Best 50 Corporate Citizens

Looking forward

Good corporate citizenship means taking the long view

by Melissa Shin

research by Daniel Caunter, James Francis, Toby Heaps, Jon-Erik Lappano, Melissa Shin, Bernice Tong, Renee Tong, and Ramsey Wright

Our Best 50 Corporate Citizens ranking methodology strives to evaluate the qualities behind a company with a true connection to the people and places it employs, affects, and serves—a company that appreciates that a social license to operate must be constantly renewed. Now, it turns out that the financial metrics to which we attach the greatest weight are the ones making the news in a time of economic turmoil. This year, our indicators were vindicated.

Failing to prudently fund defined-benefit pension plan has produced shortfalls, which are crippling companies across North America. Our pension health indicator reveals just how much a company was willing to gamble with its employees' future benefits based on unrealistic returns that have now disappeared. A company that once hoped sky high returns would bolster its skimpy pension plan assets must now divert cash away from operations just to pay its pension obligations.

Another metric we've always known to be important is cash tax payments—how

much a company actually pays versus how much it owes according to statutory tax rates. According to American think tank RAND Corp., despite rising incomes, corporate income taxes represented just 9.6 per cent of US federal tax revenues between 2000 and 2009. RAND believes that income tax avoidance will be "corporate America's next big scandal." Canadian companies pay only slightly more than their southern counterparts (corporate taxes constituted 14 per cent of tax revenue in fiscal 2005-2006), but the best corporate citizens don't shy away from tax obligations. With the G-20 countries committing in April 2009 to crack down on tax havens, citing up to $7 trillion in funds held offshore to avoid taxes, it's clear that aggressive tax minimization portends potential future liability.

The TSX60's income tax gap has closed only slightly, but profits took a beating—a decrease of $7.5 billion from last year. But directors of TSX60 companies are better representing Canadian demographics, and TSX60 sustainable development-related board committees are up.

Again this year, we could not find a single female CEO at any TSX60 company. This is a problem, says professional services firm Ernst and Young (E&Y). Their May 2009 report, *Groundbreakers*, suggests the best way out of the current global economic crisis is to increase diversity in corporate leadership in order to avoid the "groupthink" that brought down economies across the world.

"Canada and the world need business leaders who bring different skills, who think about familiar problems in new ways," says E&Y chair and CEO Lou Pagnutti. The report cites Goldman Sachs data, which found hiring men and women equally could boost American GDP by up to 9 per cent, European GDP by 13 per cent, and Japanese GDP by 16 per cent.

Luckily, on the gender front, our Best 50 universe goes beyond the TSX 60. Laura Formusa heads this year's top Corporate Citizen, Hydro One. In fact, our Best 50 list includes three other female-headed companies (Vancity, Canada Post, and Desjardins). Another commonality in our Best 50?

The Skinny

Highlights from the S&P/TSX60 companies in the 2009 ranking (numbers refer to fiscal 2008 year unless otherwise specified)

$9.4 BILLION
Corporate tax gap

$0.4 BILLION
Tax gap decrease from previous year

$31 BILLION
Tax generation

$101.5 BILLION
Income before taxes

$2.1 BILLION
Corporate income increase from previous year

$6.1 BILLION
The pension gap

$0.3 BILLION
The pension gap increase from previous year

1.39 MILLION
Number of employees (1.37 million in 2007)

$73.5 BILLION
Total profits

$7.5 BILLION
Profit decrease from previous year

$5 MILLION
Average CEO compensation (down from $7.9 million in 2007)

0.0068%
Profits consumed by average compensation of top three paid execs from each firm

56
Total shareholder conflict resolutions above 7.5% in the last three years (25 in 2007)

53
Total withdrawn shareholder conflict resolutions in the last three years (41 in 2007)

36
Number of companies with SD-related board committees (34 in 2007)

9
Companies with no female board members (10 in 2007)

40
Companies with no visible minority or Aboriginal board members (44 in 2007)

0
Female CEOs

At least 14 of our Best 50 companies are or once were structured in ways that explicitly defined a public mandate; if you include the chartered banks in our ranking, over a third of our Best 50 is or has been directly accountable to the public. These companies are better at producing stakeholder value. Since they aren't as subject to the tyranny of quarterly expectations and the vagaries of the short-termist shareholder model, these companies can afford to take a long-term perspective when it comes to taxes, pensions, labour relations, governance, and environmental and social concerns.

And these companies tend to be sheltered against corporate takeovers from abroad; Petro-Canada, soon to merge with Suncor, was long protected by legislation designed to keep the former Crown corporation here at home. But since our first ranking in 2002, we've seen lots of former Canadian strongholds absorbed into global conglomerates—and with little opposition. If this trend continues, Canada will soon be left with only utilities, a smattering of family dynasties, and financial companies, along with declining tax income, fewer corporate decision-makers, and less research and development.

In response, Corporate Knights now examines foreign-based companies with significant operations in Canada in a separate assessment called the Top Foreign Corporate Citizens in Canada. In years past, we ranked these companies using parent company financial information (the only publicly available data), but put a strong weight on Canadian information for the key performance indicator (KPI) ranking. With the differences in size between foreign-based and Canadian-based companies, and increasingly global sustainability reporting that rarely focused on Canadian operations, it became clear that the Best 50 Corporate Citizens in Canada had to focus on Canadian-based companies. For example, while perennial Best 50 company Alberta-Pacific Forest Industries has about 500 employees and operates primarily in Alberta, its parent company, Mitsubishi, has over 60,000 employees and operates in 80 countries. And comparing a global conglomerate like Centrica (parent of Direct Energy) to a local utility like Calgary-based ENMAX no longer makes sense. You'll find our Top Foreign Corporate Citizens on page 26.

