



*Costco Wholesale Corporation*  
**SUSTAINABILITY  
COMMITMENT**

# 2018



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**Our aim is that our business remains responsible, resilient and relevant in accordance with our Mission Statement and Code of Ethics.**

### Code of Ethics

- Obey the law
- Take care of our members
- Take care of our employees
- Respect our suppliers
- Reward our shareholders

### Mission Statement

To continually provide our members with quality goods and services at the lowest possible prices.

These inform and guide our everyday goal to do the right thing and are the foundation of our business. Costco will continue to adapt as we learn more about our impact and global challenges such as climate change, human rights issues and compromised natural resources.

We have adopted the following principles and responsibilities to help us navigate the dynamic and changing future while still striving to do the right thing and remain a low-cost and efficient business operator.

Sustainability to us is remaining a profitable business while doing the right thing. The following principles and responsibilities will help us sustain our business for the long term as we continue to grow globally.

### Our Sustainability Principles

- For Costco to thrive, the world needs to thrive. We are committed to doing our part to help.
- We focus on issues related to our business and to where we can contribute to real, results-driven positive impact.
- We do not have all of the answers, are learning as we go and seek continuous improvement.

### Our Sustainability Responsibilities

- Take care of our employees.
- Support the communities where our employees and members live and work.
- Operate efficiently and in an environmentally responsible manner.
- Strategically source our merchandise in a sustainable manner.

In this document, we explain how we incorporate sustainable practices in key aspects of our business. We provide examples to help illustrate our progress. We realize our practices may change over time, as we learn more and adapt to our ever-changing world. For additional questions or more information, please contact Costco Customer Service.



EMPLOYEES



COMMUNITIES



OPERATIONS



MERCHANDISING

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Certain statements contained in this document constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For these purposes, forward-looking statements are statements that address activities, events, conditions or developments that the Company believes or anticipates may occur in the future. Such forward-looking statements involve risks and uncertainties that may cause actual events, results or performance to differ materially from those indicated by such statements. Statements contained in this document are aspirational and relate to the manner in which the Company currently intends to conduct certain of its activities, based on its management's current plans and expectations. These statements are not promises, guarantees, or statements on which you should rely with respect to the Company's conduct or policies, and are subject to a variety of risks and uncertainties, some of which may be material and/or beyond the Company's control. These risks and uncertainties include, but are not limited to, domestic and international economic conditions, the effects of competition and regulation, uncertainties in the financial markets, actions of vendors, rising costs associated with employees, energy and certain commodities, geopolitical conditions, information to which the Company does not have ready or complete access and other risks identified from time to time in the Company's public statements and reports filed with the Securities and Exchange Commission. Forward-looking statements speak only as of the date they are made, and we do not undertake to update these statements, except as required by law.

Last Updated: September 2019

# EMPLOYEES



**Costco has more than 225,000 employees worldwide.**

We understand that the key to Costco's continuing success and growth is the attraction and retention of great employees.

## Compensation and Benefits

Everywhere we do business, we seek to provide competitive wages and benefits to our employees. The vast majority of Costco's workforce consists of hourly employees in warehouse locations. We compensate these hourly employees very well by retail standards. This helps us in the long run by minimizing turnover and maximizing employee productivity, commitment and loyalty. In the U.S., we provide generous benefits, including affordable health care coverage for full-time and part-time employees, and sizable contributions to employees' company-sponsored retirement plans, based on years of service. We provide twice-yearly Extra Checks for long-tenured employees. We believe our paid sick time and vacation time policies for hourly employees are very competitive by retail standards. We have adopted operational practices designed to benefit our hourly workforce, such as a 50% full-time ratio, guarantees of minimum scheduled hours, and weekly schedules posted well in advance. Our worldwide policies and practices are designed to mirror our practices in the U.S., subject to local regulations and customs.

For salaried management in our locations, as well as positions in the corporate and regional offices, we also seek to provide competitive compensation and benefits. Although many salaried employees might be able to find higher compensation or better perks at other companies, our retention rates, particularly for longer-term Costco employees, are very high. We believe our competitive compensation and benefits, opportunities for growth and advancement, and the stability and overall culture of the company are primary reasons for our strong retention rates.

## Long-tenured Workforce

In the U.S., our employees have, on average, almost nine years of service with the company. Over 60% of U.S. employees have five or more years with Costco, and over one-third have more than 10 years. Costco also has long-tenured workforces in the other areas where we do business, particularly in more mature markets in Canada, the UK, Mexico and parts of Asia. Worldwide, we have over 13,000 employees that have more than 25 years of Costco service. We feel the experience level and loyalty of our employees gives us a significant advantage.

A related advantage comes from our philosophy and practice of promoting from within our employee ranks. We are very proud of the fact that over 70% of our warehouse managers began their Costco careers in hourly positions. In addition, a majority of our corporate and regional office employees started in our warehouses, depots and business centers.

## Inclusiveness and Equal Opportunity

We aim to have a diverse workforce that is representative of the communities where we do business, and to foster an inclusive environment. More information about inclusion at Costco and the diversity of our employees can be found in this summary.

It has always been Costco policy that employees should be able to enjoy a work environment free from all forms of unlawful employment discrimination. All decisions regarding recruiting, hiring, promotion, assignment, training, termination, and other terms and conditions of employment will be made without unlawful discrimination on the basis of race, color, national origin, ancestry, sex, sexual orientation, gender identity or expression, religion, age, pregnancy, disability, work-related injury, covered military or veteran status, political ideology or expression, genetic information, marital status, or any other protected status.

Men and women who perform substantially similar work are paid within 99.9% of each other after adjusting for key factors such as job, company seniority and hours worked. We examined each component of compensation including base pay, bonus and equity. If observed in the future, we would work to correct unexplained gender-based differences.

## Culture and Open Door

A word that comes up frequently when we talk about the uniqueness of Costco is our "culture." While the culture of any company can be difficult to define, Costco employees know that an important factor in our past and future success is our ongoing commitment to basic principles such as simplicity, value, fairness, member service, and always striving to do what is right.

We also encourage an atmosphere of openness and support with our Open Door Policy, which allows any employee to discuss an issue with any level of management. In addition, we have a confidential ethics hotline available to employees at [www.costco.ethicspoint.com](http://www.costco.ethicspoint.com). Every two years, we conduct employee surveys to obtain feedback concerning ethics, compliance and engagement.

Our employees play a significant role in teaching and reinforcing Costco's unique culture. As we move forward, it is imperative that we continue to perpetuate this culture throughout the company, wherever we do business.

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**Our business is successful not only when we provide quality merchandise at a good value for our members, but also when we make a positive contribution to the health of the communities where we do business and where our employees and members live and work.**



## CHARITABLE CONTRIBUTIONS

Costco's commitment is to be active in our local communities. We budget 1% of pretax profits for selected charitable contributions focused on children, education, and health and human services. In fiscal year 2018, we contributed over \$39 million to organizations such as United Way, Children's Miracle Network Hospitals, Costco Scholarship Fund, disaster relief, and many programs related to education, children, and health & human services. More information about our programs can be found at Charitable Contributions.

### Donation Programs

Worldwide, our locations donate to local community organizations throughout the year. Donation programs vary by location and by country.

Some examples include:

- Since 2012, Costco has partnered with New Eyes for the Needy to support its Overseas Program. Costco sends members' used eyewear and hearing aids to New Eyes where they are sorted, tested and repackaged for distribution to those in need around the world. Annual donations are approximately 260,000 used glasses and 1,800 hearing aids. Most often, the glasses are the first and only pair of eyeglasses the recipients have owned.
- Our food donation program to people in need with Feeding America continues to grow. In fiscal year 2018, we donated over 34 million pounds of food and provided cash contributions of \$1.75 million.\*\*
- Our program with World Vision to donate non-food items to people in need continues to grow and in fiscal year 2018, we donated 41,945 pallets of products.\*\*

\*\* These donation programs are part of our Waste Stream Management plan, where you can find more detailed information.

## EMPLOYEE VOLUNTEERING



## HEALTH CARE

### Products and Services

Costco provides low-cost, quality eye care through independent optometrists and our optical departments; hearing aid services and supplies in our hearing aid centers; and prescriptions and other health-related products in our pharmacies. Costco also provides flu shots and other immunizations, health screenings, and other programs.

### Special Pharmacy Services

Besides being a low-cost source for prescription medications in over 670 pharmacies worldwide, Costco also provides the following special prescriptions and services in the U.S.:

- **Specialty Drug** customized pharmacy services that requires patient-specific dosing and careful clinical management. More information can be found at Specialty Drug Programs.
- **Access to naloxone** without a prescription in 21 states, with plans to expand the program to additional states. Naloxone is a life-saving medication that reverses an opioid overdose, and is part of the national strategy to combat the opioid overdose epidemic.
- **Prescriptions for contraceptives** in California, Colorado and Oregon, with the intent to roll out the program where allowed by law.
- **Travel Medicine Services** in Idaho, Oregon, Washington and Southern California, which includes a pre-travel consultation to determine any health risks based on your itinerary and activities, a review of your health history and immunization status, tips on how to stay healthy during your trip, and a list of the recommended immunizations and medications.

### Prescription Benefit Programs (PBM)

As part of Costco Health Solutions, we offer employers an alternative prescription benefit program to help them lower health care costs. Our PBM program guarantees that 100% of all discounts from manufacturers for prescriptions will be passed back to the consumer. Companies that participate in Costco's prescription benefit program typically reduce costs by 10 to 25 percent. More information can be found at PBM programs.

More information can be found about how Costco employees engage the community with and through Costco on this video.



COSTCO EMPLOYEE VOLUNTEER READING PROGRAM  
CELEBRATES 20 YEARS

Since 1998, Costco employees have volunteered to help elementary school students in their communities learn to read. Our 418 participating locations in the United States, Canada and Australia have provided more than 2,300 volunteers.

Optical Services

Besides being a low-cost source for eyewear in over 728 optical departments worldwide, Costco also provides access to optical health services in the U.S., such as:

- **Independent Doctors of Optometry** located at or next to Costco Optical in most states.
- **Licensed and/or Certified Opticians** to answer eye care questions. Costco accepts most vision insurance plan.

Hearing Aid Services

Costco has 665 hearing aid centers worldwide, staffed by licensed hearing aid specialists. Besides providing hearing aid tests and low-cost, high quality hearing aid devices, Costco also helps to improve the education of:

- **Hearing Aid Specialists** through its partnership with the International Hearing Society. Costco helps train hearing aid specialist candidates in the U.S. As a result, Costco has helped over 700 people achieve a new career as a hearing aid specialist since 2006.

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Costco's sustainability commitment also focuses on managing our operation of 750 plus warehouses worldwide in an energy-efficient and environmentally responsible manner. These efforts, together with our attention to detail to find efficiencies that lower costs, use fewer resources and generate less waste, help us remain a low-cost operator, become more efficient and reduce our carbon footprint. These measures also save money on energy costs.



BUILDINGS



TRANSPORTATION & LOGISTICS



GREENHOUSE GAS EMISSIONS



WASTE STREAM MANAGEMENT

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## SUSTAINABLE CONSTRUCTION & LANDSCAPING

### Sustainable Design

Costco is aware of its responsibility to design and construct its sites and buildings in an energy-efficient, sustainable and environmentally responsible manner. Costco's warehouse designs are consistent with the requirements of Leadership in Energy and Environmental Design (LEED), an internationally accepted benchmark for green building design and construction. Costco continues to improve the design and construction of its buildings, as technological advancements in these areas and building materials improve. Improved engineering and design has resulted in the use of less materials, such as columns and I-beams, while providing more strength. Costco prefers full metal buildings in order to use the maximum amount of recycled material and reduce construction and maintenance costs.

