



The Hershey Company's Deforestation & Conversion Free (DCF) Implementation Approach

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Introduction

The Hershey Company’s (“Hershey”) [Deforestation & Conversion-Free Policy](#) (“DCF Policy”) documents our commitment and supplier requirements to achieve a deforestation and conversion-free supply chain for the cocoa, palm oil, pulp & paper (packaging), and direct soy (collectively, “raw materials”) we source.

Hershey Responsible Sourcing and Cocoa teams are responsible for the annual review of this document and notification to relevant staff of any updates or changes.

Objective

This Deforestation & Conversion-Free Implementation Approach document (“DCF Approach”) describes our approach and supply chain-specific due diligence processes to assess compliance with our DCF Policy through the following actions:

- Supply Chain Mapping and Traceability
- Origin Risk Assessments
- Supply Chain Due Diligence
- DCF Monitoring & Assessment
- Response & Recovery
- Public Reporting

DCF Approach Scope, Limitations & Exclusions

Hershey continues to evolve our approach to monitor for and mitigate against the risks of deforestation and conversion in our supply chains in line with industry best practice and standards. Continuous improvement areas include enhancing traceability and visibility into complex supply chains by identifying and leveraging assessment tools and solutions, such as satellite monitoring, and engaging with suppliers for DCF monitoring & due diligence as part of broader human rights and environmental due diligence systems.

We monitor and mitigate risks in the following raw material supply chains:

Raw Material	Primary In-Scope Materials	Relevant Natural Ecosystem Issues being Monitored	Scope Limitations & Exclusions
Cocoa	Cocoa powder, cocoa liquor, cocoa butter and cocoa paste derived from cocoa beans	Deforestation	<ul style="list-style-type: none"> • Supply chain complexities pose challenges for collecting traceability data on physical product entering supply chain; notable limitations in cocoa butter • Remote assessment for Degradation & Conversion not currently feasible • Lack of High Carbon Stock (“HCS”) forest maps



			<ul style="list-style-type: none"> Industry-wide guidance for DCF assessment methodologies still nascent for cocoa
Palm Oil	Crude & Refined Palm Oil and Palm Kernel Oil, including derivatives and fractions	Deforestation & Conversion of peatland	<ul style="list-style-type: none"> Indirect sources of Palm Kernel Expeller (“PKE”) and meal via feed for dairy production not in scope
Pulp & Paper	Packaging materials derived from wood fiber	Deforestation, Degradation in US Southeast	<ul style="list-style-type: none"> Traceability data to forest management unit (“FMU”) currently challenging to obtain Lack of standardized approach to assess degradation Remote assessment capabilities for degradation still nascent, only US Southeast currently in scope Remote assessment capabilities for conversion not yet feasible
Soy (direct)	Soybeans, soybean oil, and soybean flour	Deforestation & Conversion of non-forest land	<ul style="list-style-type: none"> Traceability data to farm level currently challenging to obtain Remote assessment capabilities for conversion still nascent & not currently utilized Soy lecithin and indirect or embedded soy via feed for dairy production not in scope

This document does not address Hershey’s supply chain due diligence process related to legality and social risks as these are addressed through other Hershey human rights processes and programs. However, social indicators (such as Indigenous People and Local Communities rights, labor rights, etc.) may be included at various assessment stages of the DCF implementation process.

Additionally, this document does not fully address our approach to meeting the European Union Deforestation Regulation (“EUDR”) which includes requirements that go beyond our DCF Policy. Additional DCF requirements for Hershey products subject to EUDR are defined separately.



Definitions

Hershey’s definitions within our DCF Policy and Protocol align to the [Accountability Framework Initiative](#) (“AFi”) unless otherwise noted. We continue to monitor the legislative and sectoral landscape to determine where adaptations to our definitions may be required.

