Ballard Spahr LLP

RESPONSE TO REUTERS SUSTAINABILITY SCENARIO

Submitted by:

Lorene Boudreau
Co-Leader, Environmental, Social, and Governance (ESG) Working Group

April Hamlin
Co-Leader, Environmental, Social, and Governance (ESG) Working Group

1. Governance Improvements. BTSC should create a stand-alone Chief Sustainability Officer, rather than co-designate a vice president as the CSO. This will empower the CSO to be dedicated solely to overseeing the company's sustainability performance and policies, and to getting the company's Board aligned with those policies and devoted to improving the company's ESG metrics. In conjunction with this new position, BTSC should create a Board-level ESG Committee to ensure proper oversight of the company's ESG policy development.

   One of the CSO's first tasks should be to host a listening tour in which the CSO and the Chair of the Board's ESG Committee can learn from stakeholders what issues are material to them. Having the Board ESG Committee Chair participate in the listening tour will provide a key Board member the opportunity to hear directly from stakeholders, firsthand. Another of the CSO's initial tasks should be to conduct an internal assessment of the company's key ESG issues.

   Eventually, BTSC should create an external reporting component, such as an annual ESG report, with the CSO responsible for compiling and disseminating the report. An annual public ESG report will allow stakeholders to evaluate the company's ESG achievements and compare progress against prior years and with peer companies.

2. Performance Goals. Under the oversight of the Board's ESG Committee, BTSC should establish ESG performance goals with measurable and concrete short-term and long-term steps it will take to achieve those goals.

   a. In order to establish goals, BTSC should gather baseline data on metrics such as CO_2 emissions, water use, waste disposal, and energy use and intensity. BTSC should commit to reducing its CO_2 emissions to net-zero by 2050. Once those goals are established, BTSC should make an announcement of its reinvigorated ESG program.

   b. BTSC should incorporate the ESG performance goals described above into its short-term (annual) incentive and long-term incentive compensation programs for executive officers and other senior management.

c. As a multinational enterprise, and with the carbon contribution of global supply chains under heavy scrutiny, BTSC should replace emerging-market suppliers with ones in developed markets that are less reliant on fossil fuels if this would help them reach net zero. A large percentage of BTSC's CO_2 emissions likely come from its supply chains, so lowering those Scope 3 emissions should be one of the first steps in the company's climate change strategies.

d. BTSC should consider shifting to rechargeable batteries, in order to reduce its risk associated with battery disposal. BTSC could partner with its customers to purchase energy to recharge batteries, and could incentivize its customers to install solar panels to provide energy to customers' operations and to recharge batteries. This partnership would not only show BTSC's commitment to its customers, it would provide a source of income to its customers. Moreover, it would show BTSC's constituencies that the company's commitment to improve the environmental impact of its operations is more than just words; it would be a tangible example of the company's progress.

3. <u>Future Proofing</u>. BTSC should use the ESG movement not only to get caught up on its performance of ESG metrics, but as an opportunity to get ahead.

   a. BTSC should focus on reducing CO_2 emissions from its operations in absolute terms, but carbon offsets can play an important role in BTSC's climate reduction strategy. BTSC should consider investing in farming carbon offsets projects that its customers could participate in, and then purchasing credits from its customers that generate the offsets, thereby providing a source of income for the farmers. BTSC could facilitate the arrangement by helping participating customers with measurement, monitoring, and verification problems that plague many agriculture carbon credit programs. Making sure the credits it purchases represent additional and verifiable CO_2 reductions would allow BTSC to credibly claim that those credits represent actual CO_2 offsets, and would help ensure that the farmers have a market for their offsets. This initiative would create a market for equipment that supports farming practices that generate offsets, and BTSC could design and supply equipment to serve that market.

      This is an example of turning climate change business risk into opportunities to grow and improve the company's bottom line. This initiative would set BTSC apart in its industry as a tractor supply company of the future, offering equipment and services for its customers to become more focused on responding to climate change and generating revenue at the same time.

   b. Similarly, BTSC should invest in research and development programs to support new equipment and services that will allow BTSC to capture the markets, customers and agriculture industry of the future. For example, alternative proteins, such as plant-based alternatives to animal meat, fish, eggs, and dairy, are transforming food and have attracted billions of dollars of investment. This transformation is being spurred by concerns over the animal farming industry's contribution to climate change and by more environmentally supportive policies such as taxes on greenhouse gas emissions and reallocation of agricultural subsidies, as well as by evolving consumer preferences. As changes occur in the industrial farm and factory operations that BTSC serves, BTSC should be poised to capture new opportunities.