

March 14th, 2012

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) 2011 Q4 Business Sustainability Performance Report and 2010 Environmental Footprint in order 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, CTC's sustainability reporting was reviewed against a set of its industry peers to assess how it was performing with regards to public disclosures. Finally, CTC's 2010 greenhouse gas emissions (GHGs) and energy use was benchmarked against industry peers to assess their performance.

Overall, we found the following:

1. **Best in Class Disclosures:** CTC was performing best in class compared to its sector peers domestically and internationally with regards to its public sustainability disclosures (Figure 1).
2. **Strong Data Management System:** CTC does have the appropriate due diligence system in place regarding their methodologies, data management, assumptions, and accountability in relation to their sustainability reporting.
3. **Slightly Below Benchmarked Average on Energy Productivity:** CTC was slightly below the benchmarked average regarding energy productivity of buildings by approximately \$374 (USD) per unit of energy in 2010 (GJ) (Figure 2).
4. **Above Benchmarked Average on Carbon Productivity:** CTC had the highest performance in the benchmarking and was approximately \$22,500 (USD) per metric tonne of CO₂ equivalents (Scope 1 & 2 for buildings and fleets) above the average in 2010 (Figure 3).

This *Letter of Review* will briefly outline CTC's Sustainability Disclosure Performance, Data Review Findings, Benchmarking Performance, and Recommendations Moving Forward. For an overview of the methodology used to conduct our review please see Appendix A.

Figure 1: Summary of Sustainability Disclosure Practices

Company	Footprint						Projects		
	Energy			GHGs		Operations		Energy, GHG and Costs Avoided	Quarterly Project Reporting
Energy Use - Buildings & Operations	Energy Use - Product Transport	Energy Use - 3rd Party Product Manufacture	GHGs - Scope 1, 2 and 3	GHGs - 3rd Party Product Manufacture	Goods - Total Distance Travelled To Retail Stores	Square Footage (retail and non-retail)			
Canadian Tire	√	√	√	√	√	√	√	√	√
Kohl's Corp	√			√		□	√	□	
Kingfisher	√			√		√	√	□	
Wal-Mart	√					□	√	√	
Home Depot	√						√	□	

Sustainability Disclosure Performance: CTC's sustainability disclosure practices are best in class within the industry set used in this benchmarking study, and among the most sophisticated of any global retailer. CTC has measured both energy and GHGs embedded in 3rd party manufactured products, and used/emitted in product transportation. CTC is also the only company within the industry set to use a quarterly reporting framework to report business sustainability performance data (quarterly forecasting of estimated annual avoided costs, energy, GHG emissions, and waste from projects initiated within that quarter) to stakeholders.

Data Review Findings:

Methodology: Each sustainability project and the overall footprint reviewed has a detailed methodology that includes impacts to be measured, scope, data gaps, measurement process, data sources, the analysis used, and calculation factors. Methodologies are updated yearly to reflect increasing rigour and updated calculations factors—which are centralized across the business. This is a best practice for determining a methodology as it ensures that there is documentation in place for institutional memory.

Data Management and Calculations: Each project that was reviewed within the Q4 Sustainability Report is tracked separately by fiscal quarter within its own document and then numbers are transferred manually into a rolled up summary report. A very minor error was detected in this data transfer, which indicates that a more automated and linked data management system may reduce the probability of data transfer errors. The 2010 Environmental Footprint is contained within its own document. All calculations for metrics selected were reviewed, found to be accurate, and done according to best practice.

Assumptions: For each project and the footprint reviewed, assumptions and limitations are clearly laid out and are reasonable for CTC's business. In one instance, under Central Energy Management for Canadian Tire Retail building projects, avoidance averages were based on 2010 data for 34 projects and then used to forecast avoidance per store in which building retrofits had been undertaken. This assumption could be improved in the future by basing average calculations on a range of store sizes (i.e. small, medium, and large) to increase accuracy. Moreover, the data should be updated at regular time intervals to account for new technologies being used. It is important to note, that CTC does have a process in place in their Sustainability Business Reporting Corporate Directive and Control Matrix which does test, verify, and update assumptions on a quarterly bases.