Chain of Custody	<p>The process by which materials and associated information are transferred, monitored, and controlled as they move through each step in a supply chain. (Adapted from the International Organization for Standardization.)</p> <p>There are four commonly recognized types of chain of custody models, each of which is defined in the Accountability Framework: identity preserved, segregated, mass balance, and credit trading. (AFi)</p>
Compensation	<p>Actions taken and/or funds made available to remedy or counterbalance deforestation, conversion, degradation, or other harms to ecosystems and their conservation values with environmental and/or social gains at sites other than those where the harms occurred. (AFi)</p> <p>AFi has Operational Guidance on Environmental Restoration and Compensation.</p>
Conversion	<p>A loss or change of a natural ecosystem to agriculture or another land use, or due to a profound and sustained change in a natural ecosystem’s species composition, structure, or function. Deforestation is a type of conversion (i.e., conversion of natural forests).</p> <p>Conversion can include severe degradation or introducing management practices that result in substantial and sustained changes in the ecosystem’s original species composition, structure, or function. Change to natural ecosystems that meets this definition is considered to be conversion regardless of whether or not it is legal. (AFi)</p>
Cut-Off Dates	<p>Date after which deforestation or conversion of a natural ecosystem renders a given area or production unit non-compliant with a company’s DCF Policy. (AFi)</p> <p>Hershey applies cut-off dates for its commitment to no deforestation or conversion of natural ecosystems related to its supply chain as follows:</p> <ul style="list-style-type: none"> • Cocoa: December 31, 2020 • Palm oil: December 31, 2015 • Pulp & paper: December 31, 2020 • Soy: December 31, 2020



Deforestation	Loss of natural forest as a result of: (i) conversion to agriculture or other non-forest land use; (ii) conversion to a tree plantation; or (iii) severe and sustained degradation. (AFi)
Deforestation & Conversion-Free (“DCF”) volume	The product volumes we source from our direct suppliers are assessed to have been produced on land that has not been subject to deforestation or conversion after the cut-off date, as determined by following our commodity-specific DCF methodology.
Degradation	Changes within a natural ecosystem that significantly and negatively affect its species’ composition, structure, and/or function and reduce the ecosystem’s capacity to supply products, support biodiversity, and/or deliver ecosystem services. (AFi)
Forest	Land that is at least 0.5 hectares in size with trees that are at least five (5) meters tall, and canopy cover of at least 10%, or trees able to reach these thresholds in situ. It does not include land that is predominantly under agricultural or other land use. (UN Food and Agriculture Organization)
High Carbon Stock (“HCS”) Forest	<p>As defined by the HCS Approach, HCS Forests are forest areas that should be protected due to their importance to local communities or high carbon or biodiversity values as opposed to Degraded Lands deemed suitable for development.</p> <ul style="list-style-type: none"> • HCS Forests include High Density Forests, Medium Density Forests, Low Density Forests, and Young Regenerating Forests • Degraded Lands (under the HCS threshold) include Scrub Land and Open Land <p>Note that Starling satellite monitoring solution, co-developed by Airbus and Earthworm Foundation, uses HCS Forest definitions.</p>
High Conservation Value (“HCV”) Land	As defined by the HCV Network , HCV Lands are defined as biological, ecological, social or cultural values which are considered outstandingly significant or critically important, at the national, regional or global level.
Landscape	<p>Landscapes are defined as geographic areas with common ecological and socioeconomic characteristics. They may be delineated based on watersheds, ecosystems, jurisdictional boundaries, company sourcing areas, or in other ways.</p> <p>Landscape initiatives are a multi-stakeholder initiative in a given landscape to set common goals, take collective action, and monitor progress towards improving social, environmental, and</p>

