



# TCFD

***Costco's approach to governance and reporting is aligned with the Task Force on Climate-Related Financial Disclosures (TCFD)<sup>1</sup>. The four core elements are Governance, Strategy, Risk Management, and Metrics and Targets. We have identified climate-related risks and opportunities that are impactful to Costco, yet have determined that none represents a material risk to our business in the short-term.***

## Governance

### *Oversight of climate-related risks and opportunities*

Our governance structures focus on two streams: Strategy & Oversight and Implementation, Reporting & Compliance. Our Board of Directors has oversight to ensure Executive management has processes for managing risks and setting strategy for climate-related impacts. In fiscal year (FY) 2022, Costco's Board made sustainability a part of the Nominating and Governance Committee's charter, including oversight of environmental and sustainability policies and initiatives. We describe below governance of climate-related risks and opportunities.

We also aligned our FY23 executive compensation with ESG priorities through our Executive Bonus Plan. It rests, in part, on (1) quantitative (60%) metrics including diversity, equity and inclusion (DEI), resource consumption (water and energy), environmental compliance, waste reduction, climate (emissions), packaging, forest conservation and fisheries and (2) qualitative (40%) metrics to encourage awareness and action on new initiatives. Progress in 2023 resulted in that portion of the bonus being paid in full.

<sup>1</sup> The Statement incorporates here by reference the footnote on page 1 of the Costco Wholesale [Sustainability Commitment](#).

# Governance Structure



## *Management's role in assessing and managing climate-related risks and opportunities*

Costco's sustainability strategy and [Climate Action Plan](#) continue to be led by our Senior Vice President of Global Sustainability and Compliance, who reports to the CEO and regularly engages with the Board and the Nominating & Governance Committee and Compensation Committee. She also serves as Chair of the ESG Executive Advisory Council, which brings together executives from across the company to set goals and discuss strategy. This cross-functional approach is also exhibited in the Global Energy Task Force (discussed in our Climate Action Plan), the Merchandising Task Force for Supplier Engagement, and ESG Reporting. We recognize the multi-dimensional nature of ESG priorities and the need to engage leadership across departments and geographies.

### *Climate-related risks and opportunities for business, strategy and financial planning*

Climate change is impacting the world and our business, and these impacts are growing. In April and July 2022, our global executives conducted in-depth climate-related scenarios analysis, exploring climate-related risks and opportunities for operations, supply chain, members, employees, reputation and products. Using an exploratory approach, we leveraged three Shared Socioeconomic Pathways (SSPs) in the Intergovernmental Panel on Climate Change's (IPCC) Sixth Assessment (2021-22), in alignment to the IPCC's temperature-based Representative Concentration Pathways (RCPs), we identified potential impacts under the following scenarios: a coordinated global action achieves average warming of well below 2.0°C; a 2.0-3.0°C warming, with a fragmented global geopolitical and commercial response to climate change; an average warming exceeding 3.0°C, characterized by a reactive, sporadic global response to mitigate and adapt to the worst effects of climate change.

From this analysis, we created an inventory of climate-related risks and opportunities related to our business. We anticipate transitional and physical impacts from climate change and will continue to evaluate impacts on our financial position. Based on our current assessment we foresee our risks outweighing our opportunities.

### *Climate-related risks and opportunities identified over the short, medium and long term*

For the short, medium and long term, we consider our overall business model, identified risks, and general timing of chronic climate-related impacts to be realized:

- **Short term** (1-5 years): *Generally aligned with our timeframe for internal financial planning, budgeting and analysis.*
- **Medium term** (5-10 years): *To capture impacts of transition activities and associated risks and some, but not all, impacts of chronic physical risks emerging in the next decade.*
- **Long term** (10-30 years): *To capture impacts of chronic physical risks that could potentially develop over time and manifest in our operations and supply chain.*

## Transition Risks

Class	Risk Description	Time Horizon
Policy & Legal	Emerging emissions reporting requirements are labor intensive in our current technology posture and could require extensive changes to processes.	Medium-term
Market	Strategic planning may be challenging due to evolving market responses to climate change.	Medium-term
Market	Merchandising may become more difficult, as regulations may increase production costs throughout our supply chain, creating challenges to source products or categories at typical pricing.	Medium-term
Market	Decreased demand for gasoline due to climate change concerns, government mandates, and economic shifts may affect future operations and negatively impact sales and traffic in our warehouses.	Long-term
Technology	Emission reduction programs and initiatives may lead to higher operating costs, prices and reduced margins.	Medium-term

## Physical Risks

Class	Risk Description	Time Horizon
Acute	Increased intensity and frequency of floods, wind storms, wildfires, cyclones, storm surges, hail, drought, etc. may disrupt global supply chains by decreasing the production capacity of our suppliers and increasing production and transportation costs. Operational and/or community impacts are also likely.	Short-term
Chronic	Extreme variability in weather patterns may disrupt global supply chains by decreasing the production capacity of our suppliers and/or increasing production and transportation costs.	Medium-term
Chronic	Increased or decreased levels of precipitation may cause flooding, droughts, and water shortages that could have operational and community impacts and disrupt global supply chains.	Medium-term
Chronic	Rising temperatures may increase energy costs, disrupt power grids and could have operational and/or community and global supply chain impacts.	Long-term

