

February 27th, 2015

The Delphi Group and Corporate Knights have assessed Canadian Tire Corporation’s (CTC) 2014 Q4 Business Sustainability Performance Report and 2013 Environmental Footprint—including the newly added Product Water Footprint and Waste 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 2013 greenhouse gas emissions (GHGs) and energy use was benchmarked against industry peers to assess their performance. For CTC’s response to the previous quarter’s (Q3 2014) recommendations please see Appendix A.

Overall, we found the following:

1. **Best in Class Disclosures:** CTC is a best-in-class performer relative to its sector peers domestically and internationally with regards to its public sustainability disclosures (Figure 1).
2. **Strong Data Accounting and Management System:** CTC has the appropriate due diligence system in place regarding methodologies, data management, assumptions, and accountability in relation to their environmental footprint reporting. Minor recommendations have been provided to improve the clarity and understanding of reported data.
3. **Leadership in Product Water Footprint and Waste Footprint Reporting:** As of this quarter, CTC will be publicly disclosing their Product Water Footprint and Waste Footprint demonstrating leadership and transparency in business sustainability reporting.
4. **Below Benchmarked Average on Energy Productivity:** CTC was below the benchmarked average regarding the energy productivity of its buildings (corporate, franchised and agent) and corporate fleet (Figure 2).
5. **Above Benchmarked Average on GHG Productivity:** CTC was second best among its sector peers on GHG productivity (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 B.

Figure 1: Summary of Energy and GHG inventory Disclosure Practices

| Company | Energy Use | GHGs - Scope 1 and 2 | GHGs - Scope 3 | Energy and GHG segmentation by value chain segment | Energy and GHG reporting frequency |
|----------------------|------------|----------------------|----------------|--|------------------------------------|
| Canadian Tire | √ | √ | √ | √ | Quarterly |
| Home Depot | √ | √ | √ | - | Annually |
| Loblaws | - | √ | - | - | Annually |
| Mountain Equipment | - | √ | √ | √ | Annually |
| Rona | - | √ | - | - | Annually |
| Staples | √ | √ | - | - | Annually |
| Target | √ | √ | √ | - | Annually |
| Wal-Mart | √ | √ | √ | √ | Annually |

Sustainability Disclosure Performance:

CTC's sustainability disclosure practices are best-in-class within the peer set used in this benchmarking study, and among the most sophisticated of any global retailer. Along with Mountain Equipment Co-Op and Wal-Mart, CTC is the only company in the peer set to segment its energy and GHGs by value chain. CTC is also the only company within the peer set to use a quarterly reporting framework to report business sustainability performance data (quarterly reporting of annual avoided costs, energy, GHG emissions, and waste from projects completed within the previous 12 months) to stakeholders.

Data Review Findings:

This quarter we reviewed CTC's 2013 Environmental Footprint (GHG emissions) to see if there were any areas to enhance overall reporting. We also specifically focused on CTC's Product Footprint in order to ensure that the methodology, assumptions, calculations, and accountability were appropriate.

CTC 2013 GHG Footprint:

Overall, CTC's Environmental Footprint and Product Footprint provide comprehensive accounts of the company's GHG emissions across the value chain. CTC uses a thorough approach to quantifying corporate emissions and value chain emissions and applies best practice calculation methods. During our review we did not discover any significant errors or methodological issues that would result in a material impact on CTC's reported emissions. The following are key recommendations that may improve internal and external stakeholders' understanding of CTC's emissions results:

- 1. Provide a methodology overview for CTC's GHG Footprint and Product Footprint:**
CTC's GHG Footprint is complex, largely because the company has chosen to quantify value chain emissions. As a result, different calculation approaches are required for each segment of the value chain. While CTC has documentation for each individual component, an overall summary of the complete methodology is not included in the Environmental Footprint summary document. Including such a summary would enhance the ability for internal stakeholders to quickly understand the approach and methods used. Similarly, a brief methodology overview to accompany publically reported data would give external stakeholders a clearer understanding of CTC's footprint and the company's innovative approach to quantifying value chain emissions. A similar methodology summary could also be included in the Product Footprint, although confidentiality may limit the ability to provide detailed descriptions. Documentation of the product GHG emissions methods does exist internally.
- 2. Summarize CTC's total emissions based on real data vs. estimated / modeled:**
Much of CTC's GHG Footprint utilizes estimated or modeled data resulting from the fact that real data are not available for most value chain segments. CTC already identifies the percentage of primary data used in the calculations for Scope 1 and 2 emissions. It would be beneficial to also include the percentage of primary data used for *Scope 3* emissions and for the *total GHG Footprint*. This would be an easy step that would improve the transparency of emissions results by giving readers a simple overview of CTC's emissions calculated from real data relative to those requiring models/estimates.