	<p>economic outcomes, while reconciling different interests, at a landscape level.¹</p> <p>Jurisdictional initiatives are a type of landscape initiative that is delineated by administrative boundaries and implemented with a high level of government involvement.² (AFi)</p>
<p>Natural Forest</p>	<p>Natural forests possess many or most of the characteristics of a forest native to the given site, including species composition, structure, and ecological function.</p> <p>Natural forests include:</p> <ul style="list-style-type: none"> • Primary forests that have not been subject to major human impacts in recent history. • Regenerated (second-growth) forests that were subject to major impacts in the past (for instance by agriculture, livestock raising, tree plantations, or intensive logging), but where the main causes of impact have ceased or greatly diminished and the ecosystem has attained much of the species composition, structure, and ecological function of prior or other contemporary natural ecosystems. • Managed natural forests where much of the ecosystem’s composition, structure, and ecological function exist in the presence of activities such as the harvesting of timber or other forest products. • Forests that have been partially degraded by anthropogenic or natural causes (e.g., harvesting, fire, climate change, invasive species, or others) but where the land has not been converted to another use and where degradation does not result in the sustained reduction of tree cover below the thresholds that define a forest. <p>For the purpose of DCF supply chains, the focus is on preventing the conversion of natural forests.</p> <p>The categories ‘natural forest’ and ‘tree plantation’ are mutually exclusive, though in some cases the distinction may be nuanced; AFi has guidance on applying the definitions.</p>
<p>Producer or Farmer</p>	<p>The owner or manager of a production unit. This includes smallholders and other individual owners/managers, corporate entities, and communities that own or manage production systems. (AFi)</p>

¹ Informed by multiple pre-existing definitions including those of CDP, Proforest, and the Jurisdictional Approaches Resource Hub

² Adapted from definitions of “jurisdictional approach” provided by multiple sources, including CDP, Proforest, ISEAL, and the Jurisdictional Approaches Resource Hub

