

August 7<sup>th</sup>, 2014

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) Q2 2014 Business Sustainability Performance Report to provide CTC stakeholders with an independent review. The objective of this review is to determine if the appropriate due diligence is in place for accurate public disclosures. In addition, we conducted a comparative analysis of CTC and its peers (*Home Depot, Kingfisher, Marks & Spencer, Staples, Target and Wal-Mart*)<sup>1</sup> based on their sustainability targets and disclosure practices around sustainability projects. CTC has also included a response to the previous quarter's (Q1 2014) recommendations (Appendix A).

Overall, we found the following:

1. **Comprehensive Business Sustainability Accounting System:** CTC has the appropriate accounting system in place regarding their methodologies, assumptions, data management, and accountability in relation to their sustainability reporting metrics.
2. **Peers Reviewed Have Publicly Available Environmental Targets:** CTC is the only company within the peer set that does not externally disclose sustainability targets related to greenhouse gas (GHG) emissions, energy use, water consumption or waste. Most publicly available sustainability targets disclosed by peers can be characterized as mid-range, with expiry dates in the 2015-2020 period. Industry peers have implemented a mixture of absolute and intensity-based targets.
3. **Comprehensive Project Related Disclosures Compared to Peers:** CTC's approach to sustainability project reporting is unique compared to industry norms, with CTC providing increased levels of disclosure on project-specific metrics and performance. No other companies within the peer set report on sustainability projects as systematically and comprehensively as Canadian Tire does.

This *Letter of Review* briefly outlines CTC's data review findings, a comparative analysis of CTC's sustainability disclosures, and recommendations moving forward. For an overview of the methodology used to conduct our review please see Appendix B.

### Data Review Findings:

This quarter we reviewed two metrics from projects included in CTC's Q2 2014 Business Sustainability Performance Report: *CTR Relamping Project and Mark's Lighting Retrofits*.

Both the CTR Relamping Project and the Mark's Lighting Retrofits focus on upgrading to more energy efficient lighting fixtures and bulbs. We reviewed all the data, methodology, assumptions and calculations for energy avoidance and economic benefits and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices.

In the first quarter of 2014, CTC moved its sustainability reporting away from forecasted annual benefits to reporting actual results, which has enabled the Company to create a foundation for measuring multi-year benefits from sustainability initiatives. It was observed that for the reporting of multi-year benefits, the expected lifetime of the projects was not always explicitly stated and substantiated in the overview

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<sup>1</sup> Where relevant, these companies were assessed on the basis of their global operations, not their Canadian subsidiary (e.g. Home Depot, Staples, Target and Wal-Mart).

section of the standalone quantification reports; however, the lifetime for the reporting of multi-year benefits was stated in a back-end section and has since been updated.

## Comparative Analysis of CTC's Sustainability Disclosure

### Introduction

Our report this quarter analyzes CTC's sustainability reporting practices, with a specific focus on the following reporting dimensions:

1. **Sustainability targets:** Target type (intensity vs. absolute, time period, aggressiveness, comprehensiveness, etc.).
2. **Sustainability projects:** What types of sustainability projects are CTC's peers doing, and how do they compare to CTC's projects (e.g. project type, project disclosures, etc.).

Canadian Tire was compared against six industry peers:

1. Home Depot
2. Kingfisher
3. Marks & Spencer
4. Staples
5. Target
6. Wal-Mart

### Methodology

The following publicly available document types were reviewed: corporate sustainability reports, CDP Climate Change submissions, CDP Water submissions, and those available on the sustainability sections of corporate websites. Due to the wide-ranging nature of corporate "sustainability" programs, we focused our analysis on environmental targets and projects, including energy, carbon, water and waste use. Sustainability targets are described along five dimensions: Category; Type; Reduction; Target Year; Base Year; and Scope.

### Findings

Canadian tire does not publicly disclose sustainability targets. The company does use internal targets to drive sustainability performance but currently those targets are not externally disclosed. On average, peers are disclosing 6 environmentally related targets with a mix of absolute versus intensity based targets, a 1-10 year time range, and varying degrees of aggressiveness. Canadian tire continues to be unique in its public disclosures compared to peers with a strong focus on measuring and monitoring the performance (financial and environmental benefits) of specific sustainability-related projects. No other companies within the peer set report on sustainability projects as systematically and comprehensively as Canadian Tire does. A summary of our findings can be found in Table 1 and a complete review of our findings can be found in Appendix C.