### Recycled Materials

To reduce the use of virgin resources, materials are selected that utilize high percentages of recycled content. Examples include:

- The prefabricated structural steel system is comprised of 80% recycled content.
- Costco often incorporates existing structures into its designs.
- Metal building insulation utilizes ECOSE® Technology, which contains an average of 76.98% recycled content.
- Recycled asphalt is used in some new parking lots with recycled concrete as a base material.

### Other Sustainable Features

When and where it makes sense, Costco incorporates other features into its buildings to reduce the use of resources and to save money, such as:

- Roofs maintain a reflectance rating of .68, emittance of .25 and SRI of 63, lessening the heat gain on the roof.
- The erection efficiency of the structural system and envelope reduces the overall construction duration, saving time and money.
- High-efficiency restroom fixtures save 40% more water.
- Mechanical heat from refrigeration systems is captured to preheat hot water tanks.

### Sustainable Landscaping

Site designs take into account the surrounding environment and ecosystems, are mindful of wetlands and habitats, and preserve natural

## ENERGY EFFICIENCY

### Continuous Improvement Through Collaborative Learning

Costco continues to implement systems and technologies in order to save energy and reduce its carbon footprint. In order to stay abreast of changes, Costco:

- Participates in the U.S. Department of Energy's Better Building Alliance, the National Renewable Energy Lab and other conferences to evaluate and share new energy efficient technologies with both government and private industry.
- Conducted trainings in 2018 in regions worldwide to share best practices and increase awareness about the importance of climate change, how to reduce the carbon footprint and how to save energy, which in turn saves money.

### Solar Power

At the end of fiscal year 2018, Costco uses solar photovoltaic systems in 109 warehouses in Arizona, California, Colorado, Hawaii, New Jersey, New Mexico, New York, Ohio, and Puerto Rico, plus in Spain, France, the UK, Taiwan, and Japan. Some locations use solar power in the parking lots. These systems are projected to generate 89 million kilowatt-hours (kWh) per year.



### Lighting Systems

All lighting in new construction utilizes LED technology. Costco rapidly converts lighting systems in older buildings where it makes sense for financial, engineering and operational reasons. The LED conversion project began in fiscal year 2016, and as of the end of fiscal year 2018, 1,166 LED

wonders. Examples include:

- Landscapes exceed minimum requirements in order to create high impact and beautiful landscapes appropriate to the location.
- In comparison to typical development standards, Costco provides larger trees, greater planting density, drought-tolerant species, native vegetation and less manicured lawns



Merida, Mexico                      Cenote, viewed from above

- The Merida, Mexico, location has a cenote (natural sinkhole) onsite that was repaired and cleaned, and is named Ka'kutzal, a Mayan word meaning “back to life” or “rebirth.”



Before                      After

- In 2017 Costco piloted a program in Covington, Washington, to use goats to remove unwanted vegetation around the water retention pond. This saved the company money in landscaping costs and eliminated the need for herbicides to kill unwanted vegetation. Costco is looking to expand this program where it makes sense.



WATER EFFICIENCY

Comprehensive Water Management Systems

Costco began managing water use in its Mexico facilities in 2008, and as a result of meaningful efficiency gains, has continued to roll out a comprehensive water management system that includes:

- Installing Apana™ water metering systems, which detect leaks and benchmarks performance.
- Costco locations can now detect in real-time mechanical failures that can be resolved quickly, and can now better track operational water waste to allow more efficient water use and/or reduced water usage.
- As of the end of fiscal year 2018, the rollout in North America is 95% complete, has begun in Japan and should roll out

retrofits have been completed – with a total estimated energy savings of 206 million kWh per year.



Fuel Cell Technology

In 2017, Costco began piloting the use of fuel cells as an alternative source for generating on-site electricity at a handful of locations, and continues to evaluate the fuel cells to determine future use in its facilities. To date Costco has found the following benefits:

- Lower demands on existing electric utility infrastructure in the area of the test sites.
- Lower overall combined power and natural gas expenses at the test sites.



REFRIGERANT MANAGEMENT

Costco recognizes that refrigerants have a major impact on the warmth of the atmosphere and is exploring ways to do our part to reduce the temperature of the planet and the depletion of the ozone layer. Here are some examples:

- Continue to explore new refrigerant technologies and carefully select refrigerants that further reduce the Global Warming Potential (GWP) and GHG emissions and do not contain ozone depleting chemicals.
- Ceased using HCFC refrigerant in new and replacement refrigeration in commercial equipment and air conditioning systems.
- Continue to improve the efficiency of HVAC and refrigeration systems through new technologies such as variable speed drives and more efficient motors, while meeting more stringent requirements for heating, cooling and humidity control.
- Adhere to best management practices in the installation, maintenance and decommissioning of equipment to reduce leakages and impact on the environment.



ENVIRONMENTAL COMPLIANCE

worldwide where applicable.

- Since July 2017, there has been a 10% savings in water – saving millions of gallons of water.
- By using less water, less energy also is needed to operate water systems, which in turn reduces Costco’s carbon footprint and expenses.
- Some locations have their own wastewater treatment systems. These systems allow wastewater to be processed in a more efficient and responsible way.

Costco continually works to enhance and streamline its compliance with environmental regulations, including an Environmental Compliance Executive Team, that together with regional compliance managers and field auditors, oversees compliance programs in the U.S. To remain attentive to any issues or change in regulations, the Compliance Managers meet weekly.

The Executive Team comes together three to four times a year. These meetings include representatives from numerous departments in the company and the meetings are used to review and implement programs and policies – and to continually improve training programs, procedures and communication.

**Groundwater and Irrigation Systems**

While landscaping is important for the beauty it provides, as well as the preservation of natural habitat, Costco also understands the need to be responsible regarding irrigation, and managing stormwater and water quality. Recent measures include:

- Integrating native and drought-resistant landscaping materials to minimize irrigation.
- Utilizing smart technologies and subsurface irrigation to improve efficiency and to reduce water waste in irrigation systems.
- Installing bioswales to preserve groundwater and prevent runoff in some locations.

**Car Washes**

Costco exceeds the requirements and is a member of WaterSavers®, a designation by the International Car Wash Association awarded to car washes that meet strict water usage criteria. When Costco began monitoring daily water usage in 2015, significant reductions in water used per wash were realized immediately. The net result was a 50% reduction as a result of:

- Installation of simple digital water meters to help graph gallons used per wash and spikes to identify leaks or equipment malfunctions that are wasting water; and
- Installation of water main shut-off valves after recognition of discrepancies between closing and next-day opening readings that indicated a significant amount water use when the car wash was closed.



**Costco understands that the more efficient we can become through our distribution systems, the better we will be able to reduce our transportation costs, reduce the number of trucks on the road and in turn, reduce our carbon emissions. We also strive to improve the efficiency of our fleets and support our employee’s efforts to reduce their transportation energy consumption.**



### DEPOT DISTRIBUTION CENTERS

Costco’s depots (distribution centers) help it reduce delivery costs by providing single-step handling of full pallets of merchandise from suppliers to warehouses. Costco continually evaluates its processes and implements ways to improve shipping efficiencies. These measures include packaging design changes and pallet configuration – resulting in more products on a pallet and fewer delivery trucks on the road.

Another way Costco reduces costs is by analyzing state weight and length oversize permits, and by using specialized equipment where geographically possible to handle heavier loads. Costco also employs longer combination vehicles to maximize trailer utilization.

The transportation team always looks for ways to reduce empty miles involving trucks returning to the depots from the warehouses, including:

- Picking up truckloads of merchandise that are destined for a Costco depot for distribution to a regional group of warehouses.
- Loading trailers with returned goods that are headed to salvagers or need to be returned to the supplier, and consolidating those shipments into truckloads.
- Growing the program with World Vision to donate many of these goods to communities in need worldwide. More information can be found at the Non-Food Donations section.

These streamlined "reverse logistics processes" help to reduce our merchandise handling costs and to free up sales floor space in the warehouses, which helps reduce operating costs and lower our carbon footprint.



### BUSINESS DELIVERY FLEET

Costco's Business Delivery Fleet is developing an internal initiative called "Truck of the Future" aimed at maximizing efficiency in our growing delivery fleets. Last year Costco successfully field-tested a customized vehicle with Penske Truck Leasing that improves the payload capacity by reducing body weight. We are rolling out these vehicles as Costco adds and renews fleet leases.

Costco Business Delivery Centers also have implemented procedures to use electric plug-in shore power, tying into the grid to allow our refrigerated trucks to maintain temperature while being loaded and stored. This eliminates the previous practice of running the diesel reefer engine, thereby saving fuel and eliminating carbon emissions by over 70 percent for each truck that uses shore power.

Additionally, the Business Delivery fleet utilizes telematics – a standard option routing system now on all 2017 and newer Hino Trucks. This allows Costco to identify opportunities to increase mileage through better efficiency and to decrease idle time.



### EMPLOYEE TRANSPORTATION & ELECTRIC VEHICLE CHARGING STATIONS

Costco encourages its employees to find alternative methods of transportation to reduce energy consumption and emissions. The Commute Trip Reduction (CTR) program began more than 20 years ago at the corporate office with 18 vanpools, and now features 68 vanpools (vans, fuel, maintenance and insurance are provided by five transit agencies). Costco also has vanpools at its San Diego, Los Angeles and Mexico City regional offices. Many employees carpool. Costco offers employees subsidies to vanpool and to purchase monthly bus passes.

Costco currently has 15 locations (including the corporate office) that support 42 electric vehicle car charging stations that supplied over 86,000 kWh of charging service.

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Last Updated: December 2018

# WASTE STREAM MANAGEMENT

**As one of the largest retailers in the world, Costco understands its potential impact on the global waste stream. Costco's goal is to continually decrease the amount of its waste going to landfill. In fiscal year 2018, the average diversion rate of the reporting countries/regions was 71%.**

## EFFICIENCIES & COST SAVINGS

By diverting waste, Costco reduces the amount of trips to the landfill, fuel consumption and Greenhouse Gas (GHG) emissions. Diversion also saves money by eliminating the costs of hauling and the tonnage fees associated with less waste.

Costco continues to examine waste disposal programs to maximize efficiency and to reduce costs. For example, Costco uses Wastenet™ to monitor waste pickup, where applicable. Costco has been able to reduce its hauls by 8% in those locations using this service. This ensures that compactors are hauled full.

Examples of waste management diversion programs include donation, recycling and waste to energy programs, described below.



## DONATIONS

Donation programs are a win-win. While the donations help address feeding the hungry and helping people in need, they also help Costco run its business efficiently by reducing costs through the diversion of the donated products from the landfill.

### Food Donations

Costco locations worldwide donate edible food products to food banks and to other nonprofits in their local communities. Donation programs vary by location and by country, including this current key initiative in the U.S.:

#### Feeding America

In order to further reduce food waste and provide people in need with food products in the U.S., Costco continues to expand its program with Feeding America, which works with local food banks to provide meals to the hungry. In fiscal year 2018, Costco donated more than 34.7 million pounds of edible food products in all states where it operates, which represents



## RECYCLING

### Organic Waste Recycling

Much of our organic waste (inedible food waste) is now recycled into usable products, such as organic fertilizer, compost, animal feed, biofuels and electricity. In the U.S. for fiscal year 2018, we diverted over 80.5 million pounds of material from landfills. For example:

- 8.7 million pounds of organic waste was converted into animal feed for cattle and hogs;
- 7.3 million pounds of chicken grease produced from rotisserie chickens was recycled, the majority of which was converted into biofuel;
- 853,119 pounds of organic waste was converted into certified organic liquid fertilizer, and in turn was purchased by some of Costco's produce suppliers for use on the products they sell to Costco; and
- additional organic waste from operations was also converted into certified organic liquid fertilizer to be used in Dr. Earth® All-Purpose Fertilizer, which is now sold at Costco locations.

