

**November 1<sup>st</sup>, 2013**

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation's (CTC) Q3 2013 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, Home Hardware, MEC, Rona, Staples, Target and Wal-Mart*) based on reporting cycle, reporting standards, and verification. CTC has also included a response to the previous quarter's (Q2 2013) 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. It is also important that all business units and employees are aware of CTC's Business Sustainability Performance Reporting in order to ensure that all initiatives/projects with sustainability attributes be accounted for in a timely manner.
- 2. Consider Using an Internationally Recognized Reporting Standard:** Four out of seven of CTC's peers are using the Global Reporting Initiative (GRI) guidelines which is an internationally recognized and the most widely used sustainability reporting framework; however, CTC has a very unique and customized quarterly reporting system and also publishes a yearly value-chain environmental footprint report—both of which are leading practices. It is recommended to test with key stakeholders which will be the best reporting platform(s) moving forward.
- 3. Shorten Reporting Cycle for Environmental Footprint Report:** Most companies within the peer set have a 3-6 month reporting gap on their performance data and CTC has a 14-month gap. CTC should consider shortening this cycle.

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 Q3 2013 Business Sustainability Performance Report: Business and Retail Opportunities CTFS - e-statement conversion and Low Carbon Energy Generation, CTR - Solar PV - On Grid.

The CTFS-e-statement conversion is a program to transition Canadian Tire visa customers from paper based billing to online paperless e-billing. The change is to a monthly e-statement sent via email to customers instead of issuing a monthly paper statement, at the request of the customer. The benefits include reduced costs from the elimination of sending paper bills to customers and also the waste and embedded energy/GHG emissions avoidance as a result of the use of an e-statement. Specifically, we reviewed all the data, methodology, assumptions and calculations for cost, waste, embedded energy and GHG avoidance and found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with their corporate directive and best practices. It is important to note that this program has been running for 3 years, but has only just been included as a business sustainability initiative in Q3 of 2013. It can be difficult to quantify all initiatives that have economic and environmental benefits in a timely manner and this may demonstrate that some of the

business units in charge of certain programming are not aware of the sustainability attributes of an initiative and therefore do not include them into the business sustainability accounting system. This highlights a need for further employee engagement and awareness building.

The low carbon energy generation of Solar PV (on-grid) is a project in which CTC rents their commercial real estate roof space to turn-key renewable energy providers in order to generate low carbon solar energy. The direct benefit to CTC is the revenue generated from renting their rooftop, but it also has benefits for the local economy from the generation of low carbon electricity. It is important to note that all roof top solar PV installations occurred within Ontario and that the energy generated and avoided GHG emissions reported by CTC benefit the local economy as the solar cells are connected to the grid. After having reviewed all the data, methodology, assumptions and calculations we found that CTC has the appropriate due diligence system in place to ensure accounting accuracy and are operating in accordance with best practices.

**Comparative Analysis of CTC’s Sustainability Disclosure**

**Introduction**

The purpose of this review was to compare Canadian Tire’s sustainability reporting practices against those of seven peers in the global retailing sector: Home Depot, Home Hardware, Mountain Equipment Co-Op, Rona, Staples, Target, and Wal-Mart.

Corporate Knights selected the peer group in consultation with Canadian Tire based on industry comparability and existing sustainability reporting systems.

This review was largely concerned with answering three key questions:

1. **Reporting Cycle:** How long does it take for a company to externally report its sustainability performance data (e.g. GHG emissions, energy use, water use, waste)?
2. **Reporting Standards:** Which external reporting standards does each company reference (e.g. the Global Reporting Initiative ISO 26000, the WRI/WBCSD Greenhouse Gas Protocol, etc.).
3. **Verification:** Are companies’ sustainability reports verified by a 3<sup>rd</sup> party?

A summary of our analysis is found in Figure 1. For findings by company please refer to Appendix C.