CTC 2013 Product Water Footprint:

In addition to the Environmental Footprint and Product Footprint, Delphi also reviewed CTC's product water footprint. The water footprint quantifies the water consumed throughout the cradle-to-gate life-cycle stages (mainly production, manufacturing, and raw material extraction) from all of CTC's sold products. The water footprint utilizes an economic input-output analysis methodology to assess the water requirements across the supply chain. The modeling methodology is supplemented with verified water use data for individual suppliers, where possible to improve the accuracy of results. During our review we did not discover any errors in calculation or methodological issues that would result in a material impact on CTC's reported water footprint.

Water footprinting is still a new area within corporate sustainability reporting and fewer stakeholders are familiar with the approaches and results of water footprints. As a result, we recommend providing additional commentary alongside the reported water footprint to assist external stakeholders' understanding of CTC's water footprint effort, including:

1. **Clearly describe the scope of CTC's water footprint:** Emphasizing CTC's focus on products and the cradle-to-gate life-cycle approach used will provide context for the water footprint results.
2. **Explain context for water footprint:** Water footprinting is still rare in corporate sustainability and stakeholders may not readily understand the significance of CTC's efforts. Describing CTC's rationale for pursuing a comprehensive product water footprint and describing the company's vision for the water footprint may help stakeholders better understand CTC's innovative approach and the leadership position CTC has taken.

CTC 2013 Waste Footprint:

Delphi reviewed CTC's waste footprint for the company's operations. CTC's waste footprint includes the company's Corporate locations and Toronto distribution centers. This includes offices, Petroleum, PartSource, Mark's and FGL stores. For each facility, waste is classified by material type (e.g. cardboard, plastic, metal, solid waste, etc.) and categorized into waste and diverted materials (recyclables and organics). Currently, hazardous waste is not included and is a known gap within the footprint; however, we do not anticipate that hazardous waste is a major issue for CTC and would likely have minimal impact to the overall diversion rate.

Waste data is provided by waste suppliers on a monthly basis, although in 2013, waste data was unavailable for part of the year and extrapolation was used to complete the missing data for the full year. In addition, there was a portion of locations where no data was available and therefore not included within the footprint. These gaps are identified within the waste footprint and CTC will be working towards filling these gaps over the coming years.

We have reviewed this methodology and concluded that it provides an accurate estimation of CTC's waste footprint. During our review we did not discover any errors in calculation or methodological issues that would result in a material impact on CTC's reported waste footprint. We did identify a minor calculation error, which has been corrected.

Benchmarking Performance:

Companies were included in the peer set sample on the basis of their comparability with Canadian Tire's industry classification, geographical presence and their energy and GHG reporting practices. Across North America, there are jurisdictions¹ that have regulated energy and GHG disclosure standards and many companies choose to only report on their major facilities where regulated. CTC's energy usage and GHG emissions are not regulated and voluntary in nature which demonstrates beyond compliance leadership. Furthermore, CTC's proactive approach offers an indication of its awareness and level of preparedness to address any risks posed should regulations become applicable to CTC in the future.

In addition, the location of a company's operations can meaningfully affect its energy and GHG profile; companies with operations in jurisdictions with relatively "clean" electricity (e.g. a low emissions factor) will be advantaged. For example, emission factors in Canada (e.g. Ontario, BC, and Quebec, with high levels of hydropower) are typically lower than those in the United States.

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).

For the purposes of this benchmarking exercise, CTC's *dealer, franchise, agent stores and corporate owned fleets* were included in the boundary for energy and GHG productivity to allow for best comparability within the sample set.

An entity's energy productivity can be measured by dividing total revenue converted into US dollars by total energy consumption over a particular fiscal period. In 2013, Canadian Tire generated \$2,834 USD in revenue per unit of energy (GJ) used in the company's buildings and corporate owned transportation fleet². The leader within the peer set for energy productivity for 2013 was Staples with \$4,891 USD in revenue per unit of energy (GJ) used. The average energy productivity for the industry sample for 2013 was \$3,510 USD (Figure 2).

