan and capital lease disbursements	(4,574)	(5,781)	(6,513)	(6,821)	(7,180)	(8,284)	(9,062)	(9,593)
Loan and capital lease repayments	5,848	3,705	4,432	3,693	4,982	5,499	6,190	7,326
(Increase) Decrease in investments	4	-	35	-	-	-	-	-
Cash Flows from (used)	1,278	(2,076)	(2,046)	(3,128)	(2,198)	(2,785)	(2,872)	(2,267)
Financing Activities								
Issue of long term loans payable	1,008	4,054	3,411	4,683	4,262	5,100	5,398	4,415
Repayment of long term loans payable	(2,265)	(2,920)	(2,793)	(2,415)	(2,802)	(3,319)	(3,813)	(3,469)
Increase (Decrease) in short-term loans payable	(420)	189	(327)	203	(62)	90	244	180
Cash Flows from (used)	(1,677)	1,323	291	2,471	1,398	1,871	1,829	1,126
Increase (Decrease) in Cash and Marketable Securities	366	(160)	(565)	73	-	-	-	-
Cash and Marketable Securities								
Beginning of Year	2,816	3,460	3,182	2,617	2,690	2,690	2,690	2,690
End of Year	3,182	3,300	2,617	2,690	2,690	2,690	2,690	2,690
Increase (Decrease) in Cash and Marketable Securities	366	(160)	(565)	73	-	-	-	-

4.8 Capital Expenditures

Table 5 summarizes EDC's Projected Capital Expenditures from 2005 to 2009.

Table 5
Projected Capital Expenditures (2005-2009)

($ in millions)	**2005 Actual**	**2006 Plan**	**2006 Fcst**	**2007 Plan**	**2008 Plan**	**2009 Proj**
Facilities	0.7	1.6	2.0	3.1	2.0	2.0
Information technology	7.7	14.9	13.6	17.7	16.0	14.0
Total Capital Expenditures	8.4	16.5	15.6	20.8	18.0	16.0

The information technology expenditures for 2006 are forecast to be lower than the 2006 Plan due primarily to lower expenditures on software. Software and hardware infrastructure investments are regularly deferred when it is determined that the existing capital asset can be maintained for a longer period without negatively impacting the Corporation's business activities.

Technology project expenditures in the 2007 to 2009 Capital Plan will be evaluated by the Enterprise Portfolio Management Committee (EPMC). The EPMC, composed of business and IT representatives from senior management, is responsible for setting project priorities in accordance with business and IT strategic objectives and monitoring the progress of these technology initiatives through to their completion and assessment of benefits realized.

Over the planning period, a major project will be the creation of a Customer Relationship Management system as it is a key enabler of EDC's business strategy to better connect with customers and markets in an integrative trade environment. Other technology requirements include leveraging existing business platforms to serve customers the way they want to be served, enhancing online products and services available from EDC and its partners, making corporate intelligence accessible both to help Canadian companies expand their international business and to support EDC's employees, and enabling various corporate efficiency initiatives.

The 2006 Forecast expenditures for Facilities, including leasehold improvements and furniture/equipment exceeded 2006 Corporate Plan due to expenditures related to the Integration project. The 2007 Plan is increasing due to costs related to planning a potential move of the company's head office. The current lease renewal expires at the end of 2011. If a decision is made to move, rather than enter into an additional renewal, planning for the move must commence in 2007.

4.9 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.

4.9.1 Market Risk Management Policies

EDC manages its exposures to interest rate, foreign exchange and treasury initiated 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 at least quarterly 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 the Risk Management Committee of the Board of Directors.

4.9.2 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.

4.9.3 Borrowing Strategies

The Act permits the Corporation to borrow and have outstanding loans payable of up to a maximum of 15 times the aggregate of (a) its current paid-in capital and (b) the retained earnings of the Corporation, determined in accordance with the previous year's audited financial statements. Based on figures appearing in the audited financial statements for the year ended December 31, 2005, this formula produced a limit of $71.5 billion against which loans payable are estimated to be $13.9 billion as at December 31, 2006. The maximum limit for outstanding debt in 2007 is estimated to be $85.7 billion, $68.6 billion above the planned loans payable at year end of $17.1 billion.

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

The Corporation continuously issues short-term paper (maturing in less than one year) by means of Canadian, U.S. 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 ongoing basis, as required, to support the business activities of the Corporation.

Based on EDC's projected cash flows, the aggregate new borrowings during 2007 and 2008 are estimated to be $4.9 billion and $4.2 billion respectively.

Borrowings may increase by approximately USD 750 million (Cdn $900 million) as a result of increased disbursement volume or pre-funding of the next year's requirements.

Table 6 summarizes EDC's Projected Borrowing Plans for the calendar year 2005 through to the year 2011.