**Figure 1: Summary of Results**

Company	Reporting Cycle			Referenced Standards	Use and disclosure of sustainability performance targets	Verification
	2012 sustainability performance data published (Y/N)	Fiscal year end	Reporting Gap			
<b>Canadian Tire</b>	Y: Q1 – Q4 Business Sustainability Performance Report  N: 2011 Environmental Footprint	Dec-29	Quarterly Reports: 2 months  Environmental Footprint: 14 Months (based on 2011 Environmental Footprint)	GHG Protocol	Canadian Tire uses a target for ‘total annual cost avoidance’ from its sustainability initiatives.	Canadian Tire does not use third-party assurance or certification. Canadian Tire uses a third-party service provider to review the

						company's quarterly Business Sustainability Performance Reports and annual Environmental Footprint.
<b>Home Depot</b>	Y	Feb-03	5 months	GHG Protocol	Home Depot discloses its GHG reduction target.	Does not use independent assurance or certification.
<b>Home Hardware</b>	Does not currently publish any sustainability performance data.	Not available	Not applicable	Not applicable	Not applicable	Not applicable
<b>Mountain Equipment Co-Op (MEC)</b>	Y	Dec-30	5 months	GRI, International Co-operative Alliance <sup>1</sup> , UN Global Compact <sup>2</sup> , International Labour Organization <sup>3</sup>	MEC extensively discloses its targets for most of the sustainability indicators it reports.	MEC does not use third-party assurance or certification. The company's carbon data is reviewed by the Pembina Institute.
<b>Rona</b>	N	Dec-30	None	None	Rona does not currently disclose any sustainability performance targets.	Rona does not currently publish any sustainability performance data.
<b>Staples</b>	Y	Feb-03	Staples (Global): 8 months Staples Canada's Quarterly Sustainability Report: 3 months	GRI, ISO14001 <sup>4</sup>  ISO9001, ISO14001	Staples discloses its sustainability performance targets.	Neither Staples (Global) nor Staples Canada use third-party assurance or certification.
<b>Target</b>	Y	Feb-02	4 months	GRI, Global Protocol on Packaging Sustainability <sup>5</sup> .	Target discloses performance goals for most of the	Target does not use third-party assurance or certification.

<sup>1</sup> MEC adheres to the seven principles of the International Co-operative Alliance to guide its business model (<http://ica.coop/en/what-co-op/co-operative-identity-values-principles>).

<sup>2</sup> The UN Global Compact acts as guiding principles for MEC's business sustainability and responsibility (<http://www.unglobalcompact.org/>).

<sup>3</sup> The International Labour Organization's conventions are used by MEC to define its approach to responsibility when it comes to labour relations (<http://www.ilo.org/global/lang-en/index.htm>).

<sup>4</sup> Staples (Global) has nearly 110 facilities with environmental management systems certified by ISO14001 standards. [http://www.staples.com/sbd/cre/marketing/staples\\_soul/documents/staples\\_soul\\_2012.pdf](http://www.staples.com/sbd/cre/marketing/staples_soul/documents/staples_soul_2012.pdf).

<sup>5</sup> The Global Protocol on Packaging Sustainability guides Target's approach to measure its efforts at reducing packaging (<http://sustainability.mycgforum.com/global-packaging-project.html>).

					sustainability indicators it reports.	
<b>Wal-Mart</b>	Y	Jan-31	3 months	GRI, GHG Protocol, Global Protocol on Packaging Sustainability <sup>6</sup> .	Wal-Mart reports its sustainability performance targets.	Wal-Mart's 2013 Global Responsibility Report met a GRI-checked application of "B". The company works with several NGOs in preparing its sustainability report.

<sup>6</sup> Wal-Mart adheres to the Global Protocol for Packaging Sustainability (<http://sustainability.mycgforum.com/global-packaging-project.html>) reduce packaging materials, increase recycled content and increase the amount of renewable materials.

## Recommendations Moving Forward:

- 1. Employee Engagement to Raise Awareness:** As mentioned in the review of CTC's e-statement conversion program, there was a significant time lag from when the program was initiated until it was accounted for within the business sustainability quarterly performance report. This highlights the need for further employee engagement to raise awareness and potentially build capacity to non-sustainability related business functions so that they are able to easily identify initiatives with sustainability attributes. This can take the form of developing green teams or green champions throughout different business units or through the creation of professional development courses that help build awareness and capacity throughout the organization.
- 2. Sustainability Reporting:** Canadian Tire's reporting framework includes two main parts: Quarterly Business Sustainability Performance Reports and Annual Environmental Footprint Reports. Four of the seven companies in Canadian Tire's peer set reference the GRI and this is up three companies from our last Q2 2013 Review. The GRI is among the world's most sophisticated sustainability disclosure frameworks. We recommend that Canadian Tire expand its Annual Environmental Footprint Report to cover the sustainability performance indicators contained in the GRI's reporting framework.
- 3. Shorten Environmental Footprint Reporting Cycle:** Currently, Canadian Tire has a 13-month reporting gap for the release of its environmental footprint data. Most companies within the peer set have a reporting cycle of between 3-6 months, and this may not reflect global best practice for the retailing sector as a whole. Canadian tire should consider releasing its Environmental Footprint data on a shorter cycle in order to maintain the relevance of its environmental disclosures.
- 4. Consider Disclosing Sustainability Performance Targets:** Five of the seven companies in Canadian Tire's peer set publicly disclose their future sustainability performance targets. We recommend that Canadian Tire expands its reporting to include such targets to stay in line with best industry practice.