In order to assess CTC's year-over-year change in energy productivity, the effects of fluctuation in the CAD/USD exchange rate are eliminated by performing the analysis in Canadian dollars. In 2013, CTC's energy productivity on a Canadian dollar basis was \$2,917 CAD in revenue per unit of energy (GJ) used in the company's buildings and corporate owned transportation fleet³. This compares favourably to CTC's 2012 energy productivity of \$2,851 CAD in revenue per unit of energy (GJ) used, an improvement of 2% year-over-year⁴.

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

¹ Examples of such jurisdictions include Ontario, British Columbia, Quebec and California—but only for high emitters above a certain threshold.

² Energy Productivity Calculation: Total revenue for Canadian Tire in 2013 was defined as Retail Sales of \$13,225 million CAD multiplied by the average 2013 CAD/USD exchange rate of 0.97 (<http://www.oanda.com/currency/historical-rates/>), equaling \$12,847 million USD. Total energy consumption defined as 4,533,282 GJ, with sources comprised of 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.

³ Ibid.

⁴ Canadian Tire's retail sales in 2012 was of \$12,825 million CAD (as restated in Canadian Tire's 2013 Annual Report) and its total energy used in the same year was of 4,498,774 GJ as restated in February 2015.

Tire's GHG productivity in 2013 was found to be \$52,157 USD per tonne of GHG emitted⁵. This ratio compares very favourably to the industry sample average of \$38,280 USD. The leader within the peer set for GHG productivity for 2013 was Mountain Equipment Co-op with a GHG productivity of \$58,495 USD per tonne of GHG emitted in 2013 (Figure 3).

In a similar way, CTC's year-over-year change in GHG productivity can be assessed by performing the analysis in Canadian dollar terms, thus eliminating the effects of fluctuations in the CAD/USD exchange rate. In 2013, CTC's GHG productivity on a Canadian dollar basis was \$53,690 CAD in revenue per tonne of GHG emitted⁶. This compares favourably to CTC's 2012 GHG productivity of \$51,878 CAD in revenue per tonne of GHG emitted, an improvement of 3% year-over-year⁷.

The disparity between Canadian Tire's lower energy productivity versus higher GHG productivity is because CTC's operations are in Canada with relatively cleaner electricity sources as opposed to other jurisdictions, as mentioned above.

⁵ GHG Productivity calculation. Total revenue for Canadian Tire in 2013 was defined as Retail Sales of \$13,225 million CAD multiplied by the average 2013 CAD/USD exchange rate of 0.97 (<http://www.oanda.com/currency/historical-rates/>), equaling \$12,847 million USD. Total GHG emissions were calculated to be 246,322 t/CO₂e. Emissions calculated using the GHG Protocol. Sources include 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.

⁶ Ibid.

⁷ Canadian Tire's retail sales in 2012 was of \$12,825 million CAD (as restated in Canadian Tire's 2013 Annual Report) and its total GHG emissions in the same year was of 247,212 t/CO₂e as restated in February 2015.

Figure 2: Energy Productivity from Buildings and Fleet (2013)