### Non-Food Recycling

All locations worldwide have recycling programs that divert waste materials produced through business operations from landfills. Costco is committed to expanding these programs through partnerships, efficiencies and technologies. More information can be found in the Global Sustainability Waste Report.

approximately 29 million meals to people in need.



We also understand that it is equally important to look at the type of food donated and our goal is to donate healthy and nutritious food. In 2018, over 73.6% of the food donated was in the following categories:

- Produce/fruit/vegetables (36%)
- Grains/bread (26%)
- Dairy/protein (11.6%)

Costco will continue to roll out the Feeding America program throughout the U.S. and is exploring similar programs in other countries.

**Non-Food Donations**

Costco has grown its program with World Vision to donate first-quality items that used to be destroyed, recycled or returned to the supplier. In fiscal year 2018, 41,945 pallets of products were donated, which is over a 1,000% increase from 2017, when we donated 3,300 pallets.



**TOTAL TIRES  
FY2018  
7,086,281**



**Tires**

Costco recycled over 7.08 million tires in the U.S.in fiscal year 2018. While some tires are resold, over 85% are recycled into several different beneficial uses, including tire-derived fuels used primarily in cement kilns; crumb rubber used as an additive for road surfaces or pervious surfaces around roads, sidewalks and pathways; mine reclamation; daily landfill cover; and decorative mulch.

**Recycle to repurpose**

Costco also recycled in fiscal year 2018, 444,753 pounds of expanded polystyrene (foam) in the U.S. This material is densified and distributed to manufacturers that make picture frames, crown molding and other polystyrene products. Plus, Costco was able to recycle 1.7 million pounds of scrap metal, which made its way back into local commodities markets to be made into something new.

**Waste to Energy**

Waste also is used to generate energy. Costco currently has 46 locations in the U.S. that send trash to a waste-to-energy facility, essentially making these locations landfill-free. This program represents 43.7 million pounds of post-recycled waste that generated 12,011,368 kilowatt hours of renewable energy, enough to power 12,534 homes for a month. The goal is to expand this program where feasible.

Below are the highlights for fiscal year 2018:

- 41,945 pallets of donated Costco product were part of the assistance to people in need in 18 international countries;
- World Vision used these donations and others to assist 3.9 million U.S. children and adults in need in 13 U.S. states;
- 15,078 teachers and 255,736 students from low-income schools received essential supplies for learning; and
- World Vision responded to Hurricanes Harvey, Irma and Maria with more than 1,255 pallets of donated product from Costco assisting 271,046 people to date.

More information can be found in the summary, which contains a representative list to where items were donated and some stories that share the impact of these donations.



**Costco is a global retailer that strives to be a responsible global citizen. We agree with many scientists, economists and others who have concluded that global climate change is a serious environmental, economic and social challenge. It warrants an equally serious response by governments and the private sector, because global climate change impacts all of us: people, animals and plants. We want to do our part to lessen the impact and will continue to explore ways to lower our carbon footprint, source merchandise responsibly, and preserve natural resources.**

**Our Goal and Continuous Improvement**

We continue to work toward maintaining our carbon footprint growth to less than our company sales growth. For the reporting period of 2017, we achieved that goal, as noted in our carbon footprint summary.

Throughout our Sustainability Commitment, you will find numerous references to our items and operations that help lower our carbon footprint.

**Risk Factors**

We also recognize that the subject of climate change is significant for a number of our members and investors. It is also a risk factor for certain aspects of our business\*.

**Operations**

Continuing to focus our expertise on reducing costs and improving efficiency is, we believe, the best way to reduce our impact on the environment. For example, the “bulk” emphasis of our business means members make fewer shopping trips. In addition, our highly efficient depot (cross-docking) distribution system minimizes the number of trips necessary to keep warehouses stocked.

**Energy Use**

Purchased electricity for the company is the largest source of our carbon emissions and represents a significant expense. By reducing energy usage directly, our emissions and energy expenses will be reduced. Some examples:

- In Japan, we have upgraded our lighting systems. The Kanazawa Seaside location received an award from the Yokohama City government for reducing CO2 emission by 300 cubic tons, which exceeds 10% savings; and
- We reduce emissions by purchasing renewable energy and continuing to use solar panels on new locations.

More information about our energy use can be found at our Energy section.

**Greenhouse Gas Emissions Inventory**

Tracking and reporting our GHG footprint is evidence of our commitment. We have a corporate energy program to track greenhouse gas (GHG) emissions. We have ceased using HCFC refrigerant, an ozone-depleting substance, in new and replacement refrigeration and air conditioning systems.

For the 2017 reporting period, we voluntarily participated in the Carbon Disclosure Project (CDP), established by the GHG Protocol Corporate Accounting and Reporting Standard, and this year’s inventory included all countries where we operate. Costco Wholesale reports Scope 1 and Scope 2 emissions to align with the Intergovernmental Panel on Climate Change (IPCC) and Reporting Standard.

- Scope 1 Direct Emissions include all natural gas and propane provided to owned or controlled facilities used for heating or food processing and manufacturing. Included in direct emissions are diesel used by Costco’s truck fleets, refrigerated trailers and yard haulers; propane to power mobile floor scrubbers; jet fuel for corporate jets and fugitive emissions from leakage of HFC refrigerants from refrigeration and air conditioning equipment.
- Scope 2 Indirect Emissions are for purchased electricity and are the largest component of GHG emissions.

**COSTCO'S CARBON FOOTPRINT SUMMARY**

|                                              | SALES<br>(in thousands) | tCO2e<br>(tons of carcon<br>dioxide emitted) | tCO2e %<br>Increase<br>(over prior year) | Sales %<br>Increase (3)<br>(over prior year) |
|----------------------------------------------|-------------------------|----------------------------------------------|------------------------------------------|----------------------------------------------|
| (1) Total in<br>Covered<br>Countries in 2016 | \$109,207,104           | 2,250,906                                    | 13.4%                                    | 2.1%                                         |
| (2) Total in<br>Covered<br>Countries in 2017 | \$131,652,651           | 2,358,629                                    | 4.79%                                    | 12.31%                                       |

(1) Includes the following countries/regions: US, Puerto Rico, Canada, Australia, Mexico, Spain, and the UK. These tCO<sub>2</sub>e numbers have been restated for 2016 to include all refrigerant resulting in an additional 127,481.8 CO<sub>2</sub>e. IPCC reporting guidelines offers a choice to include or exclude HCFC. Costco has revised internal policies to include refrigerants as a more appropriate method of calculating emissions.

(2) Includes the following countries/regions: US, Puerto Rico, Canada, Australia, UK, Mexico, Spain, Japan, South Korea, France, Iceland, and Taiwan. Costco has refined reporting to include all facilities in all countries, and all reportable sources.

(3) In 2017, we included all operations worldwide in our calculations. Therefore, the corresponding calculation of year over year sales uses 2016 worldwide sales of \$117,223,539.

This inventory is used to track emissions trends, to monitor the amount of greenhouse gases produced directly and indirectly in our business, and to measure and reduce our electricity usage, ultimately reducing our expenses.

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\*Factors associated with climate change could adversely affect our business. We use natural gas, diesel fuel, gasoline, and electricity in our distribution and warehouse operations. Increased U.S. and foreign government and agency regulations to limit carbon dioxide and other greenhouse gas emissions may result in increased compliance costs and legislation or regulation affecting energy inputs that could materially affect our profitability. In addition, climate change could affect our ability to procure needed commodities at costs and in quantities we currently experience. We also sell a substantial amount of gasoline, the demand for which could be impacted by concerns about climate change and which also could face increased regulation. Climate change may be associated with extreme weather conditions, such as more intense hurricanes, thunderstorms, tornadoes, and snow or ice storms, as well as rising sea levels. Extreme weather conditions increase our costs, and damage resulting from extreme weather may not be fully insured.

Last Updated: December 2018



# MERCHANDISING

Costco is committed to providing our members with high-quality goods at the lowest possible price in a way that is respectful to the environment and to the people and animals that produce these goods. There are many factors that go into how we source our goods. Here are some guiding principles, with a few supporting examples.



KIRKLAND SIGNATURE



HUMAN RIGHTS



ANIMAL WELFARE



SUSTAINABLE FISHERIES



ENVIRONMENTAL IMPACTS & LAND STEWARDSHIP

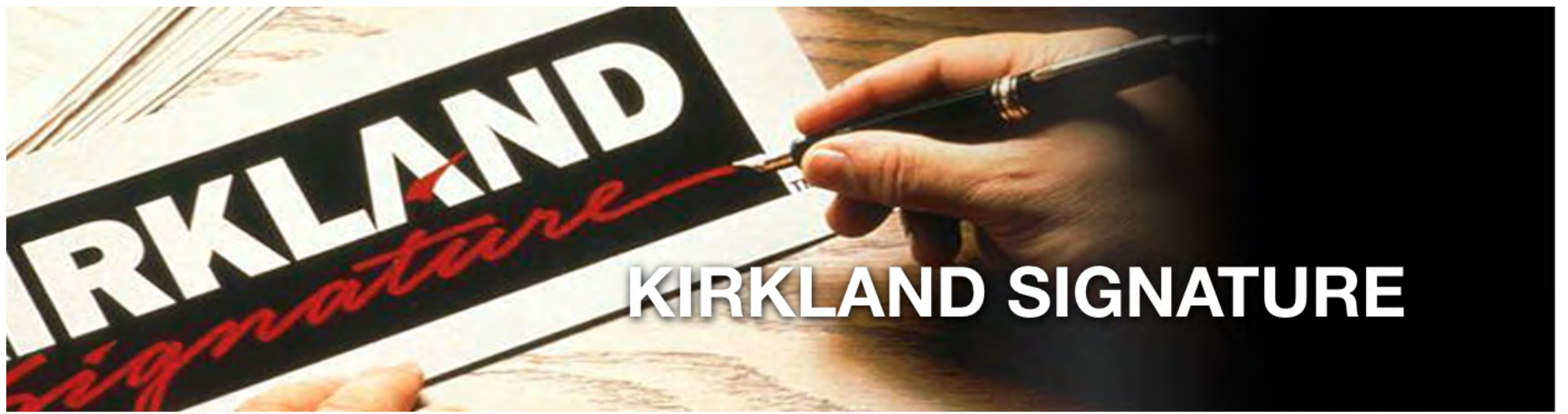


PACKAGING



CHEMICAL MANAGEMENT

Last Updated: December 2018



**While a majority of our merchandise is branded, Costco created a line of exclusive private-label products called Kirkland Signature™. In developing Kirkland Signature products, we have the unique opportunity to have better control over the entire supply chain, including where the product comes from and under what conditions it is produced.**

**Our goals for Kirkland Signature items are that they:**

- **provide our members with high-quality products at the lowest possible price;**
- **are respectful of the people or animals who produce them; and/or**
- **are respectful of the environment in the way they are produced, grown, harvested, processed, transported and packaged.**

**To meet these goals, our buyers work with our suppliers to continually improve the quality of Kirkland Signature products, expand traceability, provide a fair return to people in the supply chain, and facilitate access to global or regional markets.**

## Traceability

Traceability is important for several key reasons. It enables Costco to know the quality and safety of the product; to examine issues of environmental impacts; to list product origin information on the label; and to help people in the supply chain receive a fair return, so that the product can succeed in the long term.