We would like to note that over the last year, CTC has been aligning their internal Business Sustainability Performance Reporting to their Financial Performance Reporting. We believe this is very important in helping to integrate sustainability throughout the organization by helping non-sustainability professionals within the organization better understand how sustainability attributes are accounted for by using a format they are used to. We believe this is a leading practice.

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.



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## Appendix A: Canadian Tire Response to Q2 2013 Recommendations

#	Delphi/Corporate Knights Q2 2013 Recommendations	Canadian Tire Response
1	<p><b>Continually Test Assumptions:</b> Although CTC has used the most comprehensive assumptions possible at this time, we continue to advise that these assumptions be reviewed, tested, and revised on a regular basis to ensure that forecasted avoidances are as close to actual avoidances as possible.</p>	<p>Assumptions are tested on a quarterly basis as per the Company's internal controls. Depending on the outcome of the test, assumptions may be refined to improve accuracy going forward.</p>
2	<p><b>Increase Scope of Sustainability Indicators:</b> CTC should consider expanding the scope of its sustainability reporting to include waste generation, water consumption, employee turnover, lost time injury rate, total payroll cost, and other metrics reported by the peer set.</p>	<p>CTC regularly reviews metrics used to articulate the performance of sustainability activities. CTC will assess expanding its Sustainability reporting to include waste.</p>
3	<p><b>Continue Increased Public Disclosures within Integrated Report:</b> While CTC already follows aspects of Integrated Reporting, as a best practice, the company should consider disclosing all new sustainability indicators in the MD&amp;A section of its Annual Report or in other relevant financial statements.</p>	<p>As part of the regular review process for measurement and reporting, CTC evaluates which metrics are most relevant for disclosure in the MD&amp;A and provides a broader disclosure of additional metrics in the on-line reports.</p>
4	<p><b>Use Performance Targets:</b> CTC should consider implementing a suite of targets to drive its sustainability performance and to report on the extent to which those performance targets have been or are being met. Preliminary targets could include greenhouse gas emission reduction targets and/or energy efficiency targets.</p>	<p>CTC sets internal performance targets for carbon reduction initiatives, but these are not externally communicated. CTC is actively engaged in measuring the carbon footprint of its extended value chain. The measurement of the carbon footprint is important for the Company to undertake in order to understand its impact on the environment and the implications of setting reduction targets before doing so.</p>
5	<p><b>Consider Using GRI Index:</b> CTC should consider mapping its sustainability reporting to the Global Reporting Initiative (GRI) as it is the most widely used reporting framework worldwide<sup>7</sup>. In addition, GRI (including the GRI Index) is useful in guiding stakeholders to the content they are most interested in. Currently, only Target is using GRI in the peer set.</p>	<p>CTC recognizes the value of a GRI index and will evaluate the possibility of adopting this framework in the future.</p>
6	<p><b>Supplier Audits:</b> CTC's annual report mentions a "Supplier Code of Conduct" that "is in place to ensure that (CTC's) suppliers and vendors abide by CTC's high standards of ethical business conduct". CTC should consider reporting on the extent to which its suppliers are complying with the code and actions taken by CTC, if any.</p>	<p>CTC is currently working on enhanced internal reporting that will consolidate each of the business units' Supplier Code of Conduct activities and outcomes.</p>

<sup>7</sup> 2012, 58% of S&P500 using GRI Framework (GRI), 80% of Global 250 companies are GRI reporters (KPMG), more than 1,900 organizations in the world use GRI (Bloomberg), and all rankings and research indices consider if a GRI report is present.

## 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>8</sup>. For the purposes of this assessment the following metrics were reviewed:
  - **Q3 Business Sustainability Performance Report:**
    - **Waste Avoidance:** 17 tonnes, Business and Retail Ops, CTFS - e-statement conversion, 2 Projects
    - **GHG Emissions Avoidance:** 97.06 tCO<sub>2</sub>e, Low Carbon Energy Generation, CTR - Solar PV - On Grid
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, Wal-Mart, Home Hardware, MEC, Rona, Staples and Target
  - **Comparators:** Review and compare use of timeframes and reporting systems
6. **Recommendations:** Make recommendations to CTC in terms of disclosure and reporting.