TABLE 6
PROJECTED BORROWING PLANS (2005-2011)

($ in millions)	**2005 Actual**	**2006 Fcst**	**2007 Plan**	**2008 Proj**	**2009 Proj**	**2010 Proj**	**2011 Proj**
Established Borrowing Authority-U.S.$ 5.25 billion	6,121	5,915	6,241	6,316	6,316	6,316	6,316
Aggregate New Borrowings	588	3,084	4,886	4,200	5,190	5,642	4,595
Borrowings Payable, year-end							
Long-term	11,622	12,402	15,413	16,895	18,690	20,288	21,245
Short-term	1,802	1,475	1,678	1,616	1,706	1,950	2,130
Total Borrowings Payable	13,424	13,877	17,091	18,511	20,396	22,238	23,375
Principal Repayments							
Long-term	(2,265)	(2,793)	(2,415)	(2,802)	(3,319)	(3,813)	(3,469)

Note 1: Average foreign exchange rate for 2006 is assumed to be U.S. $1 = Cdn $1.13; for 2007, the average foreign exchange rate is forecast at U.S. $1 = Cdn $1.19 and for 2008-2011, U.S. $1 = Cdn $1.20.
Note 2: Long-term borrowings including the net increase (or decrease) in short-term borrowings.
Note 3: If EDC begins to finance major new transactions during 2006 or if favorable market conditions warrant the pre-funding of 2007 requirements or a portion thereof, EDC's aggregate new borrowings may increase in 2007 by a further U.S. $750 million.
Note 4: EDC may have U.S. $1 billion for the confirmed standby revolving credit facility, which will allow the Corporation to borrow funds at predetermined rates of interest if necessary for operating purposes.

4.10 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 Act. The authorized objectives of Exinvest Inc. are to establish and/or invest in corporations, partnerships, joint ventures or any other form of unincorporated bodies (financing vehicles), all of which will provide financial assistance for or to the benefit of sales or leases of goods, or the provision of services, or any combination thereof.

During 2006 and over the planning period, no new financing vehicles and no potential business transactions are anticipated as spare capital in this organization was returned to the Shareholder in 2002. The financial projections for Exinvest Inc. are therefore based upon the servicing of its existing business commitments. The following tables set out the consolidated financial results of Exinvest Inc. for the planning period. No Capital Expenditure Plan is provided, as Exinvest Inc. does not anticipate entering into any such expenditure over the planning period.

Table 7 summarizes the Exinvest Inc. Projected Consolidated Income Statement for the calendar year 2005 through to the year 2011.

TABLE 7
EXINVEST INC.
PROJECTED CONSOLIDATED INCOME STATEMENT (2005-2011)

($ in millions)	**2005 Actual**	**2006 Plan**	**2006 Fcst**	**2007 Plan**	**2008 Proj**	**2009 Proj**	**2010 Proj**	**2011 Proj**
Revenue								
Interest income	4	4	4	4	6	5	6	5
Expenses								
Provision for (reversal of) credit losses	(34)	3	(3)	-	1	(1)	(6)	(5)
Admin & other	2	(1)	-	-	-	-	-	-
	(32)	2	(3)	-	1	(1)	(6)	(5)
Net Income	**36**	**2**	**7**	**4**	**5**	**6**	**12**	**10**
Retained earnings/(deficit) at beginning of year	(36)	(33)	-	7	11	16	22	34
Retained earnings/ (deficit) at end of year	**-**	**(31)**	**7**	**11**	**16**	**22**	**34**	**44**

Table 8 summarizes the Exinvest Inc. Projected Consolidated Balance Sheet for the calendar year 2005 through to the year 2011.

TABLE 8
EXINVEST INC.
PROJECTED CONSOLIDATED BALANCE SHEET (2005-2011)

($ in millions)	**2005 Actual**	**2006 Plan**	**2006 Fcst**	**2007 Plan**	**2008 Proj**	**2009 Proj**	**2010 Proj**	**2011 Proj**
Assets								
Loans receivable	33	37	35	38	41	36	32	-
Allowance for losses	(4)	(9)	(5)	(5)	(6)	(5)	(4)	-
Net loans receivable	29	28	30	33	35	31	28	-
Cash & marketable securities	35	37	38	39	41	52	63	104
Accrued interest and other	3	4	4	4	5	4	3	(1)
Total Assets	**67**	**69**	**72**	**76**	**81**	**87**	**94**	**103**
Liabilities and Shareholder's Equity								
Allowance for guarantees	15	48	13	13	13	13	8	7
Other liabilities	6	6	6	6	6	6	6	6
	21	54	19	19	19	19	14	13
Capital	46	46	46	46	46	46	46	46
Retained earnings/(deficit)	-	(31)	7	11	16	22	34	44
	46	15	53	57	62	68	80	90
Total Liabilities and Shareholder's Equity	**67**	**69**	**72**	**76**	**81**	**87**	**94**	**103**