THE BEST 50

CORPORATE CITIZENS
IN CANADA

ARE THE BEST GETTING BETTER?

While year-over-year performance on some sustainability indicators is flat, others show notable improvement. **By Doug Morrow**

The Best 50 Corporate Citizens in Canada is the most recognized corporate sustainability ranking in the country. The organizations named to the Best 50 each year by *Corporate Knights* represent the very best in corporate sustainability performance. They are leaders within their respective industries on a diverse set of sustainability metrics, and epitomize the concept of doing more with less.

Mountain Equipment Co-op (MEC), the clothing and sporting equipment retailer, deserves plaudits for achieving the top overall score in this year's Best 50. Remarkably, MEC came in with top quartile performance on six metrics, including carbon productivity, waste productivity and CEO-average employee pay.

While the Best 50 consists of organizations from many different sectors, companies are only ever scored against their industry peers. It is not until the final step in the process, when companies each have an overall score based on their performance against their global industry peers, that they are amalgamated. This approach lets us consider each company against the best practices, expectations and performance standards that are prevalent in their particular industry group.

The industry-specific nature of the Best 50 means that it can be interpreted in different ways. For instance, BCE, while placing 17th overall, was the top performing telecommunications company considered in this year's ranking, placing well ahead of industry peers Telus (28th overall) and Rogers Communications (37th overall). This means BCE is at or near the top of its industry in overall sustainability performance, but significantly trails best practice among Best 50 firms in absolute terms.

In another interesting twist, Loblaws inched into this year's ranking, placing 50th overall. But it was actually the highest ranked company within the consumer staples sector, placing above such peers as La Coop fédérée (63rd position), Sobeys (76th position) and LCBO (84th position). This tells us that the consumer staples sector has a relatively low sustainability performance bar, and that companies in this sector can stand out from their peers with comparatively modest improvements in corporate sustainability performance.

The nine "sector leaders" in this year's Best 50 were MEC (consumer discretionary), Loblaws (consumer staples), Husky Energy (energy), Vancouver City Savings Credit Union (financials), Bombardier (industrials), Celestica (information technology), Teck Resources (materials), BCE (telecommunication services) and Capital Power (utilities).

If these sector leaders and the rest of their Best 50 brethren stand up as Canada's "best of the best" in overall sustainability performance, it is worth considering whether the best are getting better.

A quick comparison between this year's Best 50 and last year's cohort shows that performance on most indicators is essentially flat, although notable improvements were made on several natural resource-based metrics. Admittedly, a single year-over-year comparison is hardly indicative of long-term trends, but this analysis still serves to show where Canada's most sustainable companies are veering, and where future weaknesses may lie.

The average Best 50 company last year had a 9.6 per cent employee turnover rate, a CEO-average worker pay ratio of 73:1, executive management diversity of 21 per cent, board diversity of 20 per cent and innovation capacity of 1 per cent.

The typical Best 50 firm this year had a strikingly similar profile, with 10.1 per cent employee turnover, an 88:1 CEO-average worker pay ratio, executive management diversity of 22 per cent and identical figures for board diversity and innovation capacity.

While longitudinal analysis would be needed to identify any long-term trends, this comparison shows that the Best 50 may be approaching performance thresholds on these particular indicators.

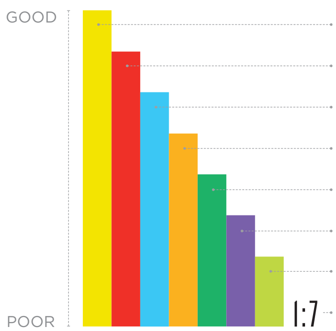
Among metrics that are generally more volatile, a notable improvement came with carbon productivity. Compared to the average Best 50 firm last year, the average Best 50 firm from this year's class generated 21 per cent more revenue for every tonne of CO2-equivalent emissions from their operations. The financials sector led the way, with companies such as HSBC Bank Canada squeezing an additional $54,000 in revenue out of every tonne of emitted carbon, which, in the case of banks, comes largely from the heating and cooling of their buildings.

The Best 50 is the corporate sustainability "ranking of record" in the Canadian market, and has been embraced by the business community because of its objectivity and transparency. We look forward to welcoming next year's class and monitoring the ongoing performance of this group of recognized sustainability leaders.

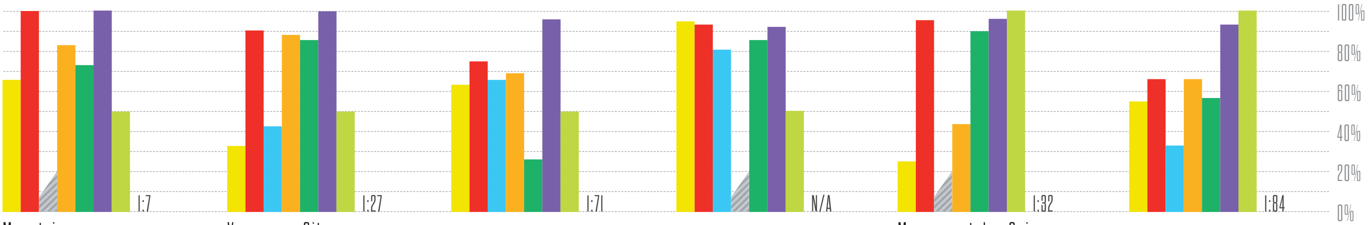
To explore the methodology used for determining the Best 50, visit **corporateknights.com/Best50_2014**

THE BEST 50

LEGEND



ENERGY	Revenue per gigajoule of energy consumption
CARBON	Revenue per metric ton of direct/indirect GHG emissions
WATER	Revenue per cubic meter of water used
WASTE	Revenue per metric ton of non-recycled waste produced
TAXES PAID	Taxes paid in cash, as a percentage of EBITDA
GENDER EQUITY	Average % of women board members and senior execs
CLEAN CAP PAYLINK	Exec. compensation linked to clean capitalism-themed performance
WORKER-TO-CEO PAY	CEO pay expressed as multiple compared to average worker.