*"...the Best 50 Corporate Citizens will continue to be the companies who concern themselves with **long-term stakeholder value**..."*

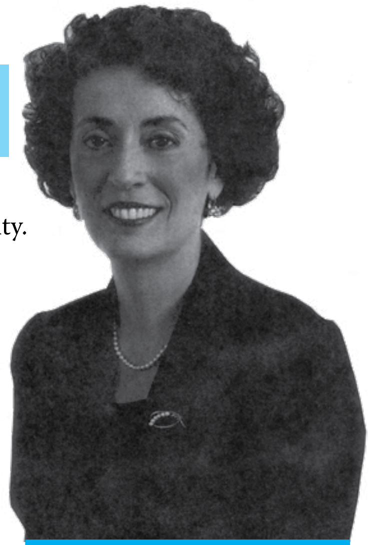
To carry on the analysis done in our inaugural Aboriginal-themed issue (Vol. 7.4), we've also included Aboriginal relations as a KPI for the extractive sectors (forestry, mining, oil and gas, utilities), and Aboriginal banking as a KPI for the financials sector. Eventually, we hope to include Aboriginal relations as a KPI for all sectors.

Our ranking criteria continue to evolve to reflect the shifting Canadian corporate landscape. And the Best 50 Corporate Citizens will continue to be the companies who concern themselves with long-term stakeholder (not just shareholder) value—sustainability in every sense of the word—instead of simply aiming for quarterly gains. Companies who don't forget that a corporation is, at its core, a provisional member of our society whose passport is renewed annually, as long as it serves a useful and necessary purpose.

Melissa Shin is the managing editor of Corporate Knights Magazine.

CEO of 2009's #1 Corporate Citizen:

Laura Formusa



Current job: Mom of two and CEO of company that delivers 96 per cent of Ontario's electricity.
First job: Clerk at Woolworth's.
Key to work-life balance: Family first. Helpful husband. Hydrokids Day Care Centre.
Excited about: Smart-grids and meters that will let you turn the A/C off with your Blackberry.
The utility of the Ontario Energy Board: Like a public defender, keeps us on our toes.
Special talents: Types really fast ("no looking. Get a blind typewriter and teach yourself"), plays piano, makes a mean tomato Sicilian pasta.
On to-do list: Keep lights on. Ensure we have capacity to fulfill Green Energy Act vision.
Predictions: East-West pan-Canadian electricity grid requires visionary at the federal level to string it together. Biodigesters will play larger role in small communities. Pump storage is key to future and key to renewables.
Advice: Get good people, and good things will happen.
Legacy Goal: 1. Leave a company that reflects the diversity of our community across all levels. 2. Enshrine culture of sustainable conservation that uses transparency to harness human nature.

Hydro One is number one

Hydro One's long-term focus has propelled it from sixth place last year to first in 2009. Its pension quality is top in the utilities sector, with more assets for each current full-time employee than any other company. And its leadership is diverse: it's one of four companies in our Best 50 to have a female CEO, and its board of directors includes three females and one director from a visible minority. A majority of employees are covered by a collective bargaining agreement, with good labour relations in the last year.

The utility has also rolled out over 288,000 smart meters across Ontario, with a plan to have a smart meter in every home and business by 2010, enabling the implementation of time-of-use rates. Hydro One's comprehensive Conservation and Demand Management program, launched in 2005, saves 272 million kWh each year.

And Hydro One has recognized a huge opportunity for improvement in combined heat and power (CHP) technologies. The advantages of CHP include efficiencies of 80 to 90 per cent, lower greenhouse gas emissions, reduced transmission load, and greater reliability and security. However, the Ontario Power Authority allows only internal, non-grid CHP systems in downtown Toronto. For new and existing CHP projects to be connected to the grid, short circuit constraints in downtown and central Toronto must be eliminated—in other words, Hydro One needs to refurbish and upgrade its transmission system at three downtown Toronto transformer stations to induce further CHP development and allow for increased local energy production.

In response to a proposal from environmental organization Pollution Probe, Hydro One has agreed to complete a plan for dealing with the short circuit issues in Toronto by the end of 2009. Both Pollution Probe and Jack Gibbons of the Clean Air Alliance believe that eliminating the constraints to allow for CHP would make a new transmission line bringing power from the Bruce Nuclear Generating Station to the GTA unnecessary. Hydro One would have to spend more than $600 million to build this line.

Ups & Downs

#8 TELUS Corporation ▲ 48

TELUS' KPI score increased by ten points. As sector peers scaled back their sustainability initiatives, TELUS set ambitious environmental and social targets while quantifying metrics like greenhouse gas emissions intensity per dollar of revenue.

#22 Toronto-Dominion Bank ▲ 78

TD owns nine per cent of the First Nations Bank of Canada, which will be eventually turned over to Aboriginal shareholders, and engages publicly regarding GHG emission reduction. TD Asset Management has signed the UN Principles for Responsible Investing, and is the only big bank to have a chief environment officer.

#33 Husky Energy ▲ 82

The most diverse leadership in its sector and good pension health shored up Husky's baseline scores, while its KPI score also rose. Husky had the lowest water usage intensity in the Oil and Gas sector and also produces ethanol.

#37 Westport Innovations Inc. ▼ 28

While it had the highest KPI score in the Industrials sector thanks to its cleantech product focus, Westport's baseline suffered. Westport's high C-suite pay-to-profit ratio ranked it eighth out of ten in its sector, and the company's profit is still negative.

#70 Tembec Inc. ▼ 38

The forestry company's baseline fell significantly this year, and Tembec ranked last in pension health. While the company has the greatest coverage of FSC-certified forests in Canada, Tembec fails to disclose its accident data and offers fewer environmentally differentiated products than its peers.