## Fair Return

A fair return in the supply chain is important; for Costco to be successful, its suppliers must thrive. This commitment helps to ensure long-term supply and quality while also using market-based approaches to address poverty and malnutrition. Costco believes a fair return is more than the price paid for the item. It includes programs that (1) support farmers/workers and their communities through training for higher yields, quality and adaptation due to climate change; (2) pay premiums for high-quality products; and (3) improve health, education, housing, clean water and nutritious food for farmers/workers and their communities.

## Continuous Improvement

We're working toward these goals one item at a time. Though there is still a way to go in certain areas to meet these goals, we are also encouraged by stories of success in the Kirkland Signature items to date. Below are some examples of Kirkland Signature products with corresponding programs that illustrate our long-term Kirkland Signature goals.



## COCOA

The majority of Kirkland Signature chocolate products are made from cocoa sourced through sustainable programs, some of which are from Costco's Sassandra Cocoa program. The Sassandra Program ("Program") is a partnership with Costco, Blommer and Olam, which began in October 2009 and is named after the Sassandra River in the southwest region of Cote d'Ivoire. This is the original location of the cooperatives from where we source our cocoa beans. This program is exclusive to Costco and is designed to provide quality product that is traceable, improve profits and livelihoods for the farmers/cooperative members, and introduce respectful environmental practices. It is audited annually by an independent third party. Highlights of the program include:

- Premiums of over \$11 million paid for quality product;
- Traceable cocoa;
- Improved production through financing and farmer training;
- No Child Labor training and monitoring programs;
- Environmental practices and GPS polygon mapping to reduce risk of deforestation;
- Cooperative development and training;
- Social infrastructure investment, which includes schools, health centers, maternity ward and community investments such as water



## HONEY

Costco understands that the honey bee population is experiencing multiple health threats. Honey bees are necessary for the pollination of approximately one-third of the food consumed, including many fruit, nuts and vegetables. Since 2012, Costco has invested over \$3.3 million in honey bee health by contributing a portion of its sales of Kirkland Signature Honey items to the nonprofit honey bee research organization Project Apis m. The projects that Costco supports focus on four areas:

- **Long-Term Stock Improvement**, which includes breeding and developing varroa resistant bees for a sustainable, chemical-free varroa control option, and maintaining a functioning and sustainable genetic repository for honey bee germplasm to safeguard the genetic integrity and diversity of honey bees against future health threats.
- **Apiculture Technology Transfer Teams** give U.S. beekeepers technical support in the field, survey honey bee health, and educate beekeepers about Best Management Practices. These teams save beekeepers money, prevent losses, and help to keep a finger on the pulse of bee health nationwide.
- **Ph.D. Scholarship Grants** in excess of \$500,000 to support the future of honey bee research. The next generation of bee scientists bring new ideas, skills, and dedication to the field of experts.
- **Seeds for Bees Forage Enhancement** puts blooming plants back on the agricultural landscape, helping bees get the nutrition they need to stay healthy, pollinate, and make honey – all while increasing soil health and water infiltration.

More information can be found in this *Costco Connection* article, our Pollinator Health and Chemical Reduction section, or on ProjectApis.org.



## PAPER PRODUCTS

Our goal is to have all Kirkland Signature paper products certified from well-managed forests. Many Costco paper products have been certified for some time and others are converting. Some examples include:

- 95% of Kirkland Signature Bath Tissue, Facial Tissue, Paper Towels and Napkins sold worldwide are FSC, PEFC or SFI certified.
- 100% of Kirkland Signature Parchment Paper sold worldwide is FSC certified.
- 100% of Kirkland Signature Gift Wrapping Paper sold worldwide is FSC certified.

More information can be found in the Wood, Paper and Fiber-based Products section.

- pumps and storage facilities; and
- Women’s empowerment through increased education, alternative income generating activities, village savings and loan programs, and community gender equality sensitization programs.

More information can be found in the Sassandra Program Summary and *Costco Connection* article.



## WILD ALASKAN SALMON PRODUCTS

In Alaska, the sustainable management of salmon is protected by the Alaska State Constitution and serves as a model for sustainability. Costco supplier Trident Seafoods maintains full ownership and control of the Alaskan salmon it provides to Costco.

Together Costco and Trident Seafoods have developed numerous products to maximize the utilization of every fish harvested, including items such as fresh salmon fillets flown directly to warehouses, Kirkland Signature skinless boneless canned pink and sockeye salmon, Wild Alaskan Salmon Burgers, Kirkland Signature Wild Alaskan smoked sockeye salmon, and Pure Alaska Omega™ Wild Alaskan Salmon Oil.



## COFFEE

Costco has numerous Kirkland Signature coffee items sourced from around the world. Some are Fair Trade Certified™, including Kirkland Signature K-cups. This certification reflects Costco’s commitment to source sustainably grown coffees and to maintain quality relationships with the farmers who supply it. Other coffee items are supported by sustainability programs that focus on farmer training, education, housing and/or health care.

Each item has a unique story. More information can be found about these programs in our *Costco Connection* article, Rwandan video, and Guatemalan video.

In addition, Kirkland Signature Ground Colombian coffee is nitrogen flushed, allowing for a lighter can, which in turn allows Costco to put fewer trucks on the road and to lower its carbon footprint.



## BABY WIPES

Costco is committed to providing members with products that are sourced in an environmentally responsible manner. Kirkland Signature Baby Wipes are made with biodegradable, renewable fibers derived from 100% plant-based materials sourced from FSC-certified forests. In addition, Costco supplier Nice-Pak® incorporates sustainable practices into the production process that reduces water, energy, CO2 and waste to a landfill.



## EXTRA VIRGIN OLIVE OIL

Since 1996, Costco has directly supported thousands of smallholder farms in Tuscany to make high-quality Kirkland Signature Toscano PGI Extra Virgin Olive Oil. Costco created a network of cooperatives with these growers to produce this olive oil. PGI stands for "Protected Geographical Indication," which signifies that every grower is registered and the number of trees and yields on each property are verified.

All olive oil is milled and then bottled and numbered in Tuscany under the strict guidelines of PGI to ensure traceability, authenticity and quality. The 2017 harvest celebrates the 21st campaign. It is designed to ensure superior-quality olive oil at a fair price to our members, while supporting the economic and social foundation of smallholder farms in this treasured area for the foreseeable future. We continue to expand our certified single origin olive oil offerings, and in 2017 added a variety of new oils, from Greece, Italy, and Spain. More information can be found on the Tuscan video.

In 2005, Costco began to sell 100% Kirkland Signature Italian Extra Virgin Olive Oil sourced from outside Tuscany, with numerous steps in place to trace the olives back to the trees. This traceability program is now certified by an independent third-party organization, with each bottle carrying an ISO-certified sticker. More information can be found on the Italian Olive Oil video.



## ORGANIC EGGS



## GASOLINE

Except for in Japan and Taiwan, Costco offers Kirkland Signature Gasoline, which has five times the EPA minimum requirements for detergent additives to help keep the engine intake valves and fuel injectors clear of harmful carbon deposits. Costco additives also clean up existing deposits. Clean engines run better, and thus deliver the fuel economy, performance and lower emissions benefits that modern engineering provides. Since Costco sells a lot of gasoline, this translates into millions of vehicle miles driven with lower emissions. More information about additives can be found at the Costco Gasoline page.

Station maintenance, equipment and design are all chosen to limit emissions arising from station operations, and to contain vapor. In addition, our stations have corrosion-proof, double-wall underground storage tanks and piping that are continuously monitored for leakage. Finally, our station attendants are trained and certified on safety and environmental issues.



## ORGANIC MILK

The Kirkland Signature Organic Milk program is offered to our members throughout the U.S. We have partnered with suppliers that provide high-quality milk at competitive prices. Learn more about one of these suppliers that also has an excellent animal welfare program and works with Costco to ensure a long-term supply of organic milk and feed. More information can be found on the Organic Milk Video.



## BED SHEETS

Our Kirkland Signature Bed Sheets are made from Pima cotton grown in the Central Valley of California. Through a patented technology, a program to test the traceability of cotton fiber through the entire supply chain has been established. This helps track the purity of the cotton and verify the manufacturing process from the fields to our shelves, ensuring higher quality. More information can be found on the Cotton Traceability video.

Costco has worked closely with a number of egg producers to source organic eggs across the U.S. We support several producers in converting conventional operations to organic: More information can be found in this *Costco Connection* article and Wilcox Farms video.

In 2010, Costco and its organic egg farmers partnered with the Sustainable Food Lab to estimate the greenhouse gas (GHG) emissions in the organic egg supply chain over a three-year period through the use of the Cool Farm Tool. The estimate showed that the highest GHG emissions were produced through feed, followed by transport and manure management. Once aware, these farmers started to take action to lower emissions, which were reduced over the three-year period by 14% for the entire supply chain. More information can be found in this case study.



## COCONUT WATER

Kirkland Signature Coconut Water is sourced from the Philippines, where over 30% of the country’s households derive their income from coconut. However, this income is low due to lower productivity. A portion of Costco sales supports the Hope in a Coconut program, which improves farmer incomes through the replanting of higher yield seedlings, intercrop training, education opportunities, and direct market linkages. To date, sales have helped to build 10 elementary school classrooms, with one using eco-bricks made from recycled water bottles. More information can be found in this summary of Costco’s - Hope in a Coconut program.



**Costco is committed to protecting the human rights, safety and dignity of the people who contribute to the success of our business. We also seek to support the welfare of the people who produce, process and harvest the products we sell.**



**SUPPLIER CODE OF CONDUCT**

Our suppliers and their facilities are subject to our Supplier Code of Conduct. This code is global in its scope, applies to all suppliers, and is derived from the policies, standards, and conventions of the United Nations (UN) and the International Labor Organization (ILO), as well as other leading independent standards such as the Responsible Business Alliance (RBA) and Worldwide Responsible Accredited Production (WRAP). The Code protects the human rights and safety of the people who produce, process and/or harvest the products we sell, while recognizing and respecting the cultural and legal differences found worldwide. To this end, Costco:

- Prohibits slave labor, human trafficking, illegal child labor, illegal prison labor, physical and sexual abuse, bribery or attempted bribery, and health and safety conditions posing immediate risk to life and limb.
- Expects our suppliers to comply, at a minimum, with the applicable labor and environmental laws and regulations of the country where the merchandise is produced.
- Encourages our suppliers to work to achieve “Above and Beyond Goals.”
- Allows suppliers to use legal prison labor, to support rehabilitation and restitution, under specific conditions, which are outlined in our Global Policy on Prison Labor.

To monitor compliance with our Code of Conduct, we selectively conduct independent third-party audits, based upon risk and prior audit results.

**STRATEGIC COLLABORATION**

Costco recognizes that collaboration with multi-stakeholder coalitions is key to addressing many of the issues facing our business. We have joined multiple efforts to help improve the working conditions of people within our supply chains. Some examples include:

**Shrimp**

Costco buys shrimp from Thailand, India, Vietnam, Indonesia, Mexico and the U.S. We helped organize and are an active member of the Seafood Task Force, which involves assessing the labor practices in the fishing industry. The Task Force includes representatives from Thai shrimp feed manufacturers, shrimp processors, certain major retailers in the U.S. and Europe, and nongovernmental organizations (NGOs). The Task Force has engaged with the Thai government and has set three primary objectives:

- Implement verification systems to trace fish supplied to the feed mills.
- Create and enforce a code of conduct for vessels sourcing fish for fish meal plants.
- Improve the sustainability of two of Thailand’s major fisheries that supply fish meal.