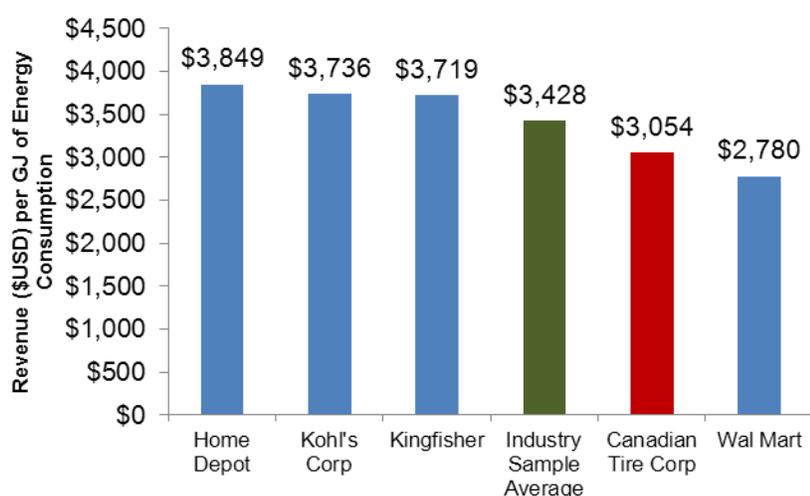
Accountability: All the data is centralized to the Finance and Business Sustainability functions. Each program has a business lead, senior executive oversight (AVP), and main contact for work undertaken outlined within the data documents. Each document is then approved by the Business Lead, Business Sustainability, and Accounting groups. Internal auditing is also conducted on a randomized sample of projects. This oversight and accountability is a best practice to ensure the appropriate due diligence is in place.

Benchmarking Performance:

Overall, CTC is performing slightly below the benchmarked average for Energy Productivity of Buildings and had the highest GHG Productivity of Buildings and Fleets (Scope 1 & 2) in 2010. Companies were included in the industry sample on the basis of their comparability with Canadian Tire's industry classification, and their energy and GHG reporting; however, it is important to note that benchmarking sustainability metrics is a difficult undertaking as there is no regulated standardized public disclosure practices that make comparing companies an easy task. In addition, some companies will appear to perform better if they have operations concentrated in areas that produce cleaner electricity; for example, emission factors in Canada (e.g. Ontario, BC, and Quebec with higher levels of hydropower) are typically lower than in the US. In all cases, data reflect a company's complete global operations (e.g. "Home Depot" includes Home Depot Canada and Home Depot International, and "Wal Mart" includes Wal Mart Canada and Wal Mart International). Some companies will have better energy productivity in higher density markets; for example, more consumers are served per square foot of retail space in the USA vs. Canada.

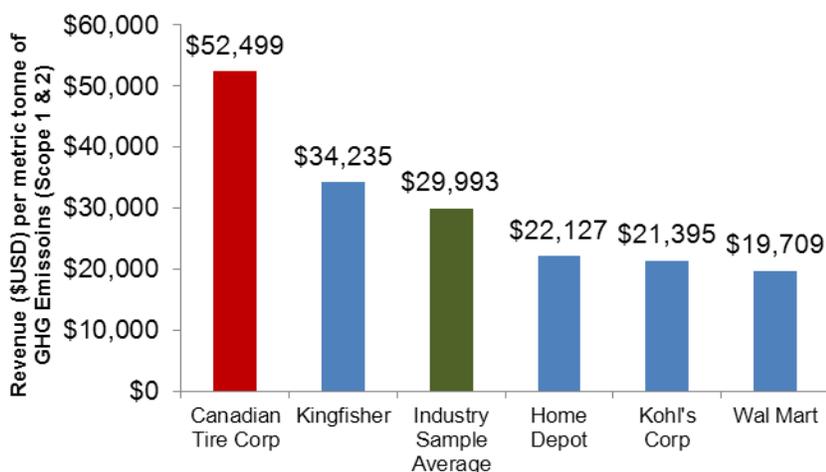
These reporting complexities cause many companies to disclose the scope of their data based on a variety of internal and external factors. For the purposes of this benchmarking *dealer, franchise and agent stores* were included within the boundary for energy and GHG Scope 1 & 2 productivity and *corporate owned fleets* were included within GHG Scope 1 & 2 productivity to allow for best comparability within the sample set. The productivity calculation (total revenue per unit of measure) was selected based on how typical investor analysts use such kind of data.