#98 Tim Hortons ▼ 59

While Tim Hortons has focused on reusable mugs, anti-litter programs, and recyclable packaging, it lags behind its sector peers in eco-social product innovation. The company mentions no concrete targets for improvement. Its Sustainable Coffee program supports farmers in Latin America, but it is unclear how much of their coffee Tim's is buying.

A mandate for change is a mandate for smart.

The world is ready for change – that much is clear.

For leaders of all kinds, this moment presents a rare opportunity. Our planet is not just getting smaller and flatter. It is also becoming smarter. And that means we have the potential to change the way the world literally works.

Computational power is now being put into things we wouldn't recognize as computers – cars, appliances, cameras, roadways…even pharmaceuticals and livestock. We are interconnecting all of this through the Internet, which has come of age. And we are applying powerful new systems and sophisticated analytics to turn oceans of data into insight, knowledge and intelligence.

Consider the changes already under way.

Smart traffic systems are helping to reduce gridlock by 20%, cutting pollution and increasing ridership on public transit.

Smart food systems based on RFID technology embedded into supply chains are monitoring meat, poultry and other items from the farm to the supermarket shelf.

Smart healthcare systems are helping to lower the cost of therapy by as much as 90%.

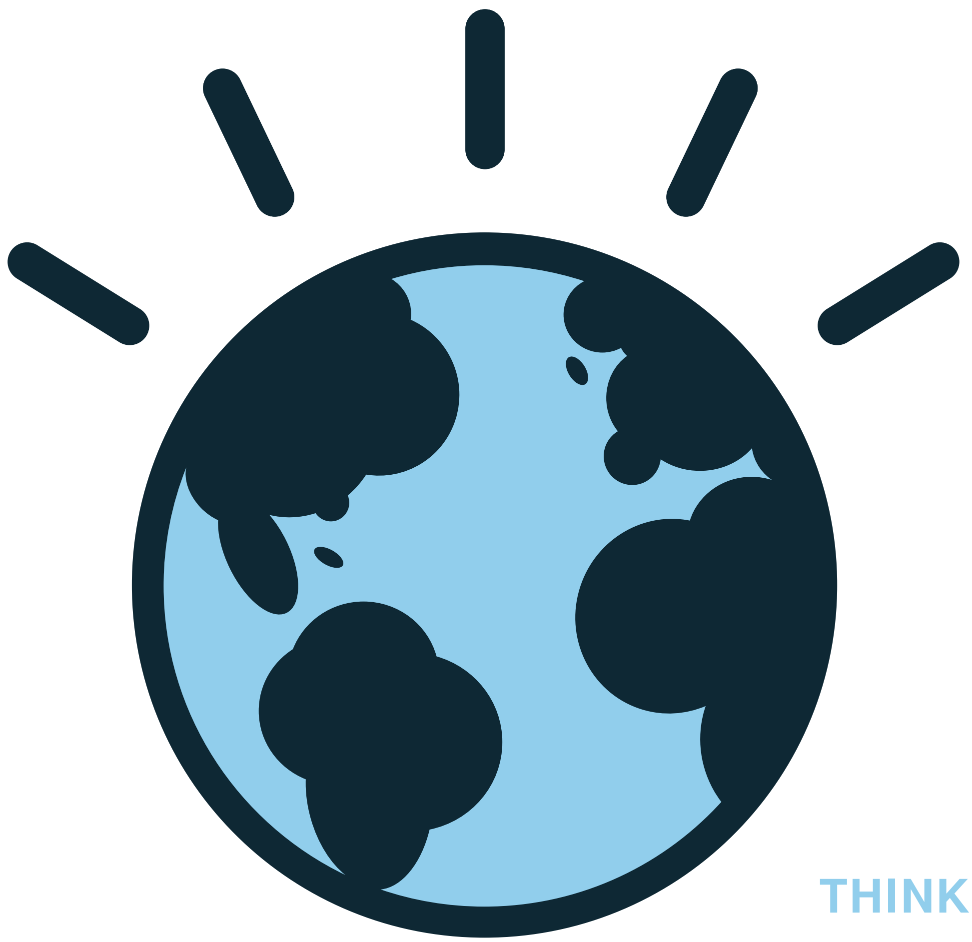
Smart systems are transforming energy grids, supply chains and water management, as well as helping confirm the authenticity of pharmaceuticals and the security of currency exchanges.

The list is long, and the transformation is just beginning. Its benefits will be reaped not only by large enterprises, but also by mid-sized and small companies – the engines of economic growth everywhere – and by individuals and communities around the world.

Imagine how a smarter planet will transform *all* the things we seek. The ways we pursue economic growth, societal progress, environmental sustainability and cures for disease. The way we interact with each other and with the world.

The opportunity is before us, and the moment will not last forever. Will we seize it? As we look to stimulate our economies and rebuild our infrastructure, will we simply repair what's broken? Or will we prepare for a smarter future?