Costco is leading a subgroup of the Task Force to explore responsible labor recruitment. The group’s primary goal is to leverage the power of the membership to build demand for ethical recruitment practices throughout member supply chains.

**Confidential Ethics Hotline**

We have a global confidential ethics hotline to promote compliance with our Code of Ethics, our Supplier Code of Conduct, and other legal and ethical policies: [www.costco.ethicspoint.com](http://www.costco.ethicspoint.com)

**Agricultural Produce**

Equitable Food Initiative (EFI)  
Costco is part of a fresh produce multi-stakeholder effort – that includes farmers, suppliers, and NGOs to improve labor practices, environmental



## HUMAN TRAFFICKING

We recognize that human trafficking is a serious global problem and are taking steps to bring awareness and improvement to the issue. We also understand that sex trafficking (including the commercial exploitation of children), occurs in the hospitality industry and as such work with our Costco Travel suppliers to bring awareness to this issue. We also work with Truckers Against Trafficking to educate our fleet drivers, as well as other trucking service suppliers.

More information can be found in these statements:

[California Transparency in Supply Chain Act Disclosure](#)

[UK Transparency in Supply Chain Disclosure of the Modern Slavery Act](#)



## CONFLICT MINERALS

In response to human rights abuses in parts of Africa, Costco has adopted a Conflict Minerals Policy Statement. More information can be found in our Form SD and Conflict Minerals Report.

stewardship, and food safety – for the benefit of workers, agricultural communities, businesses, and consumers.

Costco pays a premium for this EFI-certified produce to compensate farmworkers for the extra effort they provide.

EFI also trains workers and managers in conflict-resolution and problem-solving strategies to promote continuous improvement and to comply with rigorous standards.

### Fair Trade

Costco and some of its produce suppliers continue to support a program with Fair Trade USA, which directly engages with farmworkers to promote sustainable incomes, safe working conditions, environmental stewardship, and strong, transparent supply chains. The Fair Trade model also empowers farmers and workers to fight poverty and to earn additional money with every sale to improve their communities. Through our direct engagement, farmworkers are provided with:

- Training on food safety and quality, labor rights, health and safety, and family financial planning.
- Improved communication and measurable impacts.
- Fair Trade premiums to help cover the cost of living.

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## Cotton

Costco is a signatory to the multi-stakeholder pledge promoted by the Responsible Sourcing Network concerning forced child and adult labor in Uzbekistan. We work to keep cotton produced by child and adult forced labor in Uzbekistan and Turkmenistan out of our Kirkland Signature™ items. We also collaborate with a multi-stakeholder coalition to raise awareness of this very serious concern and to press for its elimination. More information can be found in our Pledge Concerning Cotton.

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## Apparel from Bangladesh

Costco is a member of the Alliance for Bangladesh Worker Safety (“Alliance”), which was founded by a group of North American apparel brands, companies and retailers. The organization currently has members in the U.S., Canada, Australia and New Zealand that collectively source from more than 700 factories. The Alliance has one goal: To substantially improve worker safety in the ready-made garment industry by upgrading factories, educating workers and management, empowering workers, and building institutions that can enforce and maintain safe working conditions throughout Bangladesh.

To accomplish this, an important commitment of the Alliance is to build and fund the transition of knowledge from the technical engineering experts at the Alliance to the Government of Bangladesh (GOB). We support the Alliance as it transitions to a new Safety Monitoring Organization (SMO) at the end of 2018, which we expect to ultimately fold into the Remediation Coordination Cell (RCC) of Bangladesh for the garment industry.

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## Responsible Labor Initiative

As of 2018, Costco is a member of the Responsible Labor Initiative (RLI), which primarily focuses on promoting the rights of workers vulnerable to forced labor globally. This initiative represents another opportunity for Costco to join a diverse network of stakeholders focused on combating forced labor in our supply chains. Through our work with the RLI, we will continue to focus on leveraging industry-based efforts to drive significant impact on the ground where our products are sourced.



**Animal welfare is part of Costco’s culture and responsibility, calling us to serve as stewards of the animals, land, and environment entrusted to the company. Costco is committed to a global approach to Animal Welfare and is working toward a uniform program in all countries/regions where it operates, while respecting that each country may have its own regulatory and social requirements in place. More information can be found in the examples of Recognized Global Standards.**

**Mission Statement**

**Costco Wholesale is committed to the welfare, and proper handling, of all animals that are used in the production of products sold at Costco.**

**This is a long-standing commitment. Costco pledges its diligence in working with industry and academia in the pursuit of new and improved technologies and methods to further enhance animal well-being.**

**This is not only the right thing to do; but it also is an important moral and ethical obligation we owe to our members, suppliers, and most of all to the animals we depend on for products sold at Costco.**

**Costco supports the Five Freedoms of Animal Well Being as guiding principles for its Animal Welfare policies. Originally articulated by a committee of the British government in the 1960s (the Brambell Committee), it has been more recently espoused by Dr. Temple Grandin, a recognized expert on animal welfare. The five freedoms are:**

- **Freedom from fear;**
- **Freedom from discomfort (right environment, shelter and a place to rest);**
- **Freedom from thirst and hunger;**
- **Freedom to exhibit natural behavior; and**
- **Freedom from pain and suffering.**

**COLLABORATION WITH EXPERTS & SUPPLIERS**

In order to stay abreast of new technologies and methods and to try to harmonize various standards from around the world:

- Costco meets with experts from industry and academia to review, consult, and help implement our programs.
- Costco participates in activities with organizations such as PAACO, American Humane Association, the National Pork Board, the American Dairy Science Association, the National Chicken Council and the Center for Food Integrity.

**ANIMAL WELFARE TASK FORCE**

Costco’s Animal Welfare Task Force is made up of members from fresh meat buying, corporate and regional buying, animal welfare auditing, and global



**CAGE-FREE EGGS**

Costco is committed to procuring cage-free eggs and continues to increase the percentage of cage-free eggs its sells worldwide. In the U.S., Costco has increased its percentage of cage-free shell eggs to 89% as of September 2018. In addition, Kirkland Signature™ Liquid Eggs are 100% cage-free. The transition to cage-free eggs will continue to increase with

food safety. This past year the Animal Welfare Task Force worked on the following areas:

- Identifying key global target goals that will be outlined in Costco's Supplier Expectations for Animal Welfare, scheduled to be introduced in 2019.
- Continuing to benchmark with other industry groups to review best practices.
- Participating on the Coalition for Responsible Antibiotic Use being led by the Center for Food Integrity.
- Reviewing each animal welfare incident involving any Costco supplier. Audits of these facilities are immediately conducted and all supplier corrective actions are reviewed by the Task Force and actions are taken accordingly.

## ANTIBIOTICS

Costco Wholesale's goal is to control the use of antibiotics medically important to humans in its meat and poultry supply chains, consistent with protecting the health and welfare of our members and of poultry, hogs and cattle in our supply chains. Our policy is to limit application of these antibiotics to therapeutic use for the prevention, control, and treatment of disease and not, for example, for purposes of growth promotion or feed efficiency, and only under the supervision of a licensed veterinarian in a valid Veterinary Client Patient Relationship.

We will work with our suppliers and producers over the next two years to develop and apply protocols for assessing compliance with this policy, which may include (by way of example):

- requiring the provision of certificates or affidavits by producers;
- review of audits commissioned by producers and suppliers;
- audits commissioned by Costco Wholesale; and
- product testing.

On or before December 2020, we will:

- Set a target date by which compliance with the policy will be mandatory and monitored.
- Assess the feasibility of eliminating the routine use of medically important antibiotics for prevention of disease among supplier farms.

Application of this policy will be guided by our interpretation of Food and Drug Administration Guidance 209 and 213 Veterinary Feed Directive, which discontinues the use of medically important antibiotics for growth promotion and requires veterinary oversight of all medically important antibiotics.

## ANIMAL WELFARE AUDIT PROGRAM

Costco utilizes recognized audit standards and programs conducted by trained auditors and look at animal welfare both on the farm and at slaughter. The purpose of an audit is to gather current and accurate information concerning the overall welfare of animals.

This information is shared with members of the Costco food safety and technology group and buying staff. The audit results are used to determine what areas, if any, need improvement to meet the animal welfare criteria, for both existing and potential suppliers. The buying staff also uses this information to help make sound purchases for its members.

Audits apply to these two scenarios:

- On-farm audits. These inspect the welfare of live animals on the farm in their living environment. Currently these are conducted for the following species: chicken (egg-laying hens); dairy cows; pork; poultry (chicken and turkey); and veal.
- Slaughter audits. These take place at the plant where animals are slaughtered and processed for these species: beef, pork, poultry (chicken and turkey), and veal.

Audits can be conducted by Costco auditors, suppliers, and/or third parties. Audit type, frequency and intensity can vary across suppliers and species. Costco requires all animal welfare auditors to be certified. This requirement

added availability and capacity of cage-free production.

## POULTRY

- Costco requires animal welfare audits at slaughter in accordance with the National Chicken Council (NCC) Recommended Animal Handling Guidelines.
- Costco also audits hatchery and grow-out facilities.
- Costco implements animal welfare audits for laying hens.
  - Audits can include American Humane, Certified Humane and UEP Audits.
  - Audits now extend in varying degrees to conventional cage, cage-free and organic housing systems.
- Costco has introduced the Costco Hen House Audit in the U.S. This audit tool promotes a sense of responsibility and accountability to the supplier, and provides a means for annual barn evaluations.
  - Suppliers are required to audit each house twice a year using the Costco Hen House app platform. The results are automatically transmitted to Costco upon completion.
  - The app-based system gives pictorial examples for how to score each question when needed.
  - The app also requires the supplier to submit photo documentation for each question along with the answer when applicable.



## DOWN & FEATHERS

Costco has committed to responsible down sourcing. Costco now requires a certification to be present with all Costco production of down and feather products. Costco accepts certifications from IDFL (International Down and Feather Lab), Downpass or RDS (Responsible Down Standard).

Compliance to these standards ensures ethical sourcing of down and feathers through the verification of supplier traceability systems, general animal welfare, risk assessment and other important best practices.



## PORK

- Costco implements the Pork Quality Assurance Plus program. This is a producer-driven program that farmers can use to ensure that pork products are of the highest quality, are safe, and animals are cared for in a way that ensures their well-being.

applies to all species and all audits.

Organic certification in certain respects also includes animal welfare components. Costco sells large quantities of organic items derived from animal products, and these items are required to be certified organic in accordance with the law.



BEEF

- Costco requires animal welfare audits at slaughter in accordance with the American Meat Institute Recommended Animal Handling Guidelines.