Table 1: Summary of Environmental Targets and Project Specific Disclosures

Company	# Of Publicly Available Env. Targets	Type of Env. Targets	Type of Environmental Projects Disclosed
Canadian Tire	0	N/A	16 Project Types are reported on using three categories: Product and Packaging (1 Project); Product Transport (3 Projects) and Business and Retail Operations (12 Projects). Project metrics reported on include both financial benefits (i.e. cost savings) and environmental benefits over a business as usual baseline, with environmental benefits expressed in terms of energy use avoidance, greenhouse gas (GHG) emissions avoidance, waste avoidance, and water avoidance.
Home Depot	2	GHG, Energy	Provides some commentary projects, but does not offer project-specific metrics or reporting. Examples include: Water reclamation, Light Retrofits, HVAC Upgrades.
Kingfisher	7	GHG, Energy, Product Emissions, Waste	Kingfisher showcases the results of various sustainability projects in its annual Net Positive report. The format is not as detail-oriented as Canadian Tire's, and projects are described under three general headings ("Sustainability benefits", "Business benefits" and "Description."). Examples include energy efficient products, energy efficiency related services, light retrofits.
Marks & Spencer	6	GHG, Energy, Waste, Water	Marks & Spencer summarizes the results of various sustainability projects in a separate report on Plan A 2020 progress. The company does not offer a comprehensive, project-specific accounting summary. Examples include renewable energy use, HVAC upgrades, and water metering initiatives.
Staples	6	GHG, Energy, Waste, Water	Staples does not offer dedicated reporting on its sustainability projects.
Target	7	GHG, Waste, Water	Target publishes a standalone report each year on progress made toward sustainability goals but it stops short of disclosing information about the financial or environmental attributes of specific sustainability projects.
Walmart	6	GHG, Renewable Energy, Waste, Water	Wal-Mart does not offer a systematic overview of its sustainability projects but it publishes summaries of selected projects in various forums, including its Global Responsibility Report. The company reports, for instance, that it had 323 renewable energy projects underway in fiscal 2014.

## Recommendations Moving Forward:

1. **Consistent Reporting of Multi-Year Benefits:** Ensure that internal reporting of multi-year benefits are reported in a consistent manner across projects and that assumptions are clearly substantiated within the overview section of the standalone quantification reports.
2. **Develop Overarching Sustainability Objective:** Canadian Tire should consider setting a singular, overarching sustainability objective, similar to King Fisher's "Net Positive" program or Marks & Spencer's "Plan A 2020". Sustainability targets, once developed (see Recommendation # 4), and related projects could then be linked to a single sustainability vision.
3. **Publicly Available Targets:** CTC should set, and publicly disclose, sustainability performance targets related to greenhouse gas emissions and energy use, as these indicators are currently tracked by CTC in the company's Corporate and Supply Chain Environmental Footprint report. Targets covering other indicators (i.e. water use and waste) can potentially be added as Canadian Tire's reporting practices expand in line with industry norms.

Overall, Canadian Tire has a very strong due diligence process in place regarding their Business Sustainability Performance accounting methodologies, assumptions, data management, and accountability structure. It will be important for Canadian Tire to continue to monitor peer sustainability disclosures to ensure that sector related reporting expectations are maintained.

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## Appendix A: Canadian Tire Response to Q1 2014 Recommendations

#	Delphi/Corporate Knights Q1 2014 Recommendations	Canadian Tire Response
1	<p><b>Sample Real Data:</b> With projects such as the Demand Control Ventilation installations which primarily use modeling assumptions, CTC should sample a representative set of projects to ensure that the assumptions used are actually realized. This approach aligns better with CTC's new approach of using actual data as opposed to forecasted data.</p>	<p>CTC does not currently have the capability to monitor and measure actual DCV energy consumption via sub-metering at these sites. However, the assumptions and parameters used in the energy modeling software have been validated to ensure that any benefits (economic and environmental) have been quantified accurately and conservatively.</p>
2	<p><b>Disclose Within Investor Section of Quarterly Report:</b> As other companies begin to integrate sustainability metrics into their Annual Report, we suggest that Canadian Tire make the full Quarterly Report (now located within the Corporate Citizenship Section of CTC's website) and the Quarterly Review available within the Investor Section of CTC's website.</p>	<p>Since 2010, CTC has disclosed sustainability performance data and improvements within the quarterly Management's Discussion and Analysis (MD&amp;A) report, which is published in the Investor Section of CTC's website.</p>
3	<p><b>Increased Disclosure of Additional Metrics:</b> We recommend that Canadian Tire evaluate the inclusion of additional environmental metrics into its annual environmental footprint report, such as total water use, or waste generated from operations.</p>	<p>CTC regularly reviews metrics used to articulate the performance of environmental activities and is evaluating additional metrics for possible go forward inclusion.</p>
4	<p><b>Move from Environmental Footprint to Broader Sustainability Reporting:</b> A final recommendation, which could be undertaken in conjunction with recommendation 3, is that Canadian Tire rebrand its existing environmental footprint report into a broader "sustainability" variety, complete with selected social, governance and health metrics. These metrics could include audits of overseas manufacturing firms, employee volunteer hours, number of health and wellness products, targets for women &amp; minority inclusion, etc. Expanding its reporting horizon would help Canadian Tire stay ahead of industry trends while building positive brand recognition.</p>	<p>CTC regularly reviews metrics used to articulate the performance of sustainability activities and is evaluating additional metrics for possible go forward inclusion. Within the same scope, CTC will assess the opportunity to expand our reporting horizon and the format in which it is presented.</p>

