

COSTCO WHOLESALE CORP.
STATEMENT ON PRISON LABOR
2020 UPDATE

The 2019 Statement on Prison Labor is updated to include the following:

- Our Global Policy on Prison Labor requires, among other things, that all gross wages paid be comparable to any non-prisoners for the same type of work in the same geographic area (any deductions from gross wages must be no more than allowed by law). Additionally, each person must voluntarily consent to work under the terms and conditions offered, including compensation. We felt these additional standards were important to further support the potential benefits of these programs, which include opportunities for compensation and restitution, helping with prisoners' transition back into the community and providing an opportunity for employment after their release. However, reliably monitoring these additional standards has proven to be challenging due to the reduced transparency of prison systems in general. For this reason, we will begin to transition away from our limited use of legal prison labor.
- For fiscal year 2020, we are aware of eleven facilities with legal prison labor that remain in our supply chain. Nine of these facilities were found to be in compliance with our policy; both non-compliant facilities have suspended their prison labor programs due to COVID-19 but have committed to full compliance with our policy if they resume such programs.
- The involvement of prison labor has been extremely minimal and has mostly been in the form of work-release arrangements. In these instances, prisoners are given the opportunity to work alongside non-prisoner citizens in independently owned facilities producing our items. Compliance with the law has been verified by third-party audit companies approved by Costco.

STATEMENT ON PRISON LABOR
2019

Costco Wholesale allows suppliers to use legal prison labor, to support rehabilitation and restitution, under limited conditions and has communicated in writing our Global Policy on Prison Labor to all suppliers and continues to do so in various formats. (A copy of the

policy is attached.) We also ask suppliers to identify any use of prison labor in their facilities during the audit scheduling and audit process itself. All identified facilities with legal prison labor are audited annually.

In 2017, we surveyed suppliers in industries and areas that we deemed more prone to the legal use of prison labor. Through these efforts, it was revealed that approximately eleven facilities, in the agriculture sector, had a prison labor program, with the majority being in the U.S. These facilities were audited and nine were or came in compliance with our policy, and the remainder were removed from our supply chain. For fiscal year 2019, we are aware of nine facilities with legal prison labor that remain in our supply chain. Eight of these facilities were found to be in compliance with our policy; one is taking corrective action to increase wages by a small amount to be compliant.

Thus far, we have not experienced a situation where potential noncompliance with our policy has surfaced other than through our monitoring processes. If such a situation were to occur, we would take corrective action and require compliance by the supplier or terminate the relationship. We believe that our compliance program and corrective action, as well as the likely immaterial nature of any infraction discovered in light of the multitude of supplier relationships the Company has, would render insubstantial any reputational harm associated with that temporary non-compliance. From time to time historically there have been public reports of entities in Costco's supply chain being out of compliance with labor standards (not involving prison labor); the Company has taken corrective action and has not in its judgment experienced material adverse effects.

Because of the number of suppliers the Company has and their geographic dispersion, it is simply not practical to confirm on an ongoing basis that all suppliers are in compliance with all aspects of our Supplier Code of Conduct, vendor agreements, and other policies. Accordingly, the Company takes a risk-based approach with respect to targeting audits and otherwise seeking to confirm compliance.

With particular regard to our policy on prison labor, we believe that the risk of significant non-compliance is extremely low, for a variety of reasons: (1) the Company has broadly educated the supplier community concerning the policy, and the risk of supplier termination for non-compliance represents a substantial incentive to adhere to the policy; (2) the Company, through third parties, conducts social audits on over four thousand locations annually, and those audits include

assessment of any prison labor; while our risk-based approach to audits recognizes that practical limits of the ability to audit a substantial portion of the supplier base each year, every supplier knows that it is subject to audit; (3) our buyers visit numerous suppliers annually, with attention to (among other things) compliance with our Supplier Code of Conduct; (4) since we enhanced our focus on lawful prison labor in 2016, the incidence of lawful prison labor detected has been trivial, with most of those instances involving reputable U.S. consumer products suppliers that maintain their own substantial compliance regimes; no instances of unlawful prison labor have been found; (5) we require all suppliers whose merchandise we import into the United States to disclose in advance whether prisoner, forced, or child labor have been used and if so no importation occurs until further investigation and appropriate action has occurred; and (5) we maintain a confidential reporting hotline, available globally through the web and/or telephonically, to receive reports about violations of our policies; no such report has concerned prison labor.

COSTCO WHOLESALE GLOBAL POLICY ON PRISON LABOR

Costco allows suppliers to use legal prison labor, to support rehabilitation and restitution, under the following conditions:

MERCHANDISE PRODUCED FOR DOMESTIC USE 1. The use of prison or convict labor must be in compliance with the laws where the merchandise is manufactured or processed. 2. Prison or convict labor means work performed by incarcerated persons at public or private correctional facilities, off-site public or private work facilities or under work-release programs. 3. Costco Wholesale's Code of Conduct requirements apply in full to all persons regardless of their status. 4. The person voluntarily consents to work under the terms and conditions offered, including compensation. 5. The person's gross wage paid shall be the same wage as a non-incarcerated person for the same type of work in the same geographic area. Any deductions from gross wages, whether by the employer or the facility, must be no more than allowed by law. 6. Third-party audits must be able to verify compliance with the above requirements. 7. Assuming that the requirements of 1-6 above are met, the products may be purchased for sale in the country where the product is manufactured or processed.

MERCHANDISE PRODUCED FOR EXPORT 8. If the merchandise is to be exported into a country other than where manufactured or processed: (a) the laws of the exporting country must allow its export; (b) the laws of the importing country must permit importation; and (c) the labor must meet the requirements of 1-6 above. 8.1 Costco U.S. and Costco Canada cannot import any merchandise made with prison or convict labor, even if legal in the country of production. 9. No country may sell products made in China with prison labor.

Revised May 2018

<https://www.costco.com/wcsstore/CostcoUSBCCatalogAssetStore/Attachment/Global-Prison-LaborPolicy.pdf>