Join us and learn more at **ibm.com/think/ca**



RANK	RANK 2008	COMPANY NAME	SECTOR	REVENUE ($CAD, 2008)	EMPLOYEES	TOTAL SCORE
1	6	**Hydro One**	Utilities	$4,597,000,000	5,032	82.10
2	2	**Petro-Canada**	Oil and Gas	$27,785,000,000	6,088	81.61
3	23	**Canadian National Railway Company**	Transportation and Logistics	$8,542,000,000	22,227	80.29
4	19	**Vancouver City Savings C.U.**	Financials	$397,246,000	2,564	79.02
5	12	**Hydro-Quebec**	Utilities	$12,717,000,000	23,069	78.31
6	-	**ENMAX**	Utilities	$2,670,000,000	1,742	75.94
7	38	**Teck Cominco Limited**	Mining	$7,330,000,000	9,000	75.87
8	56	**TELUS Corporation**	Communications and Media	$9,668,000,000	34,000	75.11
9	-	**MDS Inc.**	Healthcare	$1,769,850,000	5,000	74.67
10	5	**Loblaw Companies Limited**	Retail	$30,815,000,000	139,000	74.32
11	8	**Domtar Corp.**	Forestry	$7,353,100,000	11,000	73.91
12	11	**Nexen Inc.**	Oil and Gas	$8,253,000,000	3,800	73.87
13	30	**Catalyst Paper Corp.**	Forestry	$1,852,700,000	2,700	73.83
14	41	**SNC-Lavalin Group Inc.**	Industrials	$7,136,606,000	21,260	73.80
15	17	**Cascades Inc.**	Forestry	$3,989,000,000	13,000	73.56
16	-	**Canada Post**	Transportation and Logistics	$7,474,000,000	72,000	73.48
17	7	**BC Hydro and Power**	Utilities	$4,855,000,000	5,200	72.17
18	-	**Rona Inc.**	Retail	$4,891,122,000	29,300	71.85
19	13	**Mountain Equipment Co-op**	Retail	$247,730,000	1,120	71.75
20	43	**Canadian Tire Corporation, Limited**	Retail	$9,121,300,000	57,000	70.80
21	81	**Magna International Inc.**	Industrials	$27,411,400,000	74,350	69.49
22	100	**Toronto-Dominion Bank (The)**	Financials	$25,721,000,000	74,000	69.46
23	18	**Sherritt International**	Mining	$1,733,500,000	5,500	68.60
24	20	**Mouvement des caisses Desjardins**	Financials	$8,373,000,000	41,921	68.41
25	74	**NOVA Chemicals Corporation**	Chemicals	$8,619,250,000	2,850	68.21
26	28	**Royal Bank of Canada**	Financials	$37,566,000,000	80,000	68.04
27	29	**Canadian Pacific Railway Limited**	Transportation and Logistics	$4,992,900,000	15,783	67.58
28	14	**Thomson Reuters Corporation**	Communications and Media	$14,001,250,000	53,700	67.39
29	67	**Agrium Inc.**	Chemicals	$12,019,800,000	10,975	67.17
30	35	**Sun Life Financial Inc.**	Financials	$15,589,000,000	14,500	66.95
31	58	**EnCana Corporation**	Oil and Gas	$34,822,000,000	6,048	66.92
32	37	**Suncor Energy Inc.**	Oil and Gas	$30,078,000,000	6,798	66.90
33	115	**Husky Energy Inc.**	Oil and Gas	$25,156,000,000	4,592	66.84
34	46	**EPCOR Power LP**	Utilities	$495,100,000	3,500	66.64
35	33	**Bank of Montreal**	Financials	$19,868,000,000	37,000	65.85
36	55	**Talisman Energy Inc.**	Oil and Gas	$13,726,000,000	2,966	65.45
37	9	**Westport Innovations Inc.**	Industrials	$72,852,000	208	65.33
38	44	**Manitoba Hydro-Electric Board**	Utilities	$2,250,000,000	5,816	65.23
39	72	**Sears Canada**	Retail	$5,734,800,000	32,626	65.07
39	50	**Enbridge Inc.**	Utilities	$16,498,600,000	6,079	65.07
41	52	**Cameco Corporation**	Mining	$2,672,932,000	2,720	64.98
42	61	**Bombardier Inc.**	Industrials	$23,102,350,000	66,900	64.88
43	-	**Toromont Industries**	Industrials	$2,136,208,000	4,500	64.62
44	57	**Barrick Gold Corporation**	Mining	$9,443,800,000	20,000	63.35
45	42	**BCE Inc.**	Communications and Media	$17,454,000,000	50,102	63.02
46	102	**Quebecor Inc.**	Communications and Media	$3,782,200,000	17,100	62.93
47	22	**Transcontinental Inc.**	Communications and Media	$2,429,300,000	15,500	62.81
48	82	**Canadian Imperial Bank Of Commerce**	Financials	$12,670,000,000	39,698	61.53
49	62	**TMX Group Inc.**	Financials	$549,439,000	600	61.43
50	125	**CCL Industries Inc.**	Industrials	$1,193,605,000	5,400	60.03

*FTE is full time employees. Pension assets are meant for current and past employees who are members of the pension plan.
**EH&S = Environment, Health, and Safety. CSR = Corporate Social Responsibility
***Top-paid to lowest-paid employee: Lowest-paid employee's salary estimated at $20,800, which is the pay for someone making $10 per hour, working 40 hours per week, 52 weeks per year.
**** Top three executives