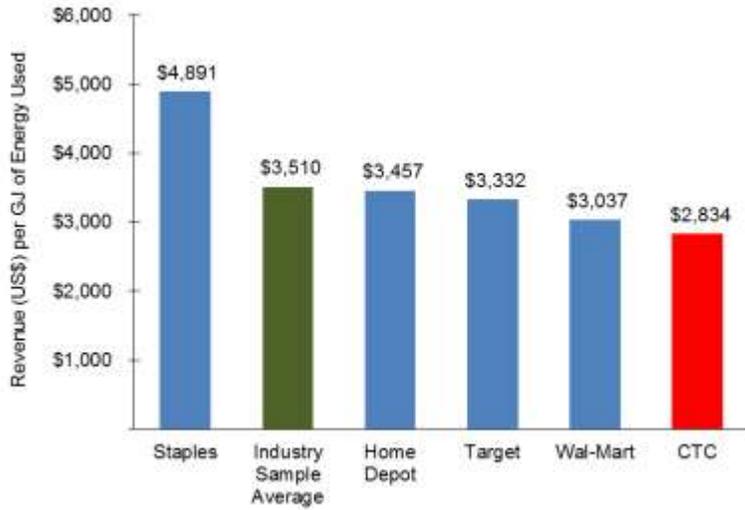
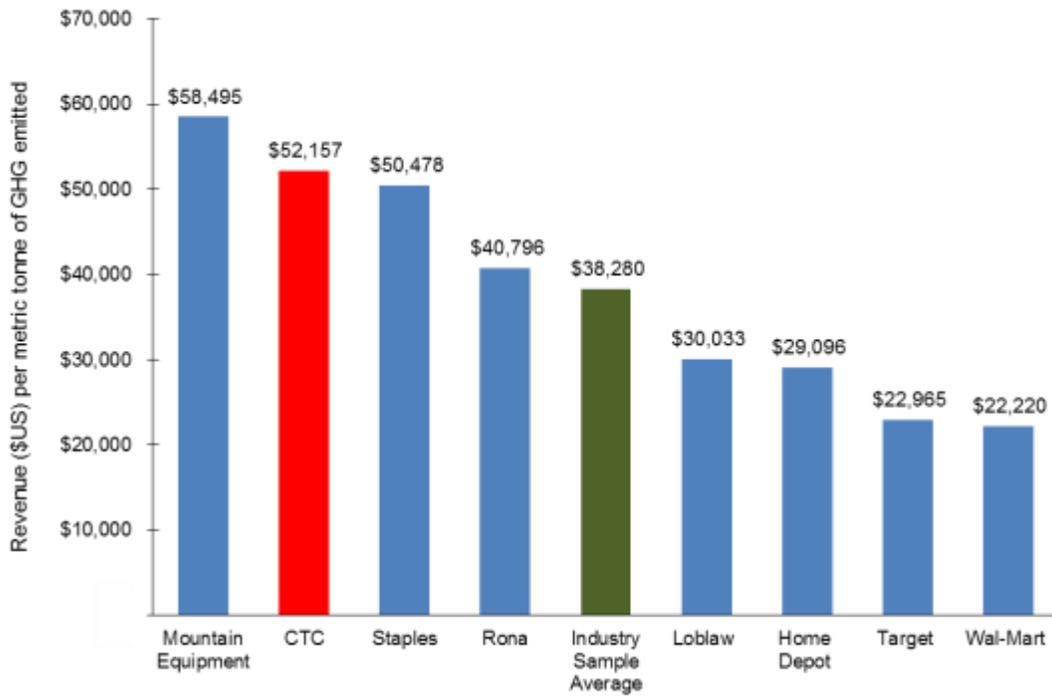


Figure 3: Greenhouse Gas (GHG) Productivity from Buildings and Fleet (2013)



Recommendations Moving Forward:

1. **Environmental Footprint Reporting Recommendations:**
 - a. Provide a methodology overview for CTC's GHG Footprint and Product Footprint.
 - b. Summarize CTC's total GHG emissions based on real data vs. estimated / modeled.
 - c. Ensure scope and context for product water footprint is clearly articulated alongside reported results.

2. **Energy Productivity Study:** Consider conducting a study to identify the differences in energy productivity between corporate stores and franchised / agent stores with the aim of setting periodic reduction targets for energy consumption and GHG emissions.

Overall, Canadian Tire has demonstrated very strong due diligence with regards to their data accounting and management system and has continued to demonstrate very progressive reporting.

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Appendix A: Canadian Tire Response to Q3 2014 Recommendations

| # | Delphi/Corporate Knights Q3 2014 Recommendations | Canadian Tire Response |
|---|---|---|
| 1 | <p>Ensure Easy Data Traceability: We recommend that CTC hyperlink data sources, used within primary calculations, within and external to their databases in order to track information sources and data points more easily.</p> | <p>CTC agrees with this process improvement and will implement.</p> |
| 2 | <p>Consider Disclosing Additional Performance Metrics In-Line with International Sector Based Disclosures: Based on the sector and regional analysis it is recommended that CTC:</p> <ul style="list-style-type: none"> a. Implements the necessary systems to publicly disclose its total waste generation and waste recycling performance metrics within a 1-2 year timeframe. Water use metrics are trending high within Multiline Retail Sector and CTC should consider over the medium-term if this metric is material enough to disclose over time. b. Consider disclosing employee turnover rate and employee injury rate within a 2-3 year timeframe to demonstrate leadership within the Multiline Retail Sector. | <ul style="list-style-type: none"> a. CTC has added both water and waste footprints to its public disclosures. b. CTC recognizes the value of public disclosures and will evaluate as part of the Business Sustainability strategy. |

Appendix B:

Overview of Methodology:

1. **Document Review:** Review all internal and external documentation provided.
2. **Metric Selection:** Independently select a sample of four 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 set⁸. For the purposes of this assessment the following metrics were reviewed:
 - **2013 Environmental Footprint Report:**
 - **General Recommendations for Improvement**
 - **Focus on Environmental Product Footprint**
 - **Focus on Water Footprint**
 - **Focus on Waste Footprint**
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 2013 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 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.

⁸ 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.