Mountain Equipment Co-op
1

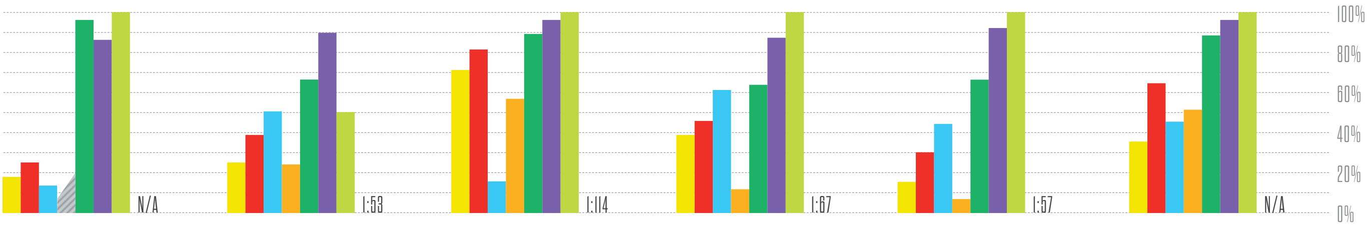
Vancouver City Savings Credit Union
2

Bombardier
3

Tim Hortons
4

Mouvement des Caisses Desjardins
5

Teck Resources
6



Co-operators Group
7

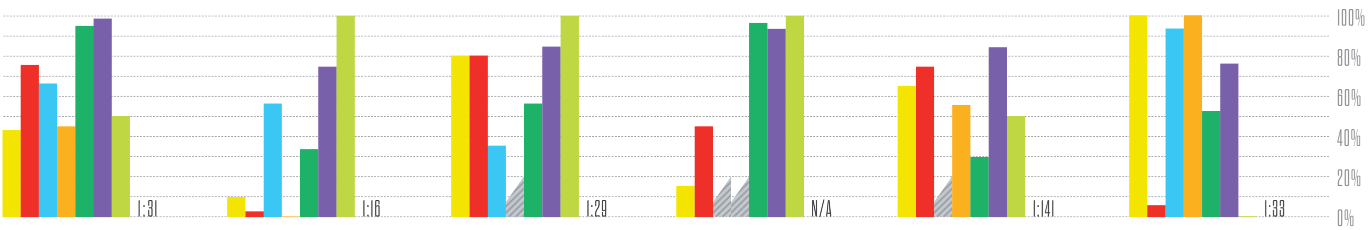
Husky Energy
8

Toronto-Dominion Bank
9

Cenovus Energy
10

Suncor Energy
11

Royal Bank of Canada
12



HSBC Bank Canada
13

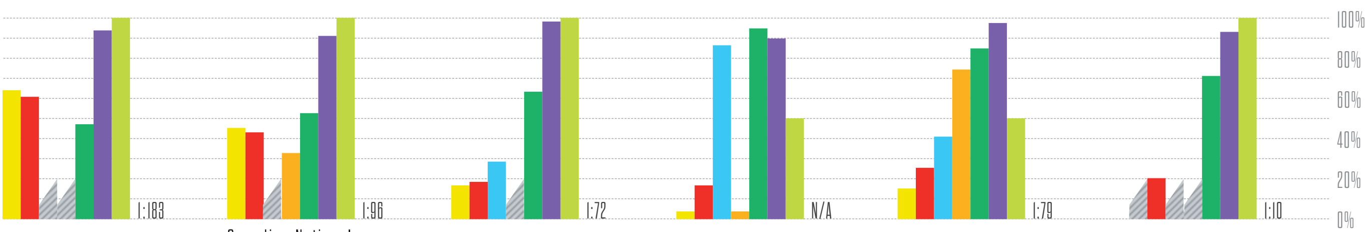
Capital Power
14

EPCOR Utilities
15

Intact Financial
16

BCE
17

Transat AT
18



Enbridge
19

Canadian National Railway
20

Encana
21

Sun Life Financial
22

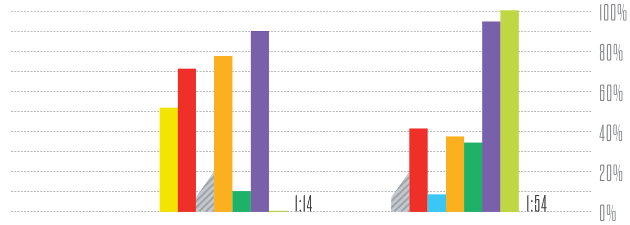
Bank of Montreal
23

Enmax
24

LEGEND

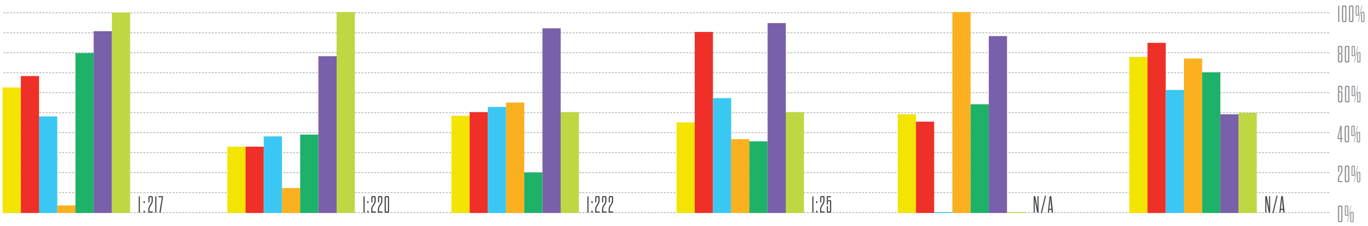
GICS INDUSTRY GROUPS

- Banks
- Capital Goods
- Commercial & Professional Ser.
- Consumer Service
- Consumer Durables & Apparel
- Diversified Financials
- Energy
- Food & Staples Retailing
- Insurance
- Materials
- Retail
- Technology Hardware
- Telecommunications
- Transportation
- Utilities



