

HERSHEY 



# GOODNESS IN ACTION

2020 TCFD REPORT

# Hershey and Climate Change

## The Strategic and Financial Implications

As a company that depends on agricultural commodities, we are acutely aware of the risks climate change poses to our business. We engage regularly with our investors, customers, suppliers and other stakeholders on the growing impact of climate change and the role Hershey can play in mitigating and managing it while also ensuring the stability and sustainability of our own business. As a result, we have committed to expanding and improving our response with transparency and accountability. This report—which represents Hershey’s first-time reporting following the [Task Force on Climate-related Financial Disclosures](#) (TCFD)—is part of that work. This report stands alongside our new science-based targets (SBTs) to reduce carbon emissions as the materialization of our strengthened approach to how we address climate change within and through our business.

### Governance

The Board of Directors has oversight across all of Hershey’s environmental, social and governance (ESG) risks, opportunities, programs and policies, including those pertaining to climate change. ESG issues are discussed with the full Board as part of a yearly assessment and more frequently as needed depending on the issue. For example, the Board was engaged multiple times in the development and final approval of Hershey’s SBTs. Typically, there are two to three in-depth engagements with the Board on ESG-related topics each year. These reports are given by the Senior Director of Global Sustainability, the Vice President of Communications and Global Sustainability and the Chief Supply Chain Officer.

The Board also oversees our Enterprise Risk Management (ERM) program, which is our centralized function for identifying, managing and mitigating key risks and opportunities affecting our business—including climate impacts. In addition, the Board’s Finance and Risk Management Committee reviews key enterprise risks identified through the ERM program as well as risk mitigation plans, including those designed to respond to the impacts of climate change. For example, this Committee annually reviews our cocoa and commodity sourcing strategies, including pricing, availability, risks and opportunities—all of which are potentially influenced by climate change (see table on [page 3](#)).

Our Chairman, President and Chief Executive Officer, Michele Buck, has ultimate oversight of our climate change approach. At the management level, several governance committees and working groups support our climate efforts, including:

- The Sustainability Steering Committee, which is composed of vice presidents from across key business functions and three members of our internal Executive Committee (Legal, HR, and Supply Chain). The Committee meets monthly to review progress, discuss relevant challenges and opportunities, and approve key decisions related to our global sustainability programs.
- The Science Based Targets & Manufacturing and Facilities Working Group, which is composed of vice presidents and senior leaders from our Manufacturing, Facilities, Environmental Health and Safety (EHS), and Engineering teams. The Group seeks to operationalize three objectives that are tied to our work on climate-related risks and opportunities, namely:

1. Increase energy efficiency at our manufacturing plants and facilities. This work is underpinned by our recently launched Energy Program, whereby Hershey will be pursuing the ENERGY STAR® Challenge for Industry at all our plants and pursuing ENERGY STAR Certification at our corporate headquarters and Tech Center.
2. Improve transparency for our on-the-ground decision makers so they can better observe how their actions directly affect energy usage.
3. Integrate sustainability considerations into the capital allocation process.

### Strategy and Risk Management

Hershey evaluates climate risk in two ways: as part of our ERM program, and as part of our operational work focused on reducing our business’s direct and indirect impacts on climate change.

Through our ERM program, climate change was identified as a risk to be managed through external benchmarking and engagement with partners across our value chain. All proposed ERM risks are presented to our Chief Financial Officer and General Counsel, who affirmed their inclusion in our ERM program.

We have identified several climate-related risks and opportunities as potentially financially material (as detailed in the table on the next page). Hershey is aiming to undertake a scenario analysis in the future to better quantify the possible financial impacts of these risks and opportunities, which will help us improve future TCFD disclosures.

## Potential Financial Impact

Risk	Description	Category	Impact	Detail
Physical Risks (Acute)	Price fluctuations for key commodities due to extreme weather or crop diseases, including the direct effect as well as via the pricing of futures contracts	Cost of Sales	↑	Increased volatility in pricing contracts and likely increase in costs of acquiring production materials due to increased scarcity of raw ingredients
Physical Risks (Acute)	Disruption to our global manufacturing operations or supply chain	Capital Expenditures	↑	Both in terms of the potential need to increase infrastructure spending on improvements to protect our properties and assets from changing weather patterns, as well as risks of increasing costs of capital due to climate's potential macro impacts on our creditors
		Operating Costs	↑	We could face risks in finding affordable insurance contracts to cover our properties against extreme weather events
Physical Risks (Chronic)	Impacts on the crop yield or quality of key raw materials, which could potentially cause Hershey to have increases in raw material and energy costs along with challenges in obtaining adequate ingredients and supplies	Cost of Sales	↑	Risks that prices for existing commodity supply increase or that we have to invest more in research and development to find or develop ingredient alternatives
		Net Revenue	↓	Risks that we are not able to make as much finished product to sell
Transition Risks	Market Risks: impacts on the general macroeconomic conditions that influence discretionary consumer spending and impulse purchases, such as volatility in food and energy costs	Net Revenue	↑ ↓	Given the risks that unabated climate change may slow global economic growth, our business could be harmed by decreases in discretionary spending. Alternatively, we have seen our business perform strongly in past economic recessions due to consumers' desires for "affordable" luxuries and comfort foods during those times
Transition Risks	Reputation Risks: adverse impacts on the company's reputation or long-term viability resulting from issues or incidents relating to Hershey's approach and response to the impacts of climate change, including water scarcity	Competitiveness and Net Revenue	↓	If consumers see Hershey's business as threatening to climate progress, or find our climate-related statements untrustworthy, we could lose consumer trust or face boycotts
Transition Risks	Policy Risks: changing regulations, such as a carbon tax that increases the price of energy derived from fossil fuels	Operating Costs/ Compliance Costs	↑	Risks that our operating expenses will increase due to higher tax costs associated with energy usage
		Capital Expenditures	↑	Risks that we need to make emergency infrastructure changes to comply with new regulations. Also, risks that we do not get to benefit from the full useful lives of infrastructure investments made in the past