PENSION ASSETS/ CURRENT FTE*	PENSION FUND SURPLUS	TAX GAP (3-YR AVG)	SUSTAINABLE DEVELOPMENT BOARD COMMITTEE**	SALARY RATIO***	C-SUITE DIVERSITY****
$762,321	($171,000,000)	$8,333,344	Regulatory and Environment	44.44	0.33
$202,365	($407,000,000)	($27,999,990)	EH&S	275.73	0.33
$612,363	$1,285,000,000	$32,666,577	Environment, Safety, and Security	588.71	0.00
$4,678	($2,545,000)	$3,468,374	Community Leadership	n/a	0.67
$454,073	$267,000,000	NULL	Environment and Public Affairs	25.94	0.00
$76,636	($37,600,000)	($2,333,339)	CSR, Sustainability and Communications	n/a	0.00
$134,778	($11,000,000)	($79,333,290)	Safety and Sustainability	460.67	0.00
$166,294	$411,000,000	$447,633,460	-	144.93	0.00
$37,490	$28,750,000	($38,983,350)	EH&S	279.94	0.00
$7,029	($106,000,000)	($85,012,400)	EH&S	345.29	0.00
$79,455	($108,100,000)	($34,633,280)	EH&S	180.12	0.00
$40,263	($112,000,000)	($10,000,004)	EH&S and Social Responsbility	270.61	0.00
$81,704	($113,700,000)	($1,333,341)	EH&S	30.10	0.00
$6,134	($44,501,000)	($43,895,309)	EH&S	281.85	0.00
$36,615	($17,000,000)	($4,333,290)	EH&S	106.40	0.00
$210,833	$972,000,000	$20,333,520	CSR, EH&S	30.85	0.33
$491,154	($79,000,000)	NULL	-	n/a	0.67
$1,200	$2,842,000	($28,391,114)	-	22.75	0.33
$0	-	$11,838	Sustainability	n/a	0.67
$0	-	($64,433,370)	Social Responsibility	158.57	0.00
$2,722	($85,100,000)	($136,212,174)	EH&S	518.25	0.00
$28,892	($63,000,000)	$310,333,060	-	228.23	0.33
$15,673	($3,400,000)	($38,766,640)	EH&S	78.81	0.33
$117,769	($381,000,000)	($26,333,515)	Ethics Committee	n/a	0.33
$212,649	($208,150,000)	($13,033,335)	Public Policy and Responsible Care	473.32	0.00
$72,825	($388,000,000)	$492,000,000	Corporate Governance and Public Policy	392.73	0.33
$387,664	($949,800,000)	$251,666,722	EH&S and Security	176.50	0.33
$78,016	($221,950,000)	($289,800,105)	-	1,539.77	0.00
$11,841	($65,550,000)	$105,033,384	EH&S	513.21	0.00
$137,586	($191,000,000)	$177,999,970	-	470.90	0.00
$44,304	($34,500,000)	$1,147,699,990	Corporate Responsibilty, EH&S	736.77	0.00
$90,174	($193,000,000)	$859,666,650	EH&S	256.04	0.00
$23,955	($22,000,000)	$807,333,342	EH&S	1,470.77	0.33
--	-	$14,966,665	-	n/a	0.33
$93,946	($158,000,000)	$222,000,000	-	203.53	0.00
$53,270	($85,000,000)	($168,333,343)	EH&S and Corporate Responsibility	585.19	0.33
$0	-	($164,667)	-	37.13	0.33
$134,285	$67,000,000	NULL	-	n/a	0.00
$38,322	$219,400,000	($40,266,683)	-	164.50	0.00
$187,745	$66,000,000	$198,566,644	CSR	311.78	0.00
$7,459	($3,291,000)	$17,442,326	EH&S	233.00	0.00
$31,045	($385,250,000)	$139,533,330	-	380.76	0.00
$10,081	($16,153,000)	($6,375,330)	-	120.04	0.00
$11,788	($139,150,000)	$55,200,000	EH&S	333.39	0.00
$229,731	($2,092,000,000)	$920,333,157	-	738.73	0.00
$16,801	($21,300,000)	$32,633,298	-	174.45	0.00
$16,265	($45,700,000)	($24,903,230)	-	170.21	0.00
$95,572	$153,000,000	$47,333,513	-	728.82	0.33
$90,097	$2,765,000	($27,200,334)	-	417.19	0.00
$4,515	($27,975,000)	($6,873,012)	EH&S	n/a	0.00

For more indicators, please go to www.corporateknights.ca/best50
All figures in $CAD, brackets indicate negative values.

Sector Dashboard

Oil and Gas

While minimal innovation occurred since last year, the sector is to be commended for including more common metrics in sustainability reporting, such as carbon emissions per barrel of oil. Big decisions on how to power the oil sands (hydro or beginning-of-pipe deep geothermal energy versus natural gas or end-of-pipe carbon capture and storage) and deal with emissions (burning the nasty waste from oil sands upgrading), more than anything else, will determine if they can shake the "dirty oil" label.

Utilities

The Utilities sector showed its perennial strengths of good governance and environmental initiatives this year. However, most companies are only scratching the surface when it comes to conservation opportunities and big reductions in greenhouse gas emissions.

Chemicals

Potash Corp. marred the sector's performance. While the Canadian Institute of Chartered Accountants has recognized the company's quality of reporting, we've uncovered some anti-competitive business practices (see "Potash Politics", Vol. 7.2). Overall, the sector showed little innovation this year.

Financials

While still relatively tiny, sustainability-related assets under management are increasing. Environmental risk management practices and real estate energy efficiency are improving steadily. MCeX (owned by TMX Group), the first regulated environmental market in Canada, officially launched trading of a new futures contract on Canadian carbon dioxide equivalent units in 2008.

IT

Including Dell, HP, and IBM in our Top Foreign Corporate Citizens list leaves Canada with a dearth of responsible IT companies. Global powerhouse Research In Motion has lots of resources but no environmental or social commitments—it appears Mr. Balsillie prefers to focus on bringing hockey instead of sustainability up north. Let's hope John Smiciklas, RIM's new sustainability point person, can ramp things up at this Canadian brand icon.

Communications

Sectoral initiatives overall remained similar to last year's, concentrating mostly on paperless billing, product takeback, and energy efficiency. Transcontinental, Thomson Reuters, and Quebecor all mentioned specific environmental and social media coverage, but Canwest (although they do have environment reporter Mike De Souza), CBC, and Corus did not.