Canada Post
25

Domtar
26



Kinross Gold
27

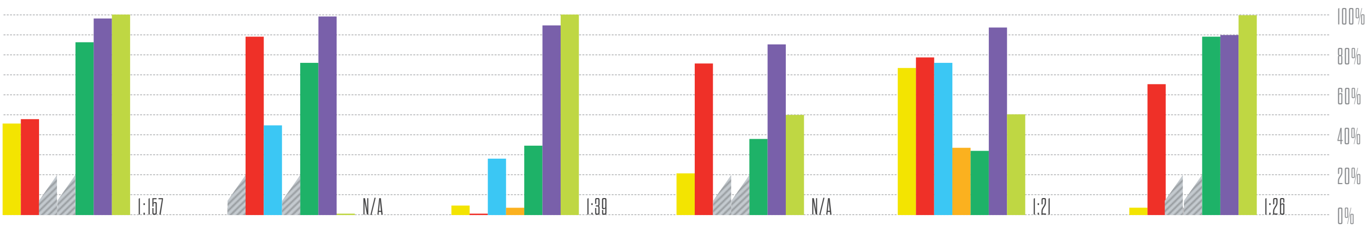
TELUS
28

Celestica
29

Cascades
30

Ontario Power Generation
31

Yamana Gold
32



Bank of Nova Scotia
33

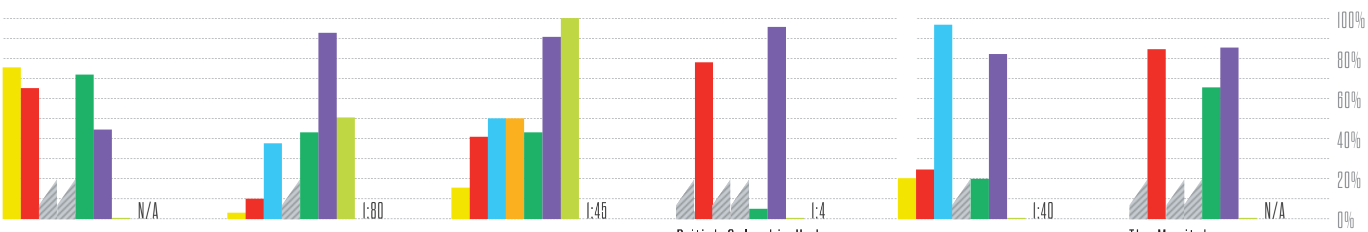
Hydro-Québec
34

TransAlta
35

Canadian Tire
36

Rogers Communications
37

TMX Group
38



Stantec
39

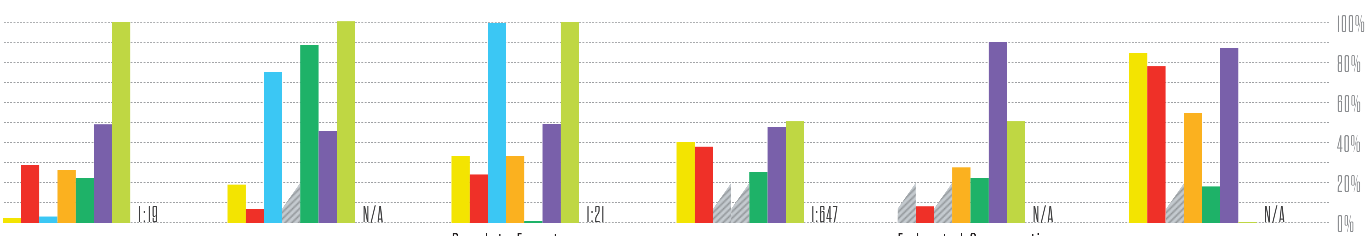
TransCanada
40

TC Transcontinental
41

British Columbia Hydro and Power Authority
42

Westjet Airlines
43

The Manitoba Hydro-Electric Board
44



Catalyst Paper
45

Talisman Energy
46

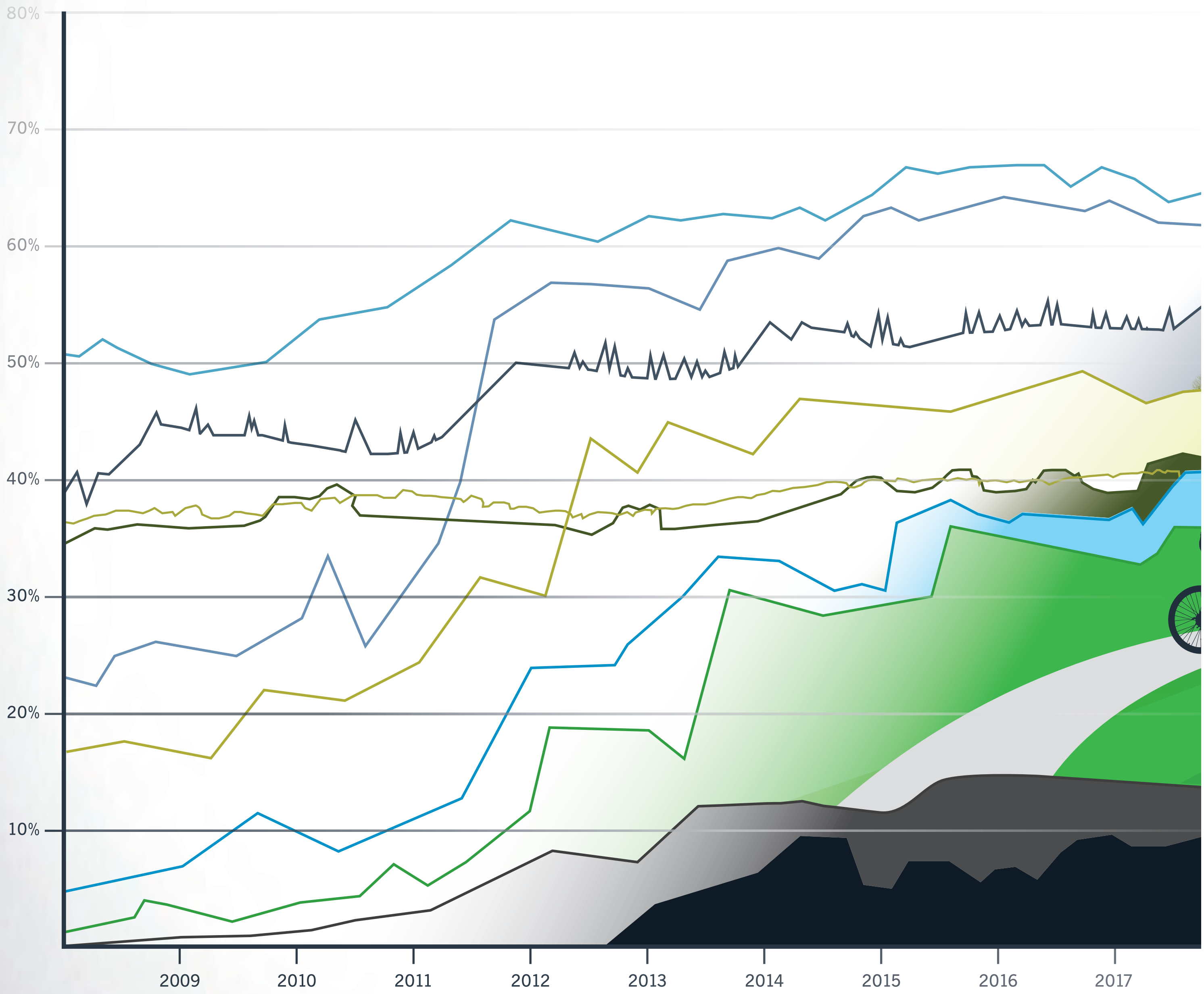
Resolute Forest Products
47

Canadian Pacific Railway
48

Federated Co-operatives Limited
49

Loblaw Companies
50

CO-OPERA
measure up differe



TIVES

ntly

With a people-centred approach to business, co-operative enterprises build a better world.

2018 2019 2020 2021 2022 2023 2024 2025 2026

THE BEST 50

TOP FOREIGN CORPORATE CITIZENS

The Top Foreign Corporate Citizens represent corporations with substantial operations in Canada that are leading the way on corporate citizenship and have their main headquarters in another country. Companies must earn more than $1 billion/year in Canada, and the parent corporations must have qualified for CK's 2013 Global 100 Most Sustainable Corporations in the World shortlist.

COMPANIES LISTED IN NO PARTICULAR ORDER

United States	Ford Motor Company of Canada
United States	Direct Energy
Japan	Toyota Motor Canada
United States	Hewlett Packard Canada
United Kingdom	Aviva Canada
United States	Staples Business Depot
Japan	Nissan Canada
United States	Fluor Canada
United States	Alcoa Canada
Germany	Siemens Canada
Italy	Parmalat Canada
Germany	Mercedes-Benz Canada
United States	Cisco Systems Canada
Luxembourg	ArcelorMittal Canada
United States	Xerox Canada
Germany	BASF Canada
South Korea	Kia Canada
Sweden	Ericsson Canada
Brazil	Vale Canada
Germany	BMW Canada

TOP 5 PERFORMERS BY SELECT INDUSTRY GROUP

Below we list the best-performing companies in four of Canada's most important industry groups: Energy, Financials, Industrials and Materials.