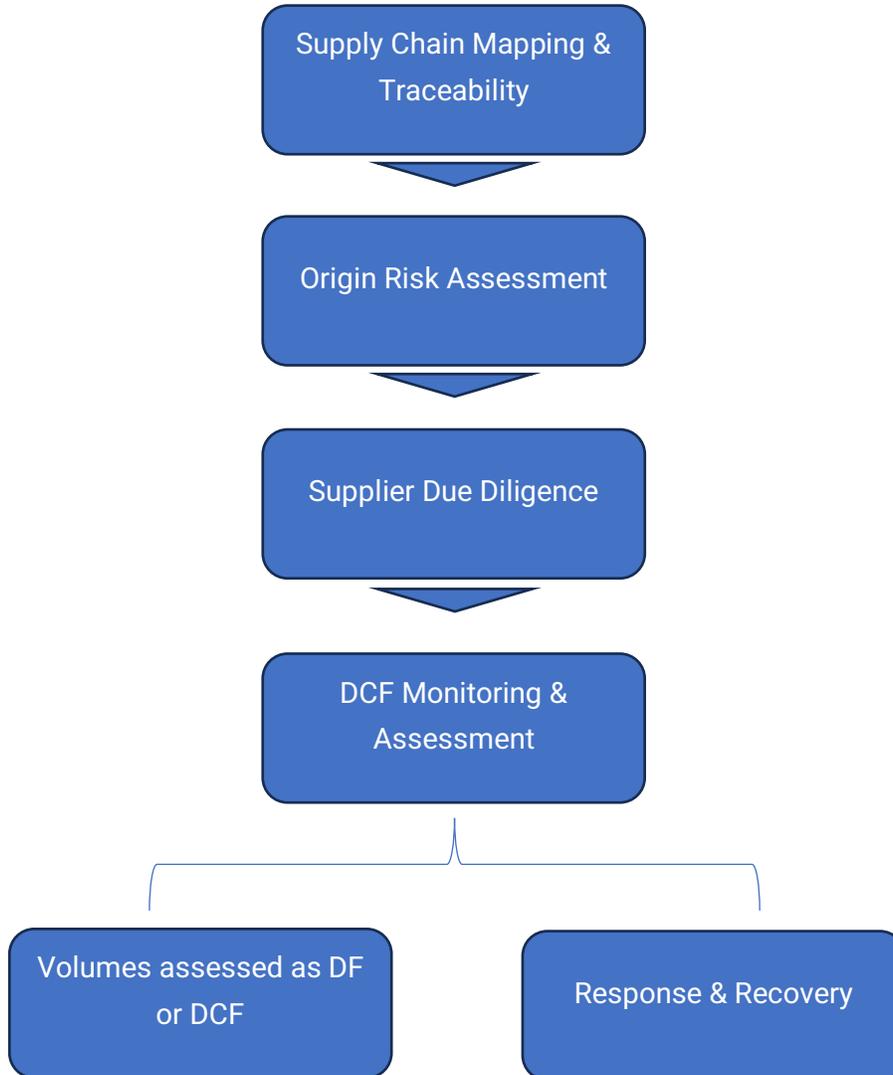


<p>Producer Group</p>	<p>A grouping of agricultural or forestry producers that is organized and managed to aggregate or market products, or to provide services on behalf of its producer members.</p> <p>Producer groups include cooperatives, farmer associations, and groups managed by traders, processors, or government initiatives. These groups may serve different purposes, such as collective processing and marketing of their members’ products, provision of inputs and training to group members, political alignment and advocacy to advance members’ interests, or internal traceability and management systems to support compliance with external standards or market demands (e.g., certification programs).</p> <p>(AFi)</p>
<p>Recovery Plan</p>	<p>In some raw materials and some certification systems, suppliers who have deforested after the cut-off date can implement a Recovery Plan for deforested areas in order to be able to stay in or re-enter supply chains. This could include restoring the area to natural cover, or conserving or restoring forest off the farm. (AFi)</p>
<p>Restoration</p>	<p>The process of assisting the recovery of an ecosystem, and its associated conservation values, that has been degraded, damaged, or destroyed.</p> <p>This definition refers to restoration as a means to remedy environmental harms or reverse the loss of environmental values. The term ‘restoration’ is also used in the context of remediation of human rights harms, for which restoration may come in many forms (e.g., restoration of benefits, employment, or access to lands). (AFi)</p>
<p>Sourcing Area</p>	<p>An area or region from which materials in a supply chain originate.</p> <p>Sourcing areas could include a sourcing radius or a supply-shed around a first point of collection or processing facility (e.g., a radius from a palm oil mill); a defined set of production units supplying a particular aggregator or buyer (e.g., the area covered by a smallholder cooperative); or a landscape or subnational jurisdiction (e.g., municipality) from which materials are sourced. (AFi)</p>
<p>Smallholder Farmer</p>	<p>Smallholders (i.e., small-scale agricultural or forest products producers) are distinct from larger-scale producers found in similar contexts by virtue of many or all of the following characteristics:</p> <ol style="list-style-type: none"> 1. high degree of dependence on family labor

	<ol style="list-style-type: none"> 2. profits accrue primarily to the farm or forest owner(s) and their family 3. the farm or forest provides a primary source of livelihood for the smallholder 4. production units have a relatively small land footprint (relative to the range of production unit sizes for the given commodity and region) 5. household resources are allocated to both food crops and cash crops 6. relatively low use of agricultural inputs and generally low productivity and yields 7. significant economic constraints, such as lack of capital assets and low access to finance 8. significant information constraints, including lack of technical knowledge and low access to market information <p>(AFi)</p> <p>In instances where Hershey sources third-party certified material, and the third-party certification scheme defines smallholders differently, such as the Roundtable on Sustainable Palm Oil (“RSPO”), Hershey will follow the certification’s definition. Additionally, as noted by the AFi, “numerous governments, international agencies, policies, and sector initiatives provide more specific and quantitative definitions of smallholders, which may differ depending on location, land use type, and commodity.” This definition may be adopted when applied in the relevant context.</p>
Supply Shed	<p>A group of suppliers in a specifically defined geography and/or market (e.g., at a national or sub-national level) providing similar goods and services that can be demonstrated to be associated with the company’s value chain. (Value Chain Interventions Guidance, Quantis)</p>

DCF Implementation Overview

Hershey monitors and assesses deforestation and conversion risks and implements action plans to mitigate these risks. We work with suppliers and partners to undertake the following steps:





Supply Chain Mapping and Traceability

Supply chain traceability allows Hershey to know the origin of raw materials we source to improve visibility into our upstream supply chains and understand opportunities for impact.