Retail

New to our consideration set this year, RONA Inc. brought up the sector's performance thanks to its embedded life cycle approach to product development. Nascent local sourcing, as well more energy efficient fleets and buildings are shrinking their eco-footprints. Plastic bag mitigation and environmentally friendly product lines are becoming industry standard, and more retailers are participating in the Carbon Disclosure Project. Most of the sector paid more cash tax than was owed over the past three years—these days parking your money with Revenue Canada guaranteed interest rates beats the returns earned by Goldman Sachs.

Industrials

The sector's sustainability reporting has improved greatly since the Best 50 began, and companies are offering more and more environmentally-focused products and services. Perhaps Westport's minimalist but metric-oriented sustainability report is indicative of future reporting that will highlight only quantifiable accomplishments.

Healthcare

MDS was the only company to even mention environmental and social initiatives in its reporting, so it led the sector by default. Healthcare companies can vastly improve in minimizing energy use, diverting waste, and promoting sustainable development.

Forestry

The sector suffered huge financial losses in the last year, which likely hampered any sustainability innovation. However, production of low-carbon, FSC-certified products, along with aggressive adoption of green energy produced on-site, helped put Domtar, Cascades, and Catalyst in our Best 50.

Transport and Logistics

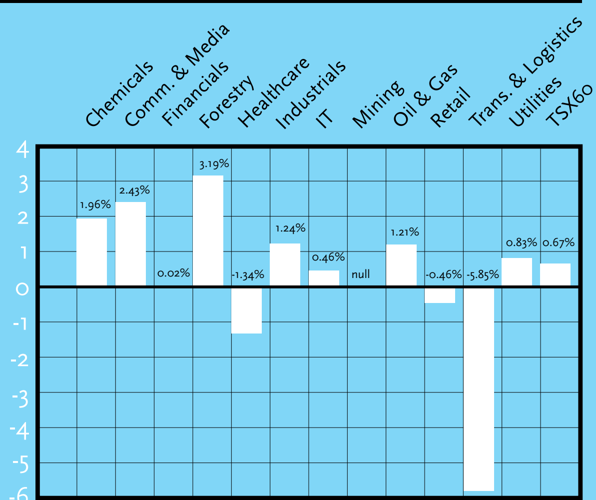
The two rail companies on our list have comprehensive sustainability reports. CNR's environmental analysis took top spot, although there is still much room for improving their systematic enterprise-wide approach to sustainability. While fuel efficiency is of utmost importance from a cost and environmental perspective, improvement has been slow from the airlines.

Mining

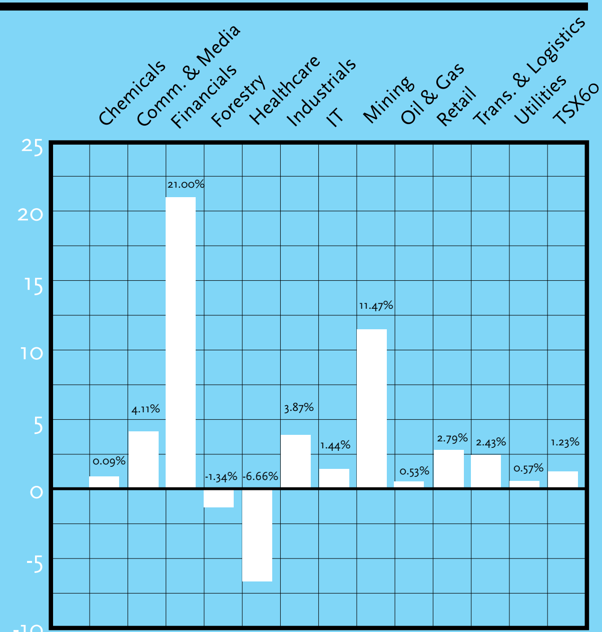
Moving the big players—Rio Tinto, Xstrata, Vale Inco—to our Top Foreign Corporate Citizens list means the bar has been lowered in the Canadian mining sector. Alcan, Falconbridge, and Inco were often in our Best 50 list thanks to their relatively high environmental standards and strong community relationships.

	Average Three-Year Tax Gap / Employee	Average Pension Fund Fair Value / Employee
Chemicals	$40,643.07	$95,927.52
Communications and Media	$10,769.84	$161,049.39
Financials	$8,845.25	$76,379.65
Forestry	$3,275.67	$109,749.26
Healthcare	($32,022.96)	$37,490.00
Industrials	($11,759.47)	$11,291.23
IT	$15,938.12	NULL
Mining	$9,153.95	$26,117.53
Oil and Gas	$1,323,347.44	$1,581,122.88*
Retail	($3,383.43)	$8,411.27
Transportation and Logistics	$8,505.23	$403,620.21
Utilities	$11,107.93	$317,890.89
TSX60	$317,066.09	$380,901.92

Average Ratio of Unfunded Pension Liability to Total Assets:



Total Comp. From Top 3 Paid Execs From Each Firm / Profits:



*For explanation of this number go to www.corporateknights.ca/best50

Turn to the next page to see our new Top Foreign Corporate Citizens in Canada, and find our Best 50 methodology on page 28.

Are you ready for the next wave of Corporate Responsibility?

On the "Best of" list or not, companies need to know what is coming their way
By Valerie Chort

The annual "Best 50" ranking can be used both to validate a company's continuous investment in corporate responsibility (CR), as well as jumpstart its CR programs. Increasingly, whether companies like it or not, the capital market is turning its attention to CR performance as an important component of corporate success. Traditionally driven by NGOs, communities, and non-financial stakeholders, CR is now receiving the attention from institutional investors, analysts, shareholders, and regulators.

One such development is a motion passed in the Ontario Legislature in April 2009, calling on the Ontario Securities Commission to develop a framework for companies to better report on environmental, social, and governance information as part of their public reports such as MD&A, annual information filings, and other corporate reporting vehicles.