ENERGY

1. Husky Energy
2. Cenovus Energy
3. Suncor Energy
4. Enbridge
5. Encana

FINANCIALS

1. Vancouver City Savings Credit Union
2. Mouvement des Caisses Desjardins
3. Co-operators Group
4. Toronto-Dominion Bank
5. Royal Bank of Canada

INDUSTRIALS

1. Bombardier
2. Canadian National Railway
3. Canada Post
4. Stantec
5. TC Transcontinental

MATERIALS

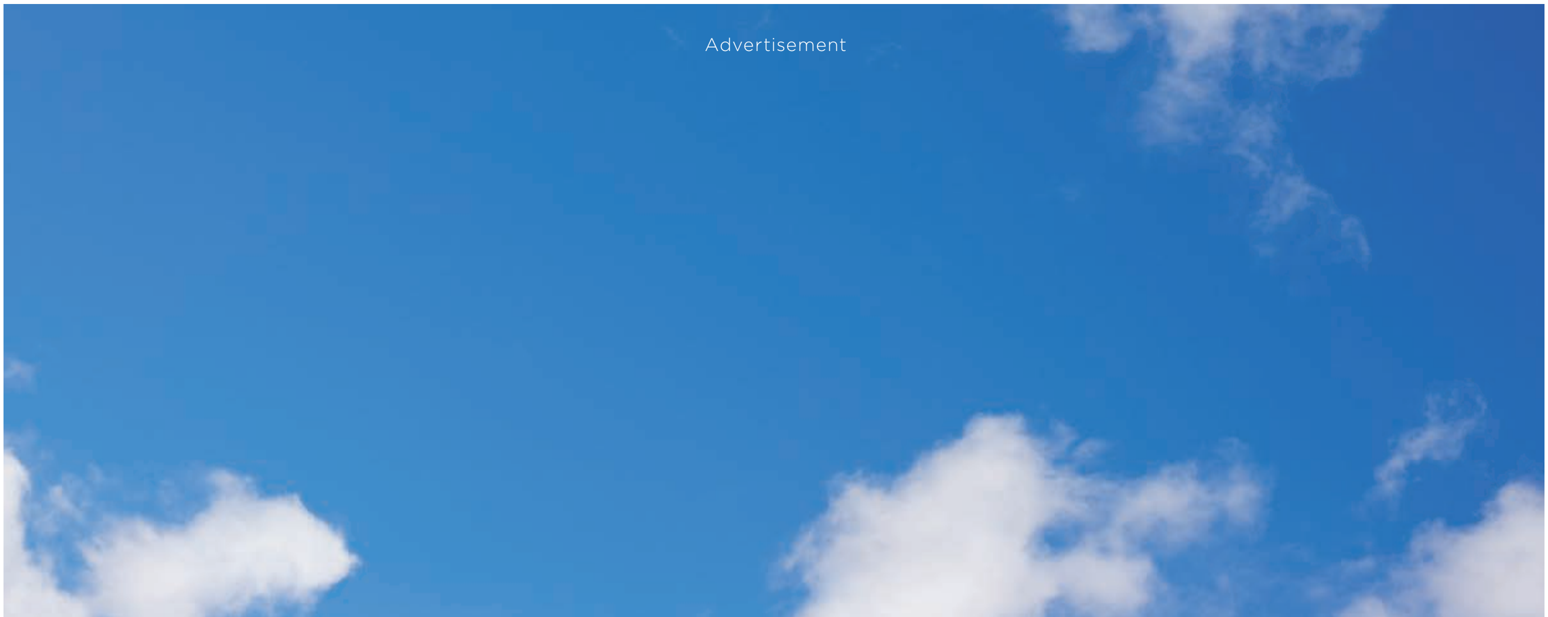
1. Teck Resources
2. Domtar
3. Kinross Gold
4. Cascades
5. Yamana Gold

DISCLOSING RESOURCE PRODUCTIVITY

How do industry groups compare when reporting data for our four resource indicators: energy, water, carbon and waste productivity?

Below score is out of 4, based on average of disclosure record of companies within an industry group.

3.25	Telecommunication Services
2.13	Materials
1.50	Industrials
1.45	Energy
1.43	Utilities
1.33	Information Technology
1.30	Financials
0.86	Consumer Discretionary
0.25	Consumer Staples
0.00	Health Care



Carbon neutral. Worldwide.

The highest-ranked North American financial institution on the Corporate Knights Global 100 sustainability index.

Thanks to the engagement of our employees, BMO® is carbon neutral relative to its energy and transportation footprint across the enterprise. We are proud to be doing our part to make Clear Blue Skies™ part of everyone's future.

Here's how we're contributing:

- Reduce/limit emissions from business transportation and energy use in facilities.
- Purchase electricity from renewable energy sources.
- Purchase high quality voluntary carbon credits to offset remaining emissions, through our commitment as an initial investor in the Greening Canada Fund.

For more information, visit bmo.com/environment

BMO® Financial Group

Making money make sense®

THE BEST 50

DISQUALIFIED

THE CK RESEARCH TEAM IS NOW SCREENING COMPANIES FOR SUSTAINABILITY-RELATED FINES, PENALTIES AND SETTLEMENTS. THE RESULT: FOUR COMPANIES WERE EXCLUDED FROM CONSIDERATION IN THIS YEAR'S BEST 50 RANKING.

By Jeremy Runnalls

Last April, *Corporate Knights* ran a story about the three leading potash producers in North America signing a $97.5 million settlement in a class-action lawsuit. It stemmed from eight private antitrust suits brought by purchasers of potash in the agricultural sector, alleging that these companies were operating as a cartel through their wholly owned exporting and marketing firm Canpotex. Although the companies involved did not directly admit to any wrongdoing, it was quantifiable evidence of questionable corporate behaviour.

Should this have affected whether or not these companies are considered for the Best 50 Corporate Citizens in Canada ranking?

Balancing our desire to measure companies from an environmental, social and governance standpoint with the limitations of measurable data is a constant struggle for the CK Capital research team. Being reliant on publicly disclosed indicators allows for comparisons between industry peers, rewards companies for their transparency and sets simple benchmarks for measuring progress over time. It also means that our definition of what constitutes a top corporate citizen is somewhat constrained.

