Investment Stewardship

Vote Bulletin: Costco Wholesale Corporation

Company	**Costco Wholesale Corporation (NASDAQ: COST)**
Market and Sector	United States/Consumer Staples
Meeting Date	20 January 2022
Key Resolutions[1]	**Item 1d:** Elect Director Hamilton E. James **Item 5:** Report on GHG Emissions Reduction Targets
Key Topics	Climate risk
Board Recommendation	The board recommended voting FOR Item 1d and AGAINST item 5
BlackRock Vote	BlackRock voted FOR Item 1d and AGAINST item 5

Overview

Costco Wholesale Corporation (Costco) is a major retailer based in the United States that operates through membership warehouse stores and e-commerce websites.

BlackRock Investment Stewardship (BIS) has engaged regularly with Costco over the last several years to discuss a range of corporate governance and sustainable business matters that we believe contribute to the durable, long-term shareholder returns our clients depend on to meet their financial goals. This has included conversations about climate risk and opportunities, which BlackRock believes can be a defining factor in companies' long-term prospects.

BIS asks every company to help their investors understand how they may be impacted by climate-related risks and opportunities, and how these factors are considered within their strategy in a manner consistent with the company's business model and sector. As described in our Global Principles, we find it useful when companies disclose how their business model is aligned to a scenario in which global warming is limited to well below 2°C, moving towards global net zero emissions by 2050. We look to companies to set short-, medium- and long-term science-based targets, where available for their sector, for greenhouse gas (GHG) emissions reductions, and to demonstrate how their targets are consistent with the long-term economic interests of their shareholders. BIS believes that companies that critically evaluate their current GHG emissions baseline, set rigorous reduction targets, and act on an accelerated timeline are those most likely to avoid operational and strategic disruptions in the future as the global economy decarbonizes.

We have shared with Costco on numerous occasions our view on the importance of companies disclosing GHG emissions reduction targets in order to give investors better insight into business model risks and opportunities. Specifically, we emphasized that consistent, comparable data from companies across the market allows investors to better analyze companies' performance and allocate capital. That is why we encourage disclosures

[1] Costco Wholesale Corporation. "Notice of Annual Meeting of Shareholders." December 10, 2021

aligned with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) which would give more insight into the company's approach to managing climate-related risks and opportunities, including reporting Scope 1 and Scope 2 emissions and accompanying GHG emissions reduction targets. Costco initially declined to accelerate its stated schedule of publishing targets by the end 2022. As a result, the company lagged peers on publicly committing to Scope 1 and 2 GHG emissions reduction targets.

We continued to engage Costco management on the topic of GHG emissions reduction targets in the days preceding the 2022 annual shareholder meeting. A week before the meeting, on January 13th 2022, the company published new quantitative targets for GHG emissions reductions, including a commitment to reduce global Scope 1 and 2 carbon dioxide equivalent (CO_2e) emissions by 2% per year.[2] The company estimates that it can reduce cumulative Scope 1 and 2 CO_2e emissions 20% by 2030 and 45% by 2035 from a 2020 base year.

Specifically, the company's commitments for both Scope 1 and 2 emissions include:

- Scope 1: accelerate the phase-out of hydrofluorocarbons (HFCs) and increase investment in refrigeration retrofits to reduce refrigerant emission Global Warming Potential (GWP) by 30% by 2030 as compared to a 2020 baseline.

- Scope 2: increase purchased renewable electricity in all global operations from 15.8% in 2021 to 30% by 2025; 60% by 2030; and 100% in global operations by 2035.

Costco announced they are continuing to explore targets for further reductions and will disclose the remainder of their Scope 1 and 2 decarbonization strategy in their December 2022 Climate Action Plan update.

Rationale for BlackRock's Vote

Item 1d: Elect Director Hamilton E. James (FOR)

BIS voted FOR the board chair given Costco's updated climate risk disclosure.

Voting on the re-election of directors remains one of the most important ways that BlackRock, and other investors, can signal support for or concern about a board's oversight of management. When a company is not effectively addressing a risk that could impact long-term value, such as climate risk. we might not support the re-election of directors or other management proposals, or we might support a shareholder proposal. Not supporting the re-election of directors is the voting signal of concern BIS most frequently employs since it is a globally available mechanism.

In this case, BIS considered not supporting the election of Mr. James, as board chair, for the lack of forward-looking Scope 1 and Scope 2 GHG emissions reduction targets. However, we ultimately decided to support his election given the updated climate risk disclosure provided in Costco's supplemental filing. Regarding Scope 3 emissions, as made clear in our commentary, "Climate risk and the global energy transition," which was published earlier this year, "While we encourage companies to disclose their scope 3 emissions and targets where material to their business model, we do not consider such scope 3 disclosures and commitments essential to our support for directors."

We believe investor engagement with the company, including by BlackRock, may have helped accelerate the disclosure of new GHG emissions reduction targets that, once met, should help Costco avoid operational and strategic disruptions amid the transition to global net zero.

[2] Costco Wholesale Corporation. Supplemental filing. January 13, 2021.

Item 5: Report on GHG Emissions Reduction Targets (AGAINST)

BIS voted AGAINST this shareholder proposal because Costco was responsive to shareholder feedback on setting Scope 1 and Scope 2 GHG emissions reductions targets, and is making efforts to address Scope 3.

The shareholder proposal requested that at least 180 days prior to the next annual meeting, "Costco adopt short, medium, and long-term science-based greenhouse gas emissions reduction targets, inclusive of emissions from its full value chain, in order to achieve net-zero emissions by 2050 or sooner and to effectuate appropriate emissions reductions prior to 2030."[3]

BIS did not support this shareholder proposal because the request included reduction targets across the "full value chain" by July 2022. Disclosing emissions across the "full value chain" – which would include Scope 3 emissions – within such a short timeframe is beyond our current expectations for this type of disclosure at this company, given Costco's business model and emissions profile.

Although Costco initially lagged their peers, the company responded to shareholder feedback and announced, prior to the shareholder meeting, new quantitative targets for GHG emissions reductions for both Scope 1 and 2 and committed to explore targets for further reductions. In addition, the company is already taking steps to address Scope 3 emissions. Within their updated Climate Action Plan, Costco has estimated and disclosed Scope 3 emissions from the Greenhouse Gas Protocol-defined category, "Waste Generated from Operations."[4] The company will estimate Scope 3 emissions from the GHG Protocol "Purchased Goods and Services", which represents the majority of their Scope 3 emissions, and disclose a Scope 3 Action plan by the end of December 2022.

We will continue to engage and monitor progress against these targets and other climate action commitments Costco has made.

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[3] Costco Wholesale Corporation. "Notice of Annual Meeting of Shareholders." December 10, 2021

[4] Costco Wholesale Corporation. "Climate Action Plan."

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public voting guidelines and informed by our analysis of company disclosures and, where relevant, our engagements.[5]

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our website. For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

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Prepared by BlackRock, Inc.

[5] As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.