## Opportunities

- Reducing our operating costs through energy and resource efficiency
- Strengthening partnerships with our customers and supplier communities who are also looking to reduce their climate impacts

Management of climate change risks and impacts is embedded across the enterprise, and we are continuously expanding the functional areas that view climate risk management as part of their responsibilities and are embedding climate considerations into their decision-making. For example:

- Our Procurement and Responsible Sourcing teams manage climate risks related to sourcing our key ingredients and materials. In our sugar, dairy and cocoa supply chains, we have instituted partnerships with our suppliers and community partners to help growing communities adopt climate-smart growing practices and access opportunities to improve on-farm climate impacts.
- We are working to proactively mitigate risks through programs and initiatives to reduce our direct carbon emissions—including our efforts to procure more energy from renewable and zero-emissions energy sources and our new Energy Program, which seeks to improve on-site energy efficiency and water conservation.
- Our Logistics team works with our Continuous Improvements team to identify opportunities to save costs and fuel and reduce the risks from rising energy prices related to transporting our products.

In addition, we are working to include climate considerations into our capital allocation process to ensure our capital expenditures align with our enterprise climate strategy.

## Metrics and Targets

Hershey launched a new SBT in 2020, which commits our company to reducing Scope 1 and Scope 2 absolute emissions by 50 percent by 2030, and Scope 3 absolute emissions by 25 percent by 2030, compared to a 2018 baseline. This is aligned with a 1.5°C ambition level as per the Science Based Targets initiative. In addition, as part of our efforts to participate in the ENERGY STAR Challenge for Industry, we will be pursuing a 10 percent reduction in energy use compared with production over a five-year period at each of our plants.

### Emissions

Our greenhouse gas emissions since our baseline year are provided opposite. These have been calculated following the Greenhouse Gas Protocol. We have provided both market-based and location-based Scope 2 emissions, but measure progress, against our goal utilizing the market-based methodology.

	2018	2019	2020
<b>Total Footprint</b>	<b>6,973,208.61</b>	<b>6,661,303.78</b>	<b>6,053,242.31</b>
Scope 1	156,000.75	157,321.50	147,224.02
Scope 2 – Market Based	225,059.83	215,638.35	143,615.87
Scope 2 – Location Based	225,460.26	216,162.22	211,511.98
Biogas Carbon Dioxide Emissions	3,023.39	3,306.93	4,072.25
Scope 3 Gross	6,592,148.03	6,288,343.92	5,762,402.43
Category 1 – Purchased Goods and Services	5,662,624.61	5,304,090.77	4,834,068.01
Category 2 – Capital Goods	N/A	N/A	N/A
Category 3 – Fuel and Energy-Related Activities	30,402.95	31,166.83	29,266.36
Category 4 – Upstream Transportation and Distribution	384,992.96	419,929.08	428,845.52
Category 5 – Waste Generated in Operations	6,831.07	7,074.29	7,101.68
Category 6 – Business Travel	51,246.71	83,272.40	10,799.73
Category 7 – Employee Commuting	44,743.33	44,292.55	40,489.39
Category 8 – Upstream Leased Assets	7,356.69	7,609.54	7,515.51
Category 9 – Downstream Transportation and Distribution	320,821.69	310,160.11	321,933.86
Category 10 – Processing of Sold Products	N/A	N/A	N/A
Category 11 – Use of Sold Products	N/A	N/A	N/A
Category 12 – End-of-Life Treatment of Sold Products	83,128.04	80,748.36	82,382.37
Category 13 – Downstream Leased Assets	N/A	N/A	N/A
Category 14 – Franchises	N/A	N/A	N/A
Category 15 – Investments	N/A	N/A	N/A

	2018	2019	2020
Scope 1 and 2 intensity ratio (market based) (mtCO <sub>2</sub> e/thousand pounds of product produced)	0.176	0.176	0.137
Scope 3 intensity ratio (mtCO <sub>2</sub> e/thousand pounds of product produced)	2.730	2.694	2.452
Change in Scope 1 emissions from 2018 baseline	N/A	0.8%	-5.6%
Change in Scope 2 emissions from 2018 baseline (market based)	N/A	-4.2%	-36.2%
Change in Scope 3 emissions from 2018 baseline	N/A	-4.6%	-12.6%

## Direct Energy Consumption

Fuels	Gigajoules in 2020
Biogas	113,900.30
Coal	30,811.39
Distillate fuel oil no. 2	6,579.37
Electricity consumed	1,947,602.25
Fuel oil no. 6	605.44
Jet fuel	77,719.74
Motor gasoline	3,009.26
Natural gas	2,305,162.35
Propane	2,107.89
<b>Total</b>	<b>4,487,497.98</b>
<b>Percentage of total electricity consumed that is grid electricity</b>	<b>43.2%</b>
<b>Percentage of electricity consumption that is renewable or qualifies as zero-emissions energy</b>	<b>17.16%</b>