In this context, traceability is not necessarily a chain of custody concept and does not alone allow Hershey to identify the specific source of the raw material in a given Hershey product; this is further explained in the call-out box below. However, for raw materials that originate from higher risk origins for deforestation, we aim to increase physical traceability (i.e., the possibility to track and trace the product we use in our finished goods from farm to factory door).

We request our suppliers provide supply chain traceability data for different stages of the supply chain for the raw materials associated with Hershey's purchase volumes: from area of production or harvest (i.e., farm, forest or plantation), through the processing and aggregation points (e.g., mills, bulking and refineries), until final product buyer.

For supply chain traceability assessments, we collect, among other information, directly or through partners, the names of the supply chain actors along with geolocation data in the form of GPS coordinates or polygon shape files. Where possible, the volume supplied by the entities throughout the supply chain is collected. In circumstances where traceability to area of production or harvest is not yet available from suppliers, we request suppliers share data to the furthest "nth" tier of the supply chain for which they have visibility, e.g., country of origin, processor and/or aggregation point.

Hershey works with various partners, including [Earthworm Foundation](#) ("Earthworm") and [Sourcemap](#), across the raw material supply chains to clean, aggregate and collate the supply chain traceability data reported by suppliers.

Collecting traceability data remains a challenge for a variety of reasons including, but not limited to, complex supply chains, often involving multiple tiers of suppliers, including intermediaries and smallholders, and confidentiality and data privacy concerns with sharing geolocation and/or volume data. Hershey continues to work with suppliers and industry partners where relevant to improve supply chain traceability.

Chain of Custody Models

Hershey's sourcing approach relies on various Chain of Custody ("CoC") models. These CoC models are not necessarily connected to third-party certification schemes. We recognize that CoC models enable traceability of the materials we source, with varying levels of assurance regarding the material's origin and characteristics. These CoC models and the resulting traceability information directly inform how we may monitor DCF compliance within a supply chain.

Mass Balance: A model under which materials with particular characteristics of interest may be mixed according to defined criteria with material that may lack these characteristics. Materials may be mixed at any stage in the supply chain, provided that the quantities are controlled such that the quantity of materials sold as having the given characteristics is equivalent to the quantity of materials produced with these characteristics. In this instance, we cannot establish traceability back to the farm. ([AFi](#))

Segregated: A model under which materials with particular characteristics of interest are kept physically separate from materials that may lack these characteristics, although materials are not necessarily traced and controlled back to a single identifiable source and may be mixed from among multiple sources. In this instance, we can establish traceability back to the possible farms from which the material may have originated. ([AFi](#))

Visibly Sourced (for Hershey, this is uniquely used for our cocoa supply chain): Sourcing visibility means cocoa from known farmers is segregated and traceable to the first buyer (i.e., to the port or the factory in origin). From here the cocoa may be mixed, and then the independently verified cocoa flows into our supply chain under the mass balance traceability model.

Origin Risk Assessment

Using the supply chain traceability information collected, we assess deforestation and conversion risk across all known volumes of purchased raw materials based on the country of origin utilizing Earthworm's Country Prioritization Matrices ("CPM"). Where more granular data is available, risk may be assessed at sub-national, regional, jurisdictional, landscape or supply shed level.

Deforestation and conversion risk at the country-level is categorized as High, Medium, or Low.

Origin risk levels are calculated based on publicly available data (multiple indices per risk category) and are reviewed on an annual basis. Public datasets reviewed for deforestation and conversion risk datasets at the country-level include those provided by:

- Global Forest Watch
- World Wildlife Fund
- Food and Agriculture Organization of the United Nations