## Appendix B:

### Overview of Methodology:

1. **Document Review:** Review all internal and external documentation provided.
2. **Metric Selection:** Independently select a sample of two metrics within the data sets provided to the public in order to review the methodologies, data management/calculations, assumptions, and accountability system. Only a sample of the data was reviewed as a proxy for the entire data set<sup>2</sup>. For the purposes of this assessment the following metrics were reviewed:
  - **Q2 2014 Business Sustainability Performance Report:**
    - **Energy Avoidance:** 1047 GJ , CTR Relamping Project, 9 Stores
    - **Economic Benefits:** \$112,800, Mark's Lighting Retrofits, 13 Stores
3. **Interviews and Supporting Documentation:** Interviews were conducted with key CTC staff in charge of the data and supporting documentation was requested in order to verify the accuracy of statements.
4. **Findings:** A final statement on each area discussing due diligence in methodology, data management and calculations, assumptions, and accountability will be written based on the results of the review.
5. **Comparative Analysis of CTC's Sustainability Disclosure:**
  - **Peer Set Used:** Home Depot, Kingfisher, Marks & Spencer, Staples, Target, and Wal-Mart.
  - **Benchmarking Parameters:**
    - **Sustainability targets:** Target type (intensity vs. absolute, time period, aggressiveness, comprehensiveness, etc.)
    - **Sustainability projects:** What types of sustainability projects are CTC's peers doing, and how to do they compare to CTC's projects (e.g. project type, project disclosures, etc.)
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

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<sup>2</sup> If the random sample data set has no major issues then we are reasonably confident that the organization has the appropriate due diligence in place for the rest of its metrics. However, we must note that a complete audit of the data was beyond the scope of this review and we cannot comment on accuracy beyond the data in which we reviewed directly.

**Appendix C: Findings by Company**

**Canadian Tire**

*Sustainability targets:*

Canadian tire does not publicly disclose sustainability targets. The company does use internal targets to drive sustainability performance but currently those targets are not externally disclosed.

*Sustainability projects:*

Sustainability projects play a fundamental role in Canadian Tire’s overall sustainability strategy. Projects are classified using three categories: Product and Packaging; Product Transport and Business and Retail Operations. Projects are designed to offer both financial benefits (i.e. cost savings) and environmental benefits over a business as usual baseline, with environmental benefits expressed in terms of energy use avoidance, greenhouse gas (GHG) emissions avoidance and waste avoidance.

Each quarter, Canadian Tire reports on 12-months of realized benefits for sustainability projects that were completed in the same quarter of the previous year and summarizes their aggregate financial and environmental impacts using the aforementioned framework.

As indicated by Corporate Knights in previous reviews of Canadian Tire’s Business Sustainability Performance Reports, Canadian Tire’s approach to sustainability project reporting is unique compared to peers, chiefly in the level of detail used to describe each project and the “project-specific” nature of the reporting.

**Home Depot**

*Sustainability targets:*

Home Depot discloses two main sustainability targets, which cover GHGs and energy use. The targets are relatively short term, with a target year of 2015.

Category	Type	Reduction	Target Year	Base Year	Scope	Notes
GHGs	Absolute	20%	2015	2009	U.S. supply chain	This accounts for emissions from the trucks used by third-party carriers to deliver products to Home Depot stores, distribution centers, and customers.
Energy	Intensity	20% in Kwh per sq foot	2015	2004	GHG Protocol, Scope 2	U.S. stores

*Sustainability projects:*

Home Depot offers sporadic commentary in its corporate sustainability report on the results of various sustainability projects, but the company does not offer project-specific reporting in a manner similar to Canadian Tire’s. Representative projects include:

- the installation of water reclamation tanks across Home Depot’s operations (which, according to Home Depot, save an estimated 500,000 gallons of water per year);

- replacing fluorescent bulbs with two strand LEDs in store lighting fixtures; and
- installing high efficiency HVAC units in selected stores.