# Opportunities

Class	Risk Description	Time Horizon
Products & services	Value provided to consumers through volume purchases and efficient distribution may allow Costco to gain market share for sustainable and low-carbon items.	Short-term
Energy Source	Transitioning to renewable and clean energy sources may allow Costco to decrease overall emissions, provide greater visibility on energy pricing, and participate in certain tax incentives in the US and elsewhere.	Medium-term
Resource Efficiency	Initiatives to reduce Costco and customer waste may allow for participation in new revenue streams through circular product design and decreased costs associated with disposal.	Medium-term

## *Resilience of strategy*

For all scenarios, we qualitatively evaluated Costco’s resilience and our ability to mitigate the transition and physical risks identified and to capitalize on future opportunities. In all scenarios, Costco’s operational strengths were identified as a core element of its resilience, including our no-frills, operations-focused warehouses and depots, which allow us to build resilience into our operations through investments in renewable and clean energy, technology and equipment. Our global supply chain, geographically diverse retail locations, and membership-based model provide risk diversification. Continuing to build resilience throughout our supply chain with deepened supplier relationships will be crucial to mitigating and adapting to the impacts of climate change, as well as capturing market-based opportunities in response to evolving member expectations and needs. Please see our [Sustainability Commitment](#) and [Climate Action Plan](#) for further details on Costco’s sustainability and climate strategies.

## *Processes for identifying and assessing climate-related risks*

In FY22 we engaged third-party consultants to assist with risk assessment. We identified and qualitatively assessed potential impact and likelihood of climate-related risks that impact the Food & Beverage and Multiline retail industries as a whole and those that may uniquely impact Costco's membership warehouse business model. For FY24, climate risk will be considered in our enterprise risk assessment.

## *Processes for managing climate-related risks*

We will continue to solicit input from leaders across the company to assess climate-related risks (as well as opportunities) and generate options for managing those risks. These discussions inform strategy-setting by the Board, the Executive Committee and ESG Executive Advisory Council and serve as groundwork for determining climate-related initiatives.

Climate is not a new challenge for us, though we expect to experience its impacts at a greater volatility and velocity. We understand the long-term importance of climate-related risks and opportunities. Our aim is that our business remains responsible, resilient and relevant in accordance with our Mission Statement and Code of Ethics. Our processes for developing remediation for risks and integrating that remediation into our operations are evolving.

The ESG Executive Advisory Council, which is supported by cross-functional operating teams, will be key for identification, assessment and management of climate-related risk. Any material climate-related risks identified will be communicated to the Executive Committee for evaluation.

## Metrics & Targets

*Metrics to assess climate-related risks and opportunities in line with our strategy and risk management process, including Scope 1, 2 and 3 emissions and related risks and targets to manage climate-related risks and opportunities and related performance*

Our [Climate Action Plan](#) features an in-depth discussion of climate-related Reduction Commitments, Metrics and Targets. This includes our Scope 1, 2 and 3 emissions. Costco embraces transparency in climate reporting through frameworks such as CDP, where we have regularly shared our progress for over a decade. Alongside our emissions reporting, we disclose a range of other metrics and targets that we have published for several years. These metrics represent important environmental impacts relevant to Costco and where we can make the most positive impact, even as they directly and indirectly affect Costco's total greenhouse gas emissions. See the following page for details on our metrics.



Metric Category	Metric	Description	Framework Mapping
Emission Reduction	Global Scope 1, 2 and 3 greenhouse gas emissions	Reduction of scope 1, 2, 3 CO2e emissions by local and international location (warehouses, depots, etc.)	<a href="#">Costco Climate Action Plan</a> SDG 13.1
	Gross global Scope 1 emissions from refrigerants	Total weight of refrigerant emitted by location (warehouses, depots, etc.)	<a href="#">Costco Climate Action Plan</a> SDG 13.1 SASB FB-FR-110b.1
Energy Management	Operational energy consumed	Total energy consumed across global operations, including from renewable and non-renewable sources, procured and self-generated	SASB FB-FR-130a.1
	Percentage grid electricity	Proportion of energy consumed derived from the grid	SASB FB-FR-130a.1
	Renewable Energy Purchased	Renewable energy purchased through a renewable power purchase agreement (PPA) that explicitly includes renewable energy certificates (RECs) or Guarantees of Origin (GOs)	<a href="#">Costco Climate Action Plan</a> SASB FB-FR-130a.1
Waste Reduction	Waste diversion rates	Food waste diverted for donation and for composting	<a href="#">Costco Sustainability Commitment</a> SDG 12.3
	Packaging reductions	Reduction of Kirkland Signature and Fresh Produce plastic packaging, based on supplier reported data.	<a href="#">Costco Sustainability Commitment</a> SDG 12.5
	Recycled content in packaging	Amount of recycled content in paper and plastic packaging	SDG 12.5
Responsible Sourcing	Sustainably sourced seafood (wild and farmed)	Kirkland Signature wild species and Kirkland Signature farmed product covered by MSC or ASC certification	<a href="#">Costco Sustainability Commitment</a> SDG 14.4
	Responsibly sourced wood, paper and fiber-based products	Kirkland Signature pulp & paper product certified to FSC, SFI, PEFC and/or recycled content, based on supplier reported data, and as reported in the Sustainability Commitment	<a href="#">Costco Sustainability Commitment</a> SDG 15.2
Water Use Efficiency	Facilities with operational water monitoring systems	Number of locations (warehouses, depots, etc.) with water monitoring system	SDG 6.4
	Global water intensity	Thousands of gallons per million of sales	<a href="#">Costco Sustainability Commitment</a> SDG 6.4