DAIRY

- Costco requires animal welfare audits at the farm level. Costco works primarily with third-party audit providers; but continues to work with the Dairy Quality Center to implement second-party dairy audits. The mission of the Center is to establish a third-party veterinarian, outcome-based program that recognizes sustainable practices in place and guides change on the dairy through training, sound protocols and a valid veterinarian/client relationship.
- Costco works with larger cooperative suppliers that utilize the FARM Program to increase the frequency of third-party verification. The National Dairy FARM Program (Farmers Assuring Responsible Management) seeks to provide consistency and uniformity to best practices in animal care and quality assurance in the dairy industry.
- Costco does not support tail docking and has actively sought to use suppliers who do not allow this practice. Current suppliers do not practice tail docking.
- Costco requires its suppliers to implement standards regarding age and pain management as it relates to dehorning practices.
- Costco strongly supports advances in dairy farming practices to include the use of genetic breeding programs to promote polled cattle (naturally hornless). Costco believes this will benefit the welfare of the cows and of the farmers who care for them by eliminating the need for dehorning. Costco recognizes that through the years its suppliers have embraced new ways to improve the welfare of the animals in their care. Costco expects suppliers to continue to seek improvements that promote good animal health and well-being.

VEAL

- Costco has a specific veal policy to promote calf welfare.
- All Costco veal is completely traceable to the farm level and all farms are 100% inspected for compliance to the requirements.

- Costco has a Gestation Crate Policy that asks suppliers to phase out gestation crates for pregnant sows in favor of group housing. The goal is a complete transition by 2022. Approximately 80% of Costco suppliers have completed this process, and many more will finish ahead of this target date.

Risk Factors

\*Costco also recognizes that the subject of animal welfare is significant for a number of its members and investors. See below for full text

\*In addition to focusing on animal welfare because it is the right thing to do, Costco believes failure to do so would create risks for the business and its shareholders. Costco and businesses like Costco face risks relating to animal welfare in the supply chain. To address these risks, Costco has adopted measures to mitigate animal abuse problems and believe these are being dealt with appropriately. Nevertheless, issues will arise and Costco is committed to correcting problems it learns of. A significant percentage of Costco sales is from food, including food and sundries, fresh foods, service delis, and food courts. Key components of these categories are animal proteins, notably beef, chicken and eggs, pork, and lamb. The failure to provide adequately for the welfare of animals

throughout Costco's supply chain could have significant adverse effects on the business and operations of the company and its investors. These effects could occur whether the abuse was to occur under the auspices of Costco's supplier of record or other points upstream in the supply chain. These abuses could take a variety of forms, including (without limitation) cruelty or mistreatment by employees, inhumane conditions of confinement, inappropriate use of animal controls or medications or antibiotics, and inadequate feed or water. Prevention of abuse can require extensive, complicated, and expensive controls and procedures. For example, in the context of poultry, standards can require, among other things, extensive animal rights training, regular extensive animal rights audits; alarm systems and generators in the hatcheries; sanitation procedures in the hatchery; temperature monitoring, housing, and ventilation standards; chick injury reporting, feed, and drinking programs; veterinary care; minimum cage space; and proper handling procedures in the plant. Different species have varying requirements to assure animal welfare. Controls and procedures designed to assure or improve animal welfare can lead to increased costs and lower supply or untimely supply of merchandise. It is possible that animal abuse could result in suppliers selling Costco items derived from those animals that are unsafe or otherwise unsuitable for consumption by members or their pets. Although Costco employs food safety testing systems designed to prevent the sale of such items, it cannot guarantee that those systems will always be effective. Selling unsafe products could result in illness or injury to members and their pets, harm Costco's reputation, and subject the company to litigation. If food and prepared food products for human and animal consumption do not meet or are perceived not to meet applicable safety standards or members' expectations regarding safety, Costco could experience lost sales, increased costs, and be exposed to legal and reputational risks. Costco suppliers are generally contractually required to comply with applicable product safety laws, and Costco is dependent on them to ensure that the products Costco buys complies with all safety standards. While Costco is subject to governmental inspection and regulations and works to comply with applicable laws and regulations, it cannot be sure that consumption or use of products will not cause a health-related illness or injury or that Costco will not be subject to claims, lawsuits, or government investigations relating to such matters resulting in costly product recalls and other liabilities that could adversely affect the business and results of operations. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that Costco products caused illness or injury could adversely affect its reputation with existing and potential members and the corporate and brand image, and these effects could be long term. Costco suppliers (and those they depend upon for materials and services) are subject to risks should they not assure animal welfare that could limit their ability to timely provide Costco with acceptable merchandise. For these or other reasons, one or more Costco suppliers might not adhere to its quality control, legal or regulatory standards. These deficiencies may delay or preclude delivery of merchandise to Costco and might not be identified before Costco sells such merchandise to members. This failure could lead to litigation and recalls, which could damage Costco's reputation and brands, increase costs, and otherwise adversely impact business. Costco and some of its suppliers and sub suppliers face pressure from animal rights groups to require conformity with standards developed or advocated by these groups. Failure to make the changes sought by these groups, whether or not Costco believes the changes to be desirable for animals or business, creates risk that Costco will be subject to pressures from these groups, including public campaigns that seek to damage the company in the eyes of members, investors, and the general public. These campaigns could cause Costco to incur higher costs to provide appropriate responses and also could divert management resources, to the detriment of the business. These groups may be able to coordinate their actions with other groups, threaten boycotts or enlist the support of well-known persons or organizations in order to seek to increase pressure to achieve their stated aims. Changing procedures and infrastructure to, in certain cases, conform to these guidelines or seeking to cause or suppliers and/or sub suppliers to change procedures and infrastructures can result in additional costs for Costco suppliers and the costs of items that Costco purchases. Campaigns and publicity concerning animal abuse, whether in the company's supply chain or elsewhere, also could lead to legal and regulatory changes that impose more stringent requirements concerning animal welfare, which could have the effect of reducing available supply and raising prices, increasing costs for Costco. While Costco may pass some of the increased costs on to members, there is no assurance that Costco can do so and profitability could suffer accordingly. Individuals or organizations can use social media platforms to publicize inappropriate or inaccurate stories or perceptions about the food production industry or Costco. Such practices could cause damage to the reputations of Costco or the food production industry in general. Animal welfare abuses in our supply chain could lead to individuals choosing not to become Costco members and to current members canceling their membership or purchasing less merchandise, adversely affecting revenue. All of the factors above arising out of the failure to assure animal welfare in the supply chain, singly or potentially in combination, could adversely affect Costco's business, financial condition and results of operation.

Last Updated: December 2018



**Costco’s Chemical Management Policy helps to protect the health and safety of our members and the environment by establishing and developing products and processes that are safer, healthier and more sustainable. We strive to go beyond the boundaries of regulatory compliance, in an effort to reduce or remove potential chemical harm to humans and to the environment. We recognize that this will be an area of continuous improvement for us as new rules, regulations and testing protocols are introduced.**

**Costco will continue to provide guidance for preferred chemical choices by product category through collaboration with its suppliers. We encourage suppliers to understand which chemicals are used in their products in order to:**

- identify chemicals of concern (utilizing comprehensive testing programs);**
- remove or apply the process of informed substitution for any identified chemicals of concern;**
- identify ways to change their manufacturing processes to reduce hazardous chemical use; and**
- review and attain qualified third-party green certifications.**



**CHEMICAL TESTING**

Costco tests many different consumer product categories worldwide for the chemicals regulated in the countries where we do business.

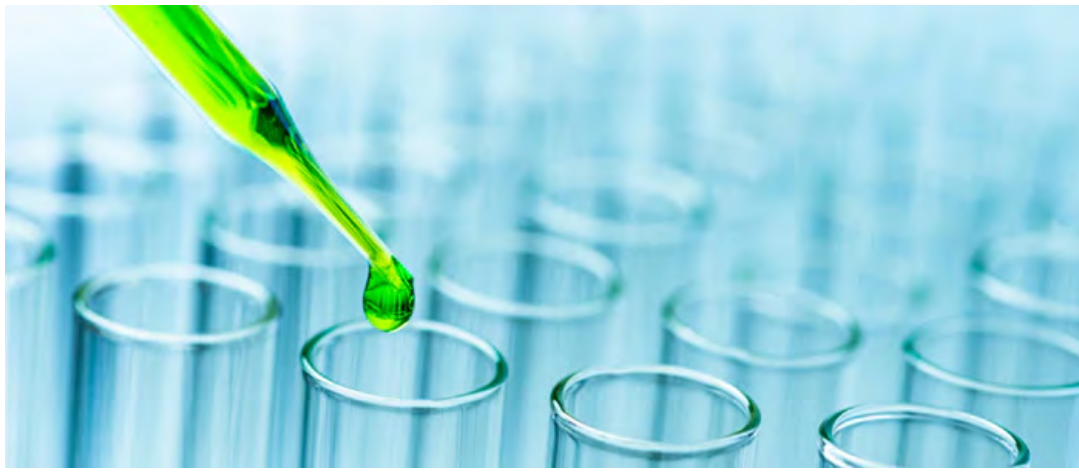
- Examples of product categories tested include toys and other products intended for children, food use, furniture, electrical, apparel, and home textiles.
- Examples of regulated chemicals include soluble heavy metals, heavy metals found in surface coating, Substance of Very High Concern (SVHCs), formaldehyde, flame retardants, dyes, phthalates, BPA and many others.
- Costco continually reviews and updates the Global Costco Restricted Substance List (RSL) to keep up with the ever-growing global regulatory chemical restrictions in consumer products.



**TEXTILES**

The Costco Smart Screening Program also includes textiles. This portion of the testing program is based on the Apparel and Footwear International RSL Management (AFIRM) Working Group.

- The AFIRM Restricted Substance List (RSL) has been adopted with third-party testing labs performing testing for Costco’s textile and footwear products. Examples of products tested include apparel and footwear, sporting goods, luggage, handbags, and home textiles like blankets, sheets, rugs, and towels. More information can be found at the AFIRM website.
- Costco encourages its textile suppliers to implement in their supply chains the Zero Discharge of Hazardous Waste (ZDHC) Manufacturing Restricted Substance List (MRSL). More information can be found at this site.
- Costco recognizes and accepts the STANDARD 100 by OEKO-TEX® certification into its Smart Screening Program which aims to provide safe, traceable and sustainable products. The program is designed to protect consumer and environmental health by removing chemicals of concern (COCs) from the products and their components. The STANDARD 100 by OEKO-TEX® is an independent verification that products have been tested for harmful substances. More information can be found at the OEKO-TEX® website.