## **Kingfisher**

### *Sustainability targets:*

Kingfisher has set the ambitious goal of becoming “net positive” by 2050 and, as part of its long term execution plan, recently introduced 50 targets across a wide range of sustainability themes (e.g. communities, timber, innovation, employees, environmental, etc.). Net positive is not clearly defined, but the implied principle is creating more resources than the company uses (i.e. every Kingfisher store is tasked with generating more energy than it consumes). This approach elegantly integrates sustainability targets and projects into a singular overarching objective. The table below summarizes the company’s key environmental-based sustainability targets.

<b>Category</b>	<b>Type</b>	<b>Reduction</b>	<b>Target Year</b>	<b>Base Year</b>	<b>Scope</b>	<b>Notes</b>
Energy	Intensity	45% in KWh/m <sup>2</sup> of property portfolio	2020	2010	GHG Protocol , Scope 1 and 2	No additional relevant information provided.
GHGs	Absolute	25%	2020	2010	GHG Protocol , Scope 1 and 2	No additional relevant information provided.
GHGs	Intensity	CO <sub>2</sub> e/m <sup>2</sup>	2020	2010	GHG Protocol , Scope 1 and 2	No additional relevant information provided.
GHGs	Absolute	20%	2020	2010	N/A	Achieve a 20% reduction in CO <sub>2</sub> emissions from direct transport impacts from a 2010 baseline.
Product emissions	Absolute	38 TWh	2020	2010	N/A	The company estimates that sales of its “energy saving products” over the past two years have helped customers save 5 TWh in energy use. Kingfisher has a notional goal to increase this figure to 38 TWh.
Waste	Absolute	Achieve a zero waste to landfill	2020	N/A	N/A	No additional relevant information provided.

Waste	Absolute	90%	2020	2010	N/A	90% of construction waste recycled in new build and major refurbishments.
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*Sustainability projects:*

Kingfisher showcases the results of various sustainability projects in its annual Net Positive report. The format is not as detail orientated as Canadian Tire's, and projects are described under three general headings ("Sustainability benefits", "Business benefits" and "Description.") Kingfisher uses the same framework to report on the financial and sustainability benefits of many of the company's products (e.g. bee friendly pesticides). Representative projects include:

- an effort to increase the number of energy efficient products available to consumers, including low energy appliances, solar and photovoltaic panels and draft proofing equipment;
- the creation of an "Installation Services" department, which conducts home energy assessments and helps customers install energy efficient devices; and
- systematic replacement of fluorescent lamps with LEDs across the company's own operations.

**Marks & Spencer**

*Sustainability targets:*

Like Kingfisher, Marks & Spencer has set an overarching sustainability objective ("Plan A 2020"), into which the company's sustainability targets, projects and commitments all feed. The company launched Plan A in 2007 and set out 100 commitments to achieve by the end of 2012. Introduced in 2013, Plan A 2020 includes 100 new and revised commitments. The key environmental commitments are summarized below.

Category	Type	Reduction	Target Year	Base Year	Scope	Notes
GHGs	Absolute	100%	2012	2007	GHG Protocol Scope 1, 2 and 3	Scope 3 only includes business travel and waste. Operations in the UK and Ireland. Scope 3 only includes business travel and waste.
GHGs	Intensity	25%	2012	2007	GHG Protocol Scope 1, 2 and 3	Metric tonnes of CO <sub>2</sub> e per square foot. Scope 3 only includes business travel and waste.
GHGs	Intensity	35%	2015	2007	GHG Protocol Scope 1, 2 and 3	Intent is to reduce emissions by 35% per 1,000 sq ft of sales floor space by 2015. Scope 3 only includes business travel and waste.
Energy	Absolute	10%	2015	2007	N/A	The company has engaged its top 100 clothing factories to install energy efficient lighting, improved insulation

						and temperature controls, to reduce their energy usage by 10% by 2015 compared to 2007.
Waste	Absolute	Achieve a zero waste to landfill	2015	N/A		The company has achieved a zero waste to landfill ratings for operations in the UK and Republic of Ireland, it is extending this target to international locations.
Water	Intensity	35% reduction per square foot	2020	2007	N/A	M&S operated buildings in the UK and Republic of Ireland.

*Sustainability projects:*

Marks & Spencer summarizes the results of various sustainability projects in a separate report on Plan A 2020 progress. The company does not offer a comprehensive, project-specific accounting summary. Representative projects include:

- setting up long term contracts with small-scale renewable electricity providers;
- improving the maintenance of in-store refrigeration units, and introducing less damaging R407aHFC gases; and
- installation of automatic meter readings (water) across UK and Republic of Ireland operations.