Flagship *Corporate Knights* rankings like the Best 50 will continue to be product agnostic, working to identify the best corporations in each sector regardless of the merits or impact of that specific industry. To supplement this, however, we have decided to institute a sanctions screen involving each company considered for inclusion.

This screen is applied by tallying up the sum total of sustainability-related fines, penalties and settlements paid out by each corporation over the past year. If this amount is in the top 25 per cent of fines paid (compared to other companies in that specific industry group), the company is eliminated from contention on the Best 50.

Fines, penalties and settlements have been added to our Best 50 toolkit because they capture, in part, different aspects of corporate performance. There are many ways wherein a company can perform well on our 12 indicators, yet still act as a poor corporate citizen. *Corporate Knights* has long written about these issues from an editorial standpoint, but many of these factors – human rights violations, bribery, monopolistic practices – do not easily lend themselves to objective measurement. The addition of the fines screen for the Best 50 ranking is part of an ongoing effort to expand the scope of the methodology.

As a result, four companies were excluded from the list this year: Agrium, PotashCorp, Barrick Gold and Industrial Alliance. Potash and Agrium were disallowed due to their participation in the antitrust settlement, while Industrial Alliance paid a $165,000 fine to Quebec financial regulators for alleged sales violations. Even though the sum paid by Industrial Alliance was itself quite small, when contrasted against fines paid by other insurance companies in 2013 it grew in significance.

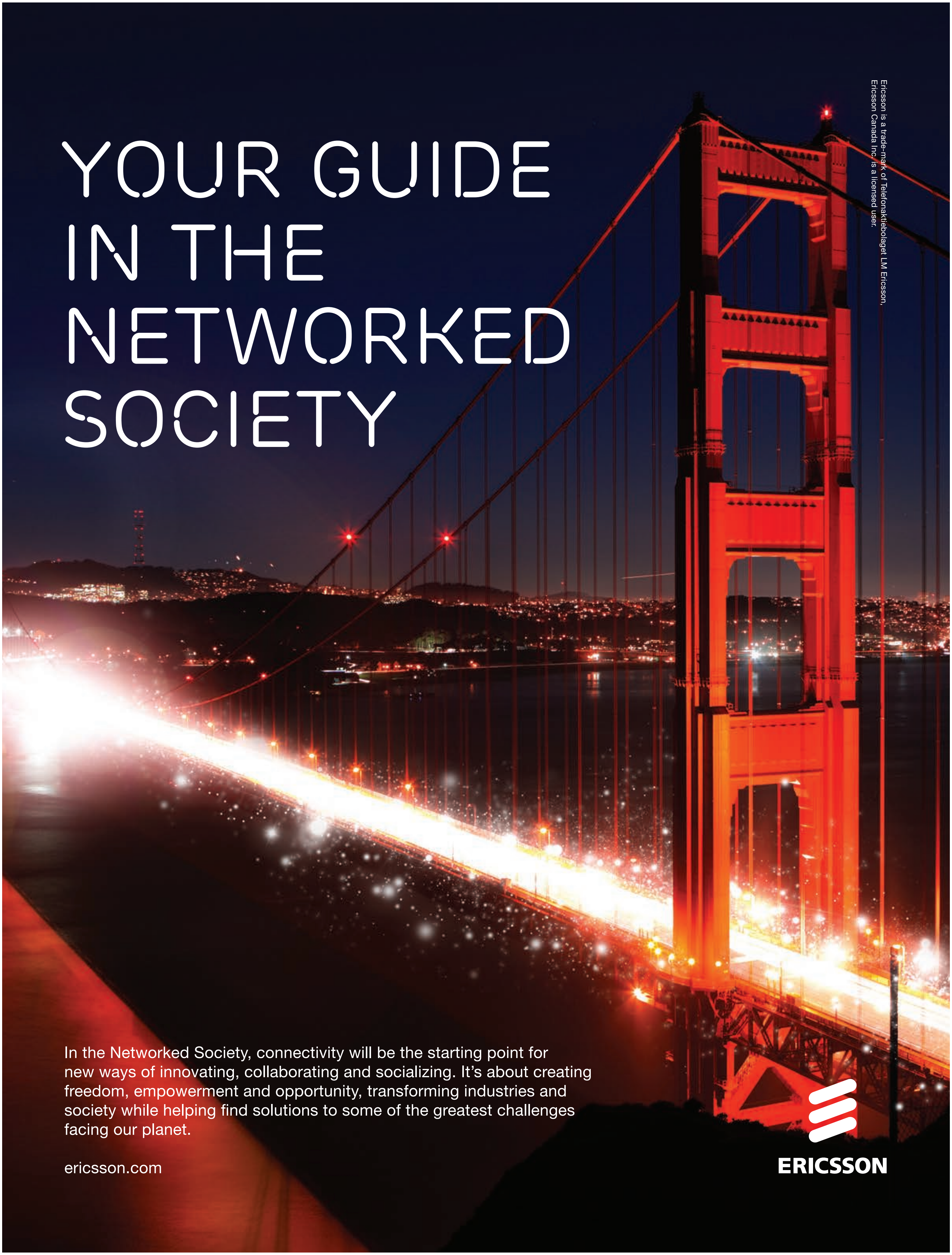
The case of Barrick Gold is perhaps the most interesting, as the firm placed fourth in last year's Best 50 ranking. Its disclosure record remains impressive, while its resource productivity indicators are among the leaders in the materials industry group. In spite of that, our new screen identified several large environmental fines levied against the firm in 2013.

Three gold mines in northern Nevada – all subsidiaries of Barrick – were ordered by the U.S. Environmental Protection Agency to pay $618,000 for neglecting to disclose multiple toxic chemical releases from 2005 to 2008. A portion of that money will be donated to an environmentally beneficial project.