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<sup>8</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

**Reporting Cycle:** Canadian Tire is unique within the peer set in the sense that it publishes a Business Sustainability Performance Report on a quarterly basis instead of an annual consolidated sustainability report. The quarterly reports discuss the forecasted Economic and Environmental benefits of the company's sustainability projects. The future benefits are reported in terms of "avoidance", with such indicators as: "Cost Avoidance", "Energy Avoidance", "GHG Avoidance" and "Waste Avoidance". Staples Canada has also recently started to produce a quarterly sustainability report which includes program performance data.

In addition, Canadian Tire releases an annual Corporate and Supply Chain Environmental Footprint report, which includes total GHG Emissions and Energy Use, at the beginning of each year along with its Q4 Business Sustainability Performance Report of the previous year. For example, the 2011 Corporate and Supply Chain Environmental Footprint report was released in early February 2013, giving CTC a 14-month reporting gap for their environmental performance data – generally twice as long as most of its peers. Canadian Tire has not yet published their 2012 Environmental Footprint<sup>9</sup> but it is anticipated at the beginning of 2014.

**Standards:** Canadian Tire uses the GHG Protocol to report its energy use and GHG emissions.

**Verification:** Canadian Tire uses a third-party service provider to review the company's quarterly Business Sustainability Performance Reports and the Environmental Footprint.<sup>10</sup>

**Use of targets:** Canadian Tire does not currently disclose any performance targets on specific environmental metrics, such as energy or greenhouse gas reduction. However, a 'total annual cost avoidance' from its pipeline of sustainability initiatives is reported.

### Home Depot

**Reporting Cycle:** Home Depot published its "2013 Sustainability Report" which covers a range of sustainability performance indicators including greenhouse gases emissions since 2009. It was not possible to assess the date on which Home Depot's 2013 Sustainability Report was published. However, we have been able to obtain from Bloomberg that Home Depot's greenhouse gases emissions total for 2011 (year ended January 29<sup>th</sup>, 2012) was available around early June 2012, representing a reporting gap of 5 months. This can be used as a general indication of Home Depot's reporting cycle for sustainability reporting.

**Standards:** Home Depot uses the GHG Protocol to report its emissions data.

**Verification:** Home Depot does not use independent assurance or any type of external review.

**Use of targets:** Home Depot discloses its goal of achieving a 20% reduction in GHG emissions by 2015 compared to 2009 levels.

### Home Hardware:

**Reporting Cycle:** Home Hardware does not provide any discussion of its sustainability activities or performance.

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<sup>9</sup> As of October 17, 2013.

<sup>10</sup> Delphi and Corporate Knights conduct quarterly reviews of CTC's Business Sustainability Report and Year-End Environmental Footprint and Delphi also provides a Statement of Confidence for CTC's annual GHG and Energy Footprint.

**Standards:** Not applicable.

**Verification:** Not applicable.

**Use of targets:** Not applicable

## Mountain Equipment Co-Op (MEC)

**Reporting Cycle:** MEC's "2012 Accountability Report" contains sustainability performance data for the period from January 1 to December 30, 2012. The report was released in early June 2013, representing a 5 month reporting gap.

**Standards:** MEC follows the GRI (G3.1 Guidelines). MEC self-declared its 2012 Accountability Report to be Application Level B of the GRI's Sustainability Reporting Guidelines. MEC includes a GRI Content Index that provides a quick reference to the required disclosures. In addition, MEC adheres to a number of global standards that guide its approach to responsible business. Such global standards include the principles of the International Co-operative Alliance, the UN Global Compact and the provisions of the International Labour Organization.

**Verification:** MEC does not use independent assurance. MEC reports that its carbon data is reviewed by the Pembina Institute. MEC reports that it uses an "independent reporting consultant" to support its reporting process and to facilitate stakeholder engagement.<sup>11</sup> However, the company does not indicate the name of the consultant.

**Use of targets:** MEC discloses its sustainability performance targets for most of the indicators it reports. Examples include increase in landfilled waste diversion and energy consumption reduction. MEC also provide comments on the status of its targets for the past year along with the achieved performance – whether the target was met or missed. A list of action items to achieve each of those targets is also provided.