**Staples**

*Sustainability targets:*

Staples has set a wide variety of long range environmental targets with target years ranging from 2015 – 2020. More so than other companies reviewed in this report, Staples uses absolute targets rather than intensity targets.

Category	Type	Reduction	Target Year	Base Year	Scope	Notes
Waste	Absolute	20%	2020	2011	Company wide	Reduce the use of outbound packaging materials in the U.S. by 20 percent by 2020 from a 2011 baseline.
Waste	Absolute	Reduce waste to landfills by 25%	2020	2010	Company wide	Reduce waste to landfills by 25 percent globally by 2020 with 2010 as a baseline.
Energy	Intensity	Reduce electrical intensity by 25%	2020	2010	Company wide	Reduce the electrical intensity of our global operations by 25 percent by 2020 from a 2010 baseline.
GHGs	Intensity	Improve vehicle fleet fuel economy by	2015	2010	Company wide	Improve Staples' U.S. fleet fuel economy 15 percent from the 2010 baseline by 2015.

		15%				
GHGs	Absolute	50%	2020	2010	GHG Protocol, Scope 1 and 2	Company-wide. Company can meet goal through renewable energy purchases and offsets.
Water	Absolute	30%	2015	2011	US operations	No additional relevant information provided.

*Sustainability projects:*

Staples does not offer dedicated reporting on its sustainability projects.

**Target**

*Sustainability targets:*

Target has set a series of relatively short term environmental targets, most of which are intensity-based. The company's key commitments are summarized below.

Category	Type	Reduction	Target Year	Base Year	Scope	Notes
GHGs	Intensity	10% in CO2e per square foot	2016	2007	GHG Protocol Scope 1 and 2	No additional relevant information provided.
GHGs	Intensity	20% in CO2e per dollar of revenue	2016	2007	GHG Protocol Scope 1 and 2	No additional relevant information provided.
Water	Intensity	10% per sq ft	2015	2009	US operations	No additional relevant information provided.
GHGs	Intensity	10% per sq ft	2015	2009	GHG Protocol Scope 1 and 2	No additional relevant information provided.
GHGs	Intensity	20% per million dollars in retails sales	2015	2009	GHG Protocol Scope 1 and 2	No additional relevant information provided.
Waste	Absolute	15% reduction in operating waste sent to landfills	2015	2009	Company wide	No additional relevant information provided.
Water	Intensity	10% per sq ft	2015	2009	Company wide	No additional relevant information provided.

*Sustainability projects:*

Target publishes a standalone report each year on progress made toward sustainability goals, but it stops short of disclosing information about the financial or environmental attributes of specific sustainability projects.

**Wal-Mart**

*Sustainability targets:*

Wal-Mart has set a number of environmental targets covering GHG emissions, water and waste. The company favours absolute as opposed to intensity-based targets. The company has also set an aspirational target of achieving 100% renewable energy supply.

Category	Type	Reduction	Target Year	Base Year	Scope	Notes
GHGs	Absolute	20%	2012	2005	GHG Protocol Scope 1 and 2	Applies to existing stores, Sam's Clubs and distribution centres in existence in 2005.
GHGs	Absolute	100%	2015	2010	GHG Protocol Scope 3	This global goal is to eliminate 20 million metric tons of greenhouse gas emissions from the lifecycle of the products we sell by the end of 2015. We are quantifying emission reductions project-by-project, which allows us to focus our time and resources on meaningful projects rather than on trying to capture an ever-changing baseline for the entire supply chain.
GHGs	Absolute	100%	N/A	2005	GHG Protocol Scope 1 and 2	This long-term, aspirational goal is to be supplied 100% by renewable energy. The goal was announced in October 2005, but it does not have a target year of completion. It is a long-term goal that will affect our net emissions profile.
Water	Intensity	Recycle or reuse 60% of water in stores and distribution centres	2015	2008	Mexican operations	No additional relevant information provided.
Waste	Absolute	Eliminate landfill waste from U.S. stores and Sam's Club locations by 2025	2025	2008	U.S. stores and Sam's Club	No additional relevant information provided.
Waste	Absolute	Walmart will	2015	2009		No additional relevant information

		reduce food waste in emerging-market stores and clubs by 15 percent and in our other markets by 10 percent by the end of 2015				provided.
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*Sustainability projects:*

Wal-Mart does not offer a systematic overview of its sustainability projects but it publishes summaries of selected projects in various forums, including its Global Responsibility Report. The company reports, for instance, that it had 323 renewable energy projects underway in fiscal 2014.