In Chile, Barrick's troubled Pascua-Lama gold project suffered yet another setback when the Chilean environmental regulator ordered the project suspended last May. It followed on the heels of an earlier court ruling making the same recommendation. The regulator also fined Barrick $16 million for what it deemed to be "serious environmental violations" that negatively impacted local water supplies. Barrick managed to have the amount reduced 25 per cent by making quick payment.

Screening Canadian companies based on financial penalties paid out over the past year is far from perfect. It places faith in a range of different regulations from varying jurisdictions, which are often inadequate or unevenly enforced. Another constraint is the need to wait until the amount is definitive. Only after all potential avenues for appeal have been exhausted can *Corporate Knights* consider the penalty in question.

Even with these caveats, *Corporate Knights* remains convinced that this new addition to the methodology adds a valuable dimension to our ongoing evaluation of corporate sustainability performance.


YOUR GUIDE IN THE NETWORKED SOCIETY
In the Networked Society, connectivity will be the starting point for new ways of innovating, collaborating and socializing. It's about creating freedom, empowerment and opportunity, transforming industries and society while helping find solutions to some of the greatest challenges facing our planet.
ericsson.com
ERICSSON
Ericsson is a trade-mark of Telefonaktiebolaget LM Ericsson, Ericsson Canada Inc. is a licensed user.

THE BEST 50

THE SUSTAINABILITY PAY LINK

THE PRACTICE OF TYING EXECUTIVE COMPENSATION TO ESG CRITERIA MAY BE ON THE RISE, BUT IT'S FAR FROM REACHING ITS POTENTIAL. By Coro Strandberg

The Canadian Coalition for Good Governance represents Canadian investors managing $2 trillion in assets. The United Nations-supported Principles for Responsible Investment represents global investors managing $34 trillion in assets.

What do they have in common? Both believe executives should be rewarded for driving environmental, social and governance (ESG) performance that protects and creates long-term shareholder value.

The good news is that more companies are listening and acting. Unfortunately, outcomes have been mixed.

Globally, investment research firm Sustainalytics found that 16 per cent of large publicly traded companies considered ESG performance in setting executive compensation in 2012, up from 13 per cent two years earlier. In Canada, according to my own research on sustainable pay, that number is much higher, with nearly 60 per cent of companies listed on the TSX 60 providing incentives to executives who hit non-financial performance targets in 2012.

According to *Corporate Knights'* Best 50 ranking, that number rocketed to 80 per cent this year (up from 56 per cent in 2010). This points to the obvious conclusion that sustainable pay incentives are becoming increasingly important in corporate Canada.

But underlying these metrics is a less compelling story.

In "Sustainable Pay," a study I published in March 2013, it was found that only 13 per cent of the TSX 60 companies formally set annual targets for executive performance. And none of the TSX companies (and few global companies) include ESG performance in their long-term incentive plans.

Boards and their compensation committees are not setting pre-determined performance hurdles for executives to achieve, and they are overlooking the value that sustainability risk and opportunity management can bring to the corporate bottom line over time.

Also, they are failing to grasp the significance of sustainability impacts on their company or resulting from their company, as well as how sustainability will be critical to creating or protecting value over the medium term. Instead, it appears companies are largely treating sustainability performance as an after-the-fact bonus for chief executives – just another way to pay executive teams.

Another observation, particularly in Canada, is that sustainability performance metrics tied to executive pay are primarily directed at compliance, risk mitigation and value protection – not value creation. Top metrics were focused on safety and spill prevention. Few considered the opportunity side of the sustainability equation related to innovation, new products and markets, cost savings or customer acquisition. On the other hand, some global best practices see companies rewarding executives for achieving green product growth targets.

Arguably, the Canadian TSX 60 results reflect an overweighting to the extractives sector, which is necessarily concerned with compliance and risk mitigation. But how are boards rewarding proactive investments in social licence to operate and in stakeholder relations? Forward-thinking measures such as these might realize greater long-term benefits for companies and shareholders alike.

Finally, where metrics exist at all, they are nearly always backward looking. I came across few examples of forward-looking (leading) measures that assure boards their managers are placing careful investments to generate future performance results.

What explains this? We know there is a lack of agreed upon guidance for executive sustainability compensation. We also know that "pay for performance" – whether financial or non-financial performance – is a recent governance trend. The most popular performance indicators continue to be profit and executive performance goals for short-term incentives and total shareholder return for long-term incentives.

Finally, it's clear that peer normalization plays a very strong role in determining executive compensation. The practice of engaging compensation advisors to benchmark comparable companies results in copycat pay packages.

In my experience advising companies on sustainable compensation practices, I tend to come across the following limitations or constraints:

- The human resource managers who advise board compensation committees lack experience in setting sustainable pay metrics and are not familiar with the qualities of a good sustainable pay metric;
- Companies have not identified the ESG risks or opportunities material to their performance and thus lack an understanding of how sustainability practices can enhance shareholder value protection and creation;
- As the typical corporate strategy does not include relevant sustainability performance targets, ESG is not properly positioned in the corporate balanced scorecard and thus is usually sidelined by the compensation committee.
- Boards lack an understanding of stakeholder expectations and how sustainability mega-forces will affect their company, sector, value chain and region. They are ill equipped to determine top sustainability metrics that will enhance corporate prospects going forward.

So what does the future hold?