Investors as a stakeholder group will continue to look to their companies on CR initiatives and performance compared to their industry peers. As an example, The Ethical Funds Company has developed a list of companies where it will focus its shareholder actions on climate change related topics for 2009.

In the US, Standard & Poor's announced in 2008 that it will incorporate an enterprise risk management review into its ratings process. Key risks to be covered by the review are the environment, weather, disaster, and reputation.

Companies with a long-term vision on sustainability will view these sweeping changes as an opportunity to fundamentally change the way they do business, and take advantage of the value associated with being a "Best of" corporate citizen.

Valerie Chort is a Partner and National Leader of Corporate Responsibility and Sustainability Services at Deloitte Enterprise Risk.

New in 2009

Top Foreign Corporate Citizens in Canada

Starbucks Corp. (Seattle, WA, USA)

Coffee giant Starbucks integrates Coffee and Farmer Equity Practices (C.A.F.E.) into its merchandise, purchasing 65 per cent of its green coffee from C.A.F.E. suppliers. Starbucks is also North America's largest purchaser of fair trade coffee. While Starbucks' water efficiency and the level of recycled content in its paper packaging could improve, during fiscal 2008, the company purchased 20 per cent of total electricity used in company-operated stores in the U.S. and Canada from renewable sources.

IBM (Armonk, NY, USA)

IBM uses information technology to provide solutions to climate challenges through energy efficient hardware, energy management software, and data centers that support solar development, carbon management, intelligent electric utility networks, and intelligent transportation systems. IBM is also making efforts to increase workplace diversity and address the technological needs of students in the least developed countries.

Weyerhaeuser Company (Federal Way, WA, USA)

All of the company's forests in North America are certified to either the Sustainable Forestry Initiative (SFI) or Canadian Standards Association (CSA) standard. Both CSA and SFI are meaningful certification standards, but they are generally considered to be less extensive than the Forest Stewardship Council certification standards, which the company's fine papers group (now merged under Domtar Corporation) does use. While Weyerhaeuser has no firm goals or targets for its Uruguay forests, the company will certify to "appropriate national standards based on availability and customer need."

Hewlett-Packard Company (Palo Alto, CA, USA)

Hewlett-Packard's (HP) goal to is remove all mercury from its notebooks by end of 2010, and will complete the phase out of brominated flame retardants and PVC in newly introduced personal computing products in 2011. Its "Design For Environment" program has been in place since 1992, and the company recently introduced an Eco Highlights label on products that meet environmental standards such as ENERGY STAR.

Dell Inc. (Round Rock, TX, USA)

Computer giant Dell's Power Edge servers consume 25 per cent less energy than previous generations, and some recently released Desktop and Laptop models consume 70 per cent less energy than previous versions. Dell offers consumers free global recycling for all of its branded products, and provides free end-of-life management for any brand electronic product with the purchase of a new Dell product.

Safeway Inc. (Phoenix, AZ, USA)

Roughly 80 per cent of grocer Safeway's North American workforce is unionized and the company has joined lobbying efforts for universal healthcare in the US. Safeway introduced its O Organics line in 2006, a relatively late entry into the market.

Royal Dutch Shell plc (The Hague, The Netherlands)

Royal Dutch Shell (Shell), the world's largest public energy company, has a formal carbon policy and a carbon reduction target, and is limiting its alternative energy focus to biofuels. The Movement for the Emancipation of the Niger Delta (MEND), a rebel group, is fighting the government and oil industry for local control of the $66 billion USD in annual oil revenues. Also, according to a report by the independent Niger Delta Stakeholder Democracy Network, the company is illegally flaring 256m cubic feet of natural gas a day.

All companies have significant operations in Canada and have achieved AAA or AA rating from RiskMetrics Group. (RiskMetrics Group, parent company of Innovest Strategic Value Advisors, provides data for the Global 100 Most Sustainable Corporations in the World listing. It assigns ratings to companies ranging from AAA to DDD.)

Rio Tinto plc (London, UK)

Mining company Rio Tinto's Sustainable Development Leadership Panel consists of six senior executives from all six product groups and corporate functions. Roughly 80 per cent of the company's managed businesses have formed cross-functional sustainability teams. Rio Tinto also has proactive water conservation, energy efficiency, and recycling programs in place. However, the company been criticized for its projects in Madagascar and Indonesia; in fact, its 40 per cent interest in the Grasberg mine in Indonesia led to Rio Tinto's divestment by the Norwegian Sovereign Wealth Fund in 2008. "The Grasberg mine discharges very large amounts of tailings directly into a natural river system; approximately 230,000 tonnes or more per day," the finance ministry said in a statement, adding that it did not foresee any change.

Honda Motor Company Limited (Tokyo, Japan)

Automaker Honda has started production of thin-film solar panels. The company is also looking at developing a reverse assembly line that dissembles automobiles in order to improve the recyclability rate of end-of-life vehicles. None of Honda's 21 board members are female.

Centrica PLC (parent of Direct Energy) (Windsor, UK)

This utility has a relatively clean generating portfolio, causing Centrica to have a lower environmental risk than its sector peers. Centrica is currently investing in six offshore wind farms, three of which are operational. In Texas, Direct Energy has power purchase agreements totalling 813MW of wind power. Centrica has also developed sector-leading solutions to ensure low-income, at-risk customers can continue to access power.

Toyota Motor Corp. (Toyota City, Japan)

Toyota recently took General Motors' title of world's largest automaker. Known for its flagship hybrid model, the Prius, the company has sold over 1 million hybrid vehicles. Toyota's environmental initiatives saved the company ¥15 billion in fiscal 2007 ($177 million). Toyota is also investing in technologies that focus on the environment, safety, and user-friendliness.