## Rona

**Reporting Cycle:** Rona sustainability disclosure is in most part limited to qualitative information with detailed description of sustainability-related activities being undertaken on issues such as GHG reduction, building efficiency and waste management. Rona does not appear to disclose any sustainability performance indicators. The company's sustainability disclosures are primarily found on the dedicated section of its website although the company reports the fact that it is disclosing to the Carbon Disclosure Project<sup>12</sup>.

**Standards:** Rona does not employ any sustainability reporting standard.

**Verification:** Rona does not use any third-party assurance or certification for its sustainability disclosures.

**Use of targets:** Rona does not disclose any sustainability performance targets.

## Staples

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[http://www.mec.ca/AST/ContentPrimary/AboutMEC/Sustainability/AccountabilityReport/Approach.jsp?CONTENT%3C%3Ecnt\\_id=10134198674183530](http://www.mec.ca/AST/ContentPrimary/AboutMEC/Sustainability/AccountabilityReport/Approach.jsp?CONTENT%3C%3Ecnt_id=10134198674183530)

<sup>12</sup> <http://www.rona.ca/corporate/corporate-responsibility>

**Reporting Cycle:** Staples (Global)'s 2012 Corporate Responsibility report discusses their performance for the period February 1<sup>st</sup>, 2012 to February 2<sup>nd</sup>, 2013. Staples (Global) essentially discloses its sustainability performance data through a dedicated section on its website. It was not possible to assess the date on which the data was made available on its website. However, based on the fact that sustainability data for 2012 was already available at time of writing, this indicates a maximum reporting gap of 8 months.

Staples Canada publishes sustainability performance data on a quarterly basis on the "Corporate Responsibility" section of its website. The report for Q2 2013 was made available on September 26<sup>th</sup>, 2013 representing a reporting gap of 3 months.

**Standards:** Staples (Global)'s sustainability data is based on the GRI (G3) reporting standards. Along with MEC, Target and Wal-Mart, Staples (Global) provides a GRI index to the disclosed sustainability indicators. Staples (Global) also adheres to ISO14001 standards to design its environmental management systems.

Staples Canada's quarterly sustainability reports refer to the use of ISO14001 and ISO9001 standards to evaluate, monitor and manage the company's activities, products and services, and maintain a positive impact on the environment<sup>13</sup>.

**Verification:** Neither Staples (Global) nor Staples Canada use third-party assurance or certification.

**Use of targets:** Staples discloses its sustainability goals under three categories: ethics, community and environment. The latter category includes the disclosure of quantitative sustainability performance targets such as landfilled waste reduction and energy intensity reduction.

## Target

**Reporting Cycle:** Target's "2012 Corporate Responsibility" report covering the period from January 29<sup>th</sup>, 2012 to February 3<sup>rd</sup>, 2013 was published in early June 2013, representing a reporting gap of 4 months.

**Standards:** Target's corporate responsibility report is based on the GRI G3.1 Guidelines. A GRI index is provided to facilitate reference to the sustainability indicators. The company also adheres to the standards of the Global Protocol on Packaging Sustainability as a framework to guide the company's packaging reduction projects.

**Verification:** Target does not use any third-party assurance or certification.

**Use of targets:** Target discloses quantitative sustainability performance targets for future periods for most of the sustainability indicators that it reports. Examples include GHG emissions reduction and waste reduction. A discussion of actual performance against targeted performance for the past period is also provided.

## Wal-Mart

**Reporting Cycle:** Wal-Mart's "2013 Global Responsibility Report", which includes data for the company's 2012 fiscal year (February 1, 2012 to January 31, 2013), was published in April 2013. This implies a 3 month reporting cycle.

**Standards:** Wal-Mart uses GRI Guidelines and also includes a GRI Index, a practice also employed by MEC, Staples and Target. Wal-Mart also uses the GHG Protocol to prepare its GHG emissions inventory. Wal-Mart

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<sup>13</sup> [http://www.staples.ca/sbdca/en\\_CA/cre/programs/media\\_information/images/press\\_releases/092613.pdf](http://www.staples.ca/sbdca/en_CA/cre/programs/media_information/images/press_releases/092613.pdf)

adheres to the standards of the Global Protocol for Packaging Sustainability to guide its packaging reduction efforts.

**Verification:** Wal-Mart does not use independent third-party assurance but its 2013 Global Responsibility Report meets a GRI-checked application of “B”. The company works with several NGOs, including the Live Greener Working Group (LGWG) and Sustainable Value Networks (SVN), in preparing its sustainability report.

**Use of targets:** Wal-Mart discloses sustainability performance targets such as GHG emissions reduction and waste reduction.