Sustainability think tanks like *Corporate Knights* will continue to rank companies on their sustainable pay practices, putting pressure on company boards to enhance their ESG compensation programs. With capital markets increasingly looking for rigorous ESG value protection and creation goals, expect more compensation packages to have clear, quantified and stretching ESG targets.

At the same time, global standards and guidelines on ESG pay will emerge and compel continuous improvement. ESG pay will then join excessive pay, referred to as quantum by investors, and equitable pay (vertical pay ratios) to create a triumvirate of non-financial pay issues for boards and their advisors to address.

In other words, expect sustainable pay to be on board agendas for many years to come.

Providing answers that last for more than a century

Our longevity is based on the embedded values of sustainability.

Siemens Canada is proud of our 4,500 employees who provide answers that last to customers from coast-to-coast. Our employees give back to the communities across Canada through such efforts as an employee-developed program that has donated hundreds of laptops to those in need, volunteering in team builds for Habitat for Humanity, and planting 4,000 trees on Earth Day with TreeCanada since 2012.

The Siemens Canada Sustainability Report provides more information on these efforts—as well as on our Canadian operations and sustainability program—illustrating how Siemens Canada fared in the year under review in its efforts to meet the economic, environmental and social demands of the past year. To download your electronic copy of the Siemens Canada Sustainability Report, visit *www.siemens.ca/sustainability*.

www.siemens.ca/sustainability

THE TALLEST MOUNTAIN

WHY OUTDOOR GEAR AND CLOTHING RETAILER MOUNTAIN EQUIPMENT CO-OP TOPPED THIS YEAR'S BEST 50. By Tara Perkins

David Labistour, the chief executive officer of Mountain Equipment Co-op (MEC), doesn't believe that consumers truly vote with their wallets when it comes to sustainability issues.

He points to the tragic collapse in April 2013 of Rana Plaza in Dhaka, the capital of Bangladesh, in which more than 1,100 garment factory workers were killed. In the months that followed there was a consumer outcry, as westerners came to terms with the working conditions in the places where much of our clothing is made. But Bangladesh did not export less clothing during the remainder of that year.

"The Rana Plaza issue did not impact their exports – in fact, they went up," Labistour says. "I think there's a huge disconnect between what consumers say and how they react on social media versus how they actually act in their daily lives... I never operate from the point of view that the consumer is going to buy stuff from you because of sustainability attributes."

And yet MEC places such an emphasis on sustainability that it received the top spot on this year's *Corporate Knights* ranking of the Best 50 Corporate Citizens in Canada, its second 1st place ranking since first appearing on the Best 50 in 2007. MEC outshines its retailing peers when it comes to areas such as carbon productivity, the percentage of women in senior management, and the ratio of the CEO's pay compared to that of the company's average worker.

So why does it embrace sustainability, if not to appeal to consumers?

"It's just smart business," Labistour says. "Resources are becoming more expensive, local communities are railing against toxicity from the factories in their neighbourhoods, water is becoming a real commodity that we have to watch."

Staying ahead of the curve on these issues not only bolsters efficiency but helps minimize a company's future risks, he suggests. For example, "governments are now bringing in packaging taxation, and people that are ahead of that game and legislation are going to be more efficient businesses in the long term," he says. "So for me, this is not the right thing to do, it's the smart thing to do."

In an era of extreme business complexity, Labistour is a fan of breaking down barriers so that the company can run as an organic whole. "You can no longer run your business in silos," he says.

That means, for instance, that information technology, financing and marketing should be working symbiotically. And it means that sustainability should be integrated, not separate.

"We don't have a 'sustainability person' who is responsible for waste diversion in stores. It's part of the standard operations of the organization," Labistour says. "It's the integration of these deliverables within everyone's job descriptions – whether you're getting better at waste diversion, or getting better at meeting the customer's expectations, or becoming more efficient in your supply chain, it's all part and parcel of trying to be a better business."

> "WE DON'T HAVE A 'SUSTAINABILITY PERSON'... IT'S PART OF THE STANDARD OPERATIONS OF THE ORGANIZATION."

Photos courtesy of MEC

From left to right: A hiker tests out a MEC backpack; an embroidery room at a MEC-contracted hard-goods factory in Vietnam; and samples of shredded textiles turned into "shoddy fibre," which can be used in sofas, toys and vehicle seats.

By embedding sustainability in everyone's jobs, it becomes "operational dial tone," he adds. "You always hit problems on the way, whether it be legislative changes or process changes that you bump up against. But if it is part of someone's job description and it is something that is part of general performance delivery, you work your way around it."

Labistour credits the diversity within the organization's ranks for making meetings more fruitful than they might otherwise be. Forty-four per cent of MEC's executives and directors were women in 2012. "It's not just physical diversity, it's diversity of thought," he says. "You have a much stronger discussion, and you come to much richer results."

The outdoor goods retailer, which has more than 3.5 million members, updated its five-year business sustainability strategy in 2012, focusing on four pillars: product integrity, retail operations, member service, and community.

Labistour believes one of the company's biggest sustainability achievements is also one of its least recognized, and that's the fact that more than half of its MEC-brand apparel materials are bluesign approved. The bluesign system looks at the use of sustainable ingredients and the production process in the textile industry and is based on five principles: resource productivity, consumer safety, water emission, air emission, and occupational health and safety.

The accomplishment, however, that brings the biggest smile to Labistour's face is the way MEC now reports its sustainability achievements and goals. "For me, the thing I'm most proud of is the fact that our year-end report this year will be an integrated business and sustainability report," he says.

That's in keeping with his philosophy about breaking down silos and ensuring that sustainability permeates the organization. "We've still got a way to go, it's not going to be perfect, but it's the first one."