General Electric Company (Fairfield, CT, USA)

General Electric (GE) has an 'ecomagination' program dedicated to the development of cleantech products, promising to expand cleantech R&D spending to $1.5 billion by 2010. Water purification, wind turbines, hybrid locomotives, and air-injection fuel technologies are among its current initiatives. CEO Jeffrey Immelt has promised to grow "faster than the US economy". To achieve this growth, GE will depend on projects based in China and India, where environmental regulations are often difficult to monitor.

Xstrata PLC (Zug, Switzerland)

Mining company Xstrata focuses heavily on coal production, but has appointed an air emissions specialist. Every Xstrata site is required to have a 'Social Involvement Plan,' which identifies the environmental and social risks and opportunities in the surrounding communities. Xstrata also provides education and care centres, voluntary counselling, testing, and anti-retroviral treatment for its workers in South Africa, 20 per cent of whom are HIV positive.

Intangible Value Assessment (IVA) Methodology

RiskMetrics Group's research is focused on those factors that contribute most heavily to financial out-performance. Environmental, Social and Governance (ESG) performance measures are used as leading indicators for management quality and long-term financial performance, not as commentaries on the intrinsic ethical worth of the companies. RiskMetrics Group's Intangible Value Assessment platform combines more than 120 performance factors, including innovation capacity, product liability, governance, human capital, emerging market, and environmental opportunities and risk. For more, go to page 28 and www.corporateknights.ca/best50.

METHODOLOGY

The methodology for the Best 50 Corporate Citizens is based on environment, social and governance indicators found in the public domain. The scoring includes baseline indicators, and sector-specific key performance indicators (KPIs). The baseline indicators are worth 50 per cent of the final score, with KPIs making up the balance. The ranking for each indicator is based on each company's sector rank. Where necessary, the most suitable normalizer available was used (throughput, revenues, employees, assets).

There are dozens of KPIs that fall under three categories: environment, social, and governance. Information used is for the entire company.

The weightings and full details for the baseline and KPI indicators are available for purchase in the form of Sector-Specific Reports on demand by contacting the Corporate Knights Sales Group at sales@corporateknights.ca.

BASELINE INDICATORS

Tax — The company's average tax gap over the past 3 years / # of employees. Rationale: When a company obtains a break from their tax bill, in effect the State has invested in that company. It is reasonable to expect a return on that investment in the form of increased social welfare, measured in the number of full time jobs sustained by the company.

Pension Quality — The closing fair value of the defined benefit plan / the total number of employees. Rationale: The extent to which a company provides strong pension benefits to the majority of its workforce can influence morale and generate greater loyalty from employees, which helps productivity and reduces turnover rates.

Pension Health — The ratio of the company's unfunded pension to total assets. Rationale: This number gives an indication of the company's ability to honour its pension fund obligation.

Board Diversity and C-Suite Diversity — The percentage of directors / C-Suite members who are women, Aboriginal, and/or visible minorities. Rationale: A company that wants to attract and retain the best and brightest must show there are no glass or white ceilings.

Board Independence — The percentage of key committee(s) (audit and compensation) that are chaired by an independent director. Rationale: A strong independent board can provide valuable perspective and checks that help a company stay focused and steer it away from strategic risks.

Full SD Committee — The number of board-level committees tasked specifically with environmental issues, social license to operate, sustainability, safety, public policy or corporate responsibility. Rationale: Making sustainability part of the formal purview of the board helps to provide oversight over broad stakeholder issues from the company's top leadership, which enhances a company's ability to both manage risk and seek out related strategic opportunities for profit.

C-Suite Pay — The mean total salary of top three paid officers divided by the company's profits. Rationale: Companies that divert excessive compensation to just a few executives in relation to the company's earnings may suggest conflicts of interest and sub-optimal resource deployment.

Deloitte has reviewed the ranking process undertaken based on the information available for selected baseline indicators. No assurance was provided.

SECONDARY BASELINE INDICATORS

Shareholder Conflict — The number of shareholder resolutions that were withdrawn (resolved) by the filer minus the shareholder resolutions that were omitted by the company or that gained over 7.5 per cent of the vote at the AGM over the past three years. Rationale: Companies that resolve concerns by shareholders demonstrate better stakeholder relations.

Work Stoppages Penalty — Person-days lost as a per cent of total employees in most recent year (only counts if more than 500 person-days lost). Rationale: Labour disruptions impose costs on many stakeholders and generally do not increase the goodwill between management and workers. This can lead to delays and lower productivity.

Labour Force Relations — A company receives a score in this category if a significant portion of its employees have a collective bargaining agreement or if no worker strife (not including work stoppages) has been documented by provincial labour relations boards over the past year. Rationale: Companies that have cordial labour relations tend to perform better.

CRITERIA FOR INCLUSION IN THE BEST 50 CONSIDERATION SET

As of December 31, 2008 to qualify for 2009: In TSX60, Top 50 on FP500 and/or ROB1000. Must be traded on TSX and/or have Canadian headquarters to be considered. Publicly available indicators for at least half of the major indicators. Additional companies with significant operations in the following high-impact sectors were also added (communications, financials, forestry, mining, oil and gas, retail, utilities).

CRITERIA FOR INCLUSION IN THE TOP FOREIGN CORPORATE CITIZEN CONSIDERATION SET

As of December 31, 2008 to qualify for 2009: In top 150 on FP500 with headquarters outside of Canada. Analyzed by Innovest Strategic Value Advisors. Additional companies with significant operations in the following high-impact sectors were also added (chemicals, forestry, IT, industrials, mining, retail).

The scoring methodology used is similar to last year's with some exceptions. See full methodology at www.corporateknights.ca