Figure 2: Energy Productivity from Buildings (2010)¹



An entity's energy productivity can be measured by dividing total revenue by total energy consumption over a particular fiscal period. In 2010, Canadian Tire generated \$3,054 USD in revenue per unit of energy (GJ) used in the company's buildings. The average energy productivity for the industry sample was \$3,428 USD.

Figure 3: Greenhouse Gas (GHG) Productivity from Buildings and Fleet (2010)²



Like energy productivity, GHG productivity can be calculated for a given entity by dividing total revenue by total GHG emissions over a particular fiscal period. Using this approach, Canadian Tire's GHG productivity in 2010 was found to be \$52,499 USD. This ratio compares very favourably to the industry sample average of \$29,993 USD. Canadian Tire is the only company within the industry set whose operations are based solely in Canada, and the company's GHG productivity is positively affected by Canada's relatively low emissions factor.

¹ **Energy Productivity Calculation:** Total revenue for Canadian Tire in 2010 was defined as Enterprise Revenue of \$11,283 million CAD divided by the average 2010 CAD/USD exchange rate of 1.03, equaling \$10,954 million USD. Total energy consumption defined as 3,586,354 GJ (energy use in corporate offices, distribution centres, stores and dealer, franchise and agent stores). A similar methodology was applied to all the companies in the industry set to ensure most accurate comparability.

² **GHG Productivity Scope 1 & 2:** Total revenue for Canadian Tire in 2010 was defined as Enterprise Revenue of \$11,283 million CAD divided by the average 2010 CAD/USD exchange rate of 1.03, equaling \$10,954 million USD. Total GHG emissions were calculated to be 208,659 t/CO₂e. Emissions calculated using the GHG Protocol. Only Scope 1 and Scope 2 emissions were calculated, with sources comprised of the corporate owned vehicle fleet (product transport trucks, service and passenger vehicles), corporate offices, distribution centres, stores and dealer, franchise and agent stores. A similar methodology was applied to all the companies in the industry set to ensure most accurate comparability.

Recommendations Moving Forward:

1. **Data Transfer Automation:** Consider implementing an automated and linked data transfer system to reduce possible errors from manual transfers to a centralized system.
2. **Avoidance Assumptions:** Ensure that the Corporate Directive for updating assumptions at regular intervals is adhered to and consider updating the assumptions used for Central Energy Management of building projects—as suggested above—during the next internal review period.
3. **Footprint Reporting Consistency:** The last time that CTC fully reported its environmental footprint was in 2007. We suggest that CTC reports its full environmental footprint on an annual basis.
4. **Expanding Performance Indicators:** Consider expanding the number of key performance indicators to include waste generated and water use. While not explicitly reviewed in this benchmarking study, some of CTC's peers provide data on these indicators (e.g. Kingfisher and Kohl's).

Overall, Canadian Tire has demonstrated very strong due diligence with regards to their data management and very progressive reporting techniques with regards to their Quarterly Sustainability Performance Report.



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Appendix A:

Overview of Methodology:

1. **Document Review:** Review all internal and external documentation provided.
2. **Metric Selection:** Independently select a sample of three 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 set³. For the purposes of this assessment the following metrics were reviewed:
 - **Q4 Business Sustainability Performance Report:**
 - **Waste Avoidance:** 2311 (t), CTR Product and Packaging Right Sizing, 146 Projects
 - **Energy Use Avoidance:** 19,870 (GJ), CTR - CEM Retrofits, 31 Projects
 - **2010 Environmental Footprint Report:**
 - **GHG Emissions:** 27,176 CO₂e Corporate Stores, Buildings and Operations.
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. **Benchmarking:** CTC's performance in terms of energy productivity and greenhouse gases (GHG) productivity for the year 2010 was compared to the performance of a basket of same-sector Canadian and international peers. CTC's disclosure practices were also compared with those of its industry group peers. Data and disclosure practices are based on publicly available sources such as annual reports and sustainability reports. Numbers are adjusted in cases where they are reported for less than 100% of the company's operations. In the case of CTC, we have also relied on non-publicly available data provided to us for the purpose of this report. Definitions are as follows:
 - **Energy productivity:** Total revenue in USD for a particular fiscal period divided by total direct and indirect energy (GRI: EN and EN4) consumed in GJ for the same period.
 - **GHG productivity:** Total revenue in USD for a particular fiscal period divided by total greenhouse gases (GHG) emitted in metric tonnes of CO₂e for the same period.
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

³ 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.