## COSTCO SMART SCREENING PROGRAM

Besides testing per regulatory requirements, Costco works with major third-party laboratories to identify and reduce chemicals of concern in different product categories, which we call the Costco Smart Screening Program. In September 2017 Costco established a Green Chemistry management team in partnership with the Berkeley Center for Green Chemistry at the University of California at Berkeley. This partnership helps to guide Costco's strategic plan for managing chemicals of concern within its supply chain. Under this program:

- Many products in numerous categories are tested. Examples include: children's and adult apparel, bedding, home textiles, pet beds, furniture, luggage, handbags, sporting goods, personal care products, cleaning products, Kirkland Signature™ food packaging, non-foods packaging, Kirkland Signature Baby Wipes, and Kirkland Signature Diapers.
- We work with the chemical and consumer product industries to increase our understanding and to find more environmentally friendly alternatives for chemicals and practices of concern.
- Costco audits product specifications for many products provided by suppliers and physically tests these products. This program utilizes independent third parties to pull samples of consumer goods during Costco production to conduct analytical tests for both regulated chemicals and chemicals of concern (COCs) that are not restricted by law.
- The Costco Smart Screening protocols are used to perform physical testing against a list of over 300 COCs, including those from the EU REACH Substances of Very High Concern (SVHC) program, and the U.S. Toxic Substances Control Act (TSCA). These items also are tested against the State of California Proposition 65 list of chemicals of concern.
- Costco partners with its suppliers to review results and help them find qualified resources to assist in removing chemicals of concern from their items. The Smart Screening Program also provides information for suppliers to use to develop safe replacement chemicals and processes.
- Examples\* of common chemicals of concern:
  - Alkylphenol & Alkylphenol Ethoxylates
  - Azo Dyes (24 Amines)
  - Blue Colorants
  - Carcinogenic & Allergic Disperse
  - Chlorinated paraffins (C10-C13) (SCCP)
  - Chlorinated paraffins (C14-C17) (MCCP)
  - Chromium VI (Cr VI) content
  - Dyes And Other Dyes (29 Dyes)
  - Extractable Heavy Metals
  - Flame Retardants
  - Formaldehyde
  - Hexavalent Chromium Polychlorinated Biphenyls (PCB)
  - Nickel (Ni) release
  - Organotin Compounds
  - Per and Polyfluoroalkyl Substances
  - Phthalates
  - Polychlorinated Biphenyls (PCB)
  - Polychlorinated Phenols
  - Polycyclic Aromatic Hydrocarbons (PAHs)
  - Tin-screening test for organotins



## PACKAGING

The labeling and packaging of Costco items are tested for chemicals of concern as follows:

- Products that are part of the Costco Smart Screening use the AFIRM Group packaging RSL. Examples of packaging components include paper, wood, cartons, stickers, plastic wrap, finishing dyes, inks, coatings, metal, tape, textiles and desiccants. More information can be found at the AFIRM website.
- Labeling and packaging for Kirkland Signature foods items also are required to participate in the Costco Smart Screening testing program.
- Additionally, for products not participating in the Costco Smart Screening program, many are still tested to meet US and EU heavy metal testing requirements.



## CHEMICALS USED IN AGRICULTURE & HORTICULTURE

Costco is also concerned about the chemicals applied to live goods/plants, fruit and vegetables, and we have recently updated our Pollinator Health Policy to address this topic.

- We encourage suppliers to limit the use of all non-essential chemicals, to utilize eco-friendly methods of pest and disease control, and to incorporate Integrated Pest Management (IPM) strategies and other creative solutions that use the least toxic alternatives.
- Suppliers are encouraged to phase out the use of neonicotinoids and chlorpyrifos, unless otherwise mandated by law and when necessary to avoid regrettable substitutions.
- Costco seeks to partner with suppliers that share our commitment to pollinator health and IPM, and are making reasonable progress in a timely manner. More information can be found at Pollinator Health & Chemical Reduction section.

- Total Cadmium (Cd) content
- Total Lead (Pb) content (substrate and surface coatings)
- Total Mercury (Hg) content
- Volatile Organic compounds (VOCs)

\* This list is not all inclusive

- Suppliers of Non-foods Kirkland Signature products are required to provide to Costco ingredients on packaging, on their website, or with a third-party chemical management tool.
- Suppliers of Non-foods branded products are encouraged to provide to Costco ingredients on packaging, on their website, or with a third-party chemical management tool.
- Costco trains its buyers and suppliers worldwide on the process, expectations, and their progress for the packaging and the product.
- In fiscal year 2018 we performed over 5,000 individual product tests and when chemicals of concern were identified, we worked with our suppliers to either remove or reduce these chemicals.



The two primary objectives of our seafood sourcing policy are:

- Continually source sustainable seafood products from either wild fisheries or farmed aquaculture in ways that meet current demands without compromising the availability of scarce resources for future generations.
- Consider these factors when sourcing seafood: the condition of fish stocks (biomass); the protection of and respect for the marine, coastal, and freshwater ecosystems; governmental and regulatory agency guidelines; and practices that will mitigate or limit environmental impacts associated with aquaculture and fishing practices. As science and industry evolve, we will continue to refine these global policies.



WILD SPECIES

We do not sell certain wild species that have been identified at great risk, unless our sources are certified by the Marine Stewardship Council (MSC). Currently, those species are:

- Atlantic cod
- Atlantic halibut
- Chilean sea bass
- Greenland halibut
- Grouper (*Epinephelus morio*)
- Orange roughy
- Redfish
- Shark
- Skates and rays
- Swordfish
- Bluefin tuna

If we decide in the future to rely on other certifying organizations and/or other credible sources that report on the status of these or other species relative to their sale, we will disclose their identity and disclose that certification and/or verification on the packaging.

We continue to examine whether there are other species that we should cease to sell because of documented concerns of risk for the species or habitat. Beginning with the 2019 fishing season and until further notice, we will not sell Wild King Salmon (also known as Chinook Salmon) sourced from the Salish Sea (formerly known as Puget Sound), due to documented



CANNED TUNA

Our major canned tuna suppliers are participants in the International Seafood Sustainability Foundation, which is undertaking science-based initiatives for the long-term conservation and sustainable use of tuna stocks, reducing bycatch and promoting ecosystem health.



AQUACULTURE

We believe that farmed seafood should be an integral part of our business, that aquaculture is a critical source of affordable protein now and in the future, and that farming can be done in a sustainable, responsible manner with reduced impacts on the environment and local communities.

Shrimp

Costco has been an active participant in the implementation of the Aquaculture Stewardship Council (ASC) shrimp standards from the early stages. These global, performance-based standards help to minimize key

concerns related to its decline.



### FISHERY IMPROVEMENT PROJECTS

Fishery Improvement Projects (FIPs) are alliances of stakeholders—retailers, processors, suppliers, producers and/or catchers, government, NGOs, and academia—that work to resolve aspects of the fishery that do not currently meet the MSC standard. The FIP process works through the stakeholders to:

- Discuss management of the fishery and the challenges that it may face.
- Agree on a set of actions that should be undertaken to improve the fishery so it can meet the MSC standard.
- Work collaboratively to implement the actions and track progress.

For fisheries that do not currently meet the MSC standard, we encourage industry members to participate in FIPs. Costco supports FIPs through participation in FIP meetings, letters to governments and/or fisheries participants, and financial contributions. Fisheries and industry members that are actively engaged in making continued progress in a FIP and demonstrate good management through the supply chain receive strong consideration in our purchasing decisions. Costco is working directly on the following World Wildlife Fund (WWF) sponsored FIPs:

- Honduras lobster
- Nicaragua lobster
- Bahamas lobster
- Peru mahi
- Ecuador mahi
- Vietnam blue swimming crab
- Thailand blue swimming crab
- Vietnam tuna

Costco or Costco suppliers also purchase product from these fisheries. Over time our sourcing from individual FIPs will vary, depending on market conditions and other factors.



### Bahama Spiny Lobster Fishery Success Story

Costco has been supporting the WWF sponsored spiny lobster FIP in the Bahamas. In 2018, through the hard work of our lobster suppliers, the Bahama spiny lobster fishery was certified by the Marine Stewardship Council (MSC) to meet its standards. More information can be found on this FIP success story video.

negative environmental and social impacts of shrimp farming. Our goal ultimately is to source farmed shrimp only from suppliers that have been certified under ASC standards. This goal has been partially achieved and we are actively engaging to transition more shrimp farms to reach the ASC standard by working with our suppliers and World Wildlife Fund to develop and implement Aquaculture Improvement Projects (AIPs).

Costco is also a founding member of the Seafood Task Force, which aims to drive measurable social and environmental change in the seafood industry through greater supply chain accountability, verification and transparency. While its current focus is Thailand, it is building models that are scalable for use in other countries at a later date.

### Salmon

We are working with our suppliers to implement the ASC salmon standard representing years of collaboration among the industry, its customers and nongovernmental organizations. Our goal is to source farmed salmon only from suppliers that have been certified by the ASC standard. This goal has been partially achieved, and we are actively engaging to transition more salmon farms to reach the ASC standard by working with our suppliers and the World Wildlife Fund to develop and implement Aquaculture Improvement Projects (AIPs). AIPs in Chile have focused on key issues such empowering local communities in salmon farming areas to better engage with companies on issues that impact them.

Costco does not intend to sell genetically modified salmon.

### Pangasius

We are also working with our suppliers concerning implementation of the ASC Pangasius Standard. Our goal is to source pangasius only from suppliers that have been certified under the ASC standards. This goal has been largely achieved.

### Tilapia

A five-year effort led to the development of the ASC tilapia standard completed in 2009. Currently, all tilapia sold at Costco is from suppliers that are ASC certified. One of our suppliers is Regal Springs. Click here for information related to Regal Springs and their sustainability efforts. More information can be found in our *Costco Connection* article.





**Costco understands that it has a responsibility to source its products in a way that is respectful to the environment and to the people associated with that environment. Our goal is to help provide a net positive impact for communities in commodity-producing landscapes, by doing our part to help reduce the loss of natural forests and other natural ecosystems, which include native and/or intact grasslands, peatlands, savannahs, and wetlands.**

We want to work with suppliers and others to support good land stewardship practices that also respect the autonomy and property rights of the landowner; are outcome-based rather than prescriptive; and respect the ability of rural people and their communities to thrive while serving as stewards of the land. Good land stewardship practices include, but are not limited to:

- avoiding deforestation and conversion of natural ecosystems;
- conserving or restoring natural ecosystems;
- protecting High Conservation Value (HCV) and High Carbon Stock (HCS) forests;
- ensuring free, prior and informed consent of indigenous people;
- respecting basic human rights;
- avoiding pollution;
- protecting water resources;
- protecting from harmful chemicals;
- protecting, restoring and promoting soil health; and
- supporting the increased healthy production-efficiency of lands currently in production.

We understand this is a very complex area with many stakeholders of varying sizes, cultures, perspectives and land conservation practices. It will take a phased approach of continuous improvement over time to reach these goals. We cannot do this alone and will depend upon the insight, experience and wisdom of our suppliers and others. We also acknowledge that as we learn more, our goals may change.

Below are some examples of our current initiatives:



## PALM OIL

### Palm Oil Policy

Costco is a member of the Roundtable on Sustainable Palm Oil (RSPO) and is committed to ensuring that the palm oil contained in Kirkland Signature™ products is responsibly and sustainably sourced.



## POLLINATOR HEALTH & CHEMICAL REDUCTION

Pollinator health is a complex issue, which we are addressing in numerous ways. We understand that the honey bee population is declining due to pests, pathogens, pesticides, and poor nutrition. These bees are necessary for approximately one-third of the pollination of the food we consume, including many fruits, nuts and vegetables.

### Research Support

We have invested over \$3.3 million for honey bee research with Project Apis m.. More information, can be found at the Kirkland Signature Honey section.

### Chemical Use Reduction

Costco has updated its Pollinator Health policy and expanded the scope to include suppliers of live goods (garden plants), fruit and vegetables. Costco encourages them to limit the use of all non-essential chemicals, to utilize eco-friendly methods of pest and disease control, and to incorporate Integrated Pest Management (IPM) strategies and other creative solutions for the use of least toxic alternatives. Suppliers are encouraged to phase out the use of neonicotinoids and chlorpyrifos, unless mandated otherwise by law and when possible to avoid regrettable substitutions. Costco seeks to partner with suppliers that share our commitment to pollinator health and IPM, and make reasonable progress in a timely manner.

### Bee Friendly Agricultural Practices

We work with our fresh produce and almond suppliers to encourage the planting of buffer zones to benefit pollinators. Our support of the Seeds for Bees program of Project Apis m. puts blooming plants back on the agricultural landscape, helping bees get the nutrition they need to stay healthy, pollinate, and make honey while increasing soil health and water

Our goal is that all palm oil used in Kirkland Signature products will be 100% RSPO certified (or equivalent) by 2021 or sooner. We continue to work with suppliers to meet this goal and our progress is as follows:

| Calendar Year | RSPO Certified |
|---------------|----------------|
| 2017          | 51%            |
| 2018          | 82%            |

More information can be found in our Palm Oil Policy and the Annual Communication of Progress (ACOP) 2018 filed with RSPO.

Collaboration and Smallholder Engagement

In 2017, Costco completed a 14-month partnership project with IDH Sustainable Trade Initiative, Winrock International and Cargill to develop a draft Protocol for Oil Palm Independent Smallholders for Sustainable and Responsible Management of Peat Areas.

In 2016, Winrock led a series of meetings and workshops with smallholders, government representatives, researchers, NGOs and other stakeholders to develop a draft protocol that sets forth a step-by-step program to manage peatlands in a sustainable manner, increase market access for smallholders and reduce greenhouse gas emissions. It was field-tested with collectors, palm mills and farmers in Siak regency, Riau Province, Indonesia. With their input it was further revised and then presented at a national seminar for additional feedback and dissemination of information. Now it is being shared with other organizations to promote implementation and alignment. The goal is to make it available to all stakeholders to serve as a sustainable guideline for smallholders to preserve peat areas.



WOOD, PAPER & FIBER-BASED PRODUCTS

Costco is committed to sourcing its wood, paper and fiber-based products from certified well-managed forests, which can include certifications from the Forest Stewardship Council (FSC), Sustainable Forestry Initiative (SFI) or Programme for the Endorsement of Forest Certification (PEFC). The certification is dependent upon numerous factors, some of which include the current available supply for each product, the geographic origin of the product and the country where the product is produced. These certifications help to ensure that the needs of the forest ecosystems and their communities are balanced with conservation of our forests for future generations.

Wood Products

After a 10-year moratorium on teak, in 2015 we began selling a limited amount of outdoor teak furniture that was 100% Forest Stewardship Council (FSC) certified. Today, all teak sold at Costco is 100% FSC-certified.

Costco has expanded FSC certification to other species of solid wood products, including FSC-certified cedar wood playsets, gazebos, and pavilions.

infiltration.

Expanded Product Selection

Costco now sells a number of organic and alternative gardening products, which contain natural and/or organic elements.

We are also significantly expanding our selection of organic products in our warehouses, which in turn supports pollinator health.



ORGANICS

Organic farming contributes to healthy land stewardship. Costco's selection of organic products continues to grow worldwide to meet members' demands. Examples include fruit, vegetables, meat, eggs, cheese, milk, butter, grains, nuts, coffee, tea, juice, wine, beer, spices, oils, sauces and snacks. Some are local to the individual geographic region and others are offered worldwide.

We have many excellent suppliers that help us grow and expand our organic offerings. One example is Earthbound Farms that grows various produce items using field practices to support soil health, promote natural pest management and weed control, and improve food safety. Where it makes sense we work with suppliers and growers to support the conversion of conventional supplies to organic.

A key component of the sustainable growth of protein organics, such as eggs, chicken, beef, pork, etc., is organic feed. Costco works with its suppliers and their feed suppliers to learn the impact that this growing demand for feed has on farmers' future security, yields and income.



GREENHOUSE GROWN

Greenhouses are another form of sustainable agriculture that we are exploring with our suppliers. One example is Windset Farms that grows tomatoes in greenhouses through sustainable practices that include water and energy conservation, the use of renewable energy, and recyclable packaging.

Paper Products

Our goal is to have all Kirkland Signature paper products certified from well-managed forests. Many have been certified for some time and others are converting. Some examples include:

- The *Costco Connection* magazine and Multi Vendor Mailers are certified either FSC, PEFC or SFI.
- In 2018, Costco began in earnest to work with all of our suppliers to continue to convert Kirkland Signature paper products to certified programs. As of the end of fiscal year 2018, 95% of Kirkland Signature paper products are from certified well-managed forests, which include FSC, SFI or PEFC. More information can be found at the Kirkland Signature section.
- The receipt register tape used in some gas stations and sold by Business Delivery is FSC certified.
- We continue to offer more recycled content products and packaging in paper goods at Costco Business Centers and online Business Delivery.
- Kirkland Signature Baby Wipes are made of 100% plant-based materials sourced from FSC-certified forests. More information can be found at our Kirkland Signature section.

Fiber-based Packaging

Our packaging goals are to reduce the amount of packaging, while still protecting the product's integrity. Fiber for paper-based packaging should come from known sources, should be procured legally and should not contribute to deforestation. Because there is a limited supply of certified fiber, we highly encourage the use of recycled content whenever possible. More information can be found at the Packaging section.



COCOA

Our Kirkland Signature chocolate products are made from cocoa sourced through sustainable programs, including the Sassandra Cocoa program, which has implemented the following programs to reduce the risk of deforestation:

- 1.1 million hybrid high-yielding seedlings have been distributed, enabling 2,100 farmers to replant a total of 1,100 hectares.
- 28,000 *Gliricidia* cuttings and 15,000 forest trees have been distributed to provide a natural source of nitrogen and serve as shade trees, respectively.
- 9,750 farmers have been trained in pre-/post-harvest techniques and integrated pest management to improve yields and quality on currently cultivated land.

More information can be found at the Kirkland Signature Cocoa section.



FRESH CUT ROSES

In fiscal year 2018, Costco sold over 10 million cut rose heads, sourced mainly from Colombia and Ecuador. Our roses are certified by the Rainforest Alliance, which means that our rose suppliers meet standards to protect ecosystems and wildlife habitats, conserve water and soil, promote decent and safe working conditions and ensure that the farms are good neighbors to rural communities and wildlands. Suppliers also support the local communities through scholarship programs and child care centers.



PROTEIN

Costco is a member of the U.S. and Canadian Roundtables for Sustainable Beef, with a mission to advance, support and communicate continuous improvement in the sustainability of U.S. and Canadian beef production by educating and engaging the beef value-chain through a collaborative multi-stakeholder effort.

Costco, in partnership with others in the U.S., is exploring how it can support ranchers to evaluate their management practices with key indicators linked to economic, social, livestock and environmental outcomes.

Costco is also growing its selection of plant-based proteins as an alternative protein offering to its members.



- Now used as content for Kirkland Signature™ salt and pepper refillable grinders. The grinder top is now removable to allow the grinder to be refilled and reused, and to allow the container to be recycled.

### Recycled PET (rPET):

- Many items in the produce and other fresh food departments are made from recycled water bottles, which can be recycled in communities where PET recycling is available. Examples include: Kirkland Signature Cage-free Eggs 24 pack and Kirkland Signature Water.

### Polystyrene Replacement:

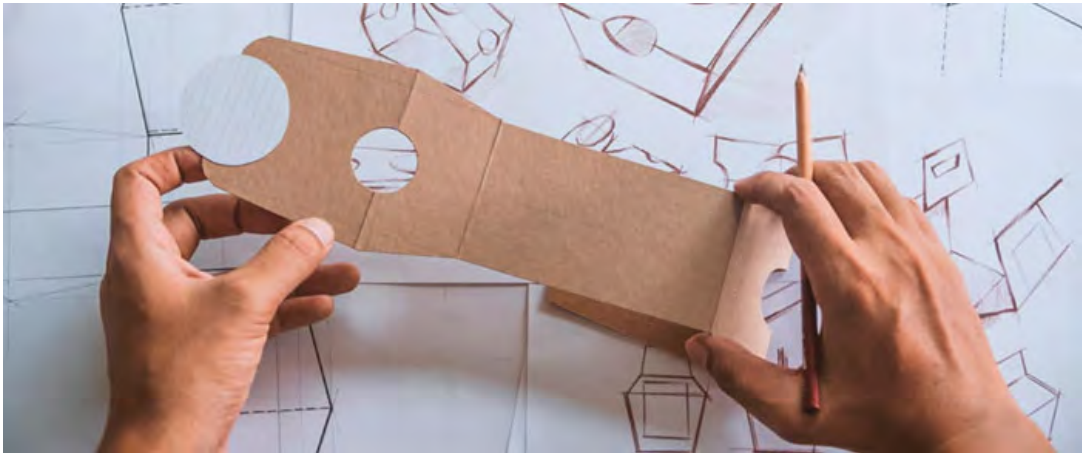
- Costco is eliminating expanded polystyrene (commonly known as Styrofoam®) from inner packing materials and replacing it with recyclable or compostable fiber-based options.
- Costco switched the fresh chicken packaging from polystyrene trays to saddle-pack bags. This solution uses less plastic and allows more efficient packaging.



### FIBER-BASED & CORRUGATED PACKAGING

As with all packaging, our first goal is to reduce the amount of packaging while still protecting the product’s integrity.

- Fiber used for paper-based packaging should come from known sources, should be procured legally from well-managed forests and should not contribute to deforestation. More information about Costco’s deforestation goals, can be found in the Environmental Impacts and Land Stewardship page
- Costco recognizes that there is a limited supply of certified fiber, so it encourages the use of recycled content whenever possible.
- A good portion of corrugated shippers and trays contain recycled content and are beginning to label as such.



### INNOVATION, REDESIGN & OPERATIONAL EFFICIENCIES

Costco continues to look for ways to improve the design of its packaging to reduce the amount; improve efficiency of packaging; improve operational efficiencies in order to reduce the packaging footprint; and reduce costs. Some examples include:

- The redesign of PET jars from round containers to square tubs allows more items to fit on a pallet, reducing labor costs and creating efficiencies on the warehouse floor.
- The Kirkland Signature Milk program utilizes a square bottle that allows items to be placed on a pallet and more goods to be shipped in

Costco has increased its focus on labeling. It understands that in order to help members to recycle better, product packaging labels need to be more effective. Several programs have been adopted to help with this process, which include:



- Costco recently joined the How2Recycle® label program, a U.S.-based recycle label standardization program. The How2Recycle label identifies each part of the packaging and how to recycle for optimum recovery.



- Costco began applying labels to food and beverage cartons to support the U.S. Carton Council initiative to drive more recycling of these packages. Cartons are used to package a number of products, including Kirkland Signature Organic Chicken Stock, Organic Milk, Coconut Water, Organic Chocolate Milk, Juice Boxes and many other shelf-stable beverage cartons.
- Additionally, Costco has increased recycle labeling of seasonal merchandise packaging for holiday and decor items.



### COMPOSTABLE PACKAGING

Costco recognizes that single-use plastic is a worldwide concern and is exploring opportunities to replace those items with alternative materials by:

- Continuing to expand the use of compostable packaging, replacing straws and food service packaging in some locations with compostable materials.
- Exploring replacing straws with redesigned lids in some locations.
- Using compostable fresh meat packaging in Mexico and in some U.S. locations.

a single delivery. In addition, the cardboard box that previously held two traditional milk jugs was eliminated.

- Costco also increased the product count of many of multi-packs, such as water and other beverages. This provides more servings per sell unit, reduces the number of shopping trips and provides a better value. The cardboard tray inside many beverage packs also has been eliminated.
- Costco sells goods directly out of the boxes they are shipped in, then reuses those same recyclable boxes at the register by offering them to members in lieu of shopping bags. Boxes that don't get used by members are recycled in-house. More information can be found in the Waste Stream Management section.
- In Canada, Costco is part of a closed-loop success story. Costco recycles corrugated shippers and trays with Cascades, which converts them into new packaging products. Some of these products find their way back into Costco warehouses, either directly as Costco branded products or as national branded products. Once their useful life is over, these corrugated shippers and trays go back into the loop and are recycled again by Cascades. More information can be found in the summary.

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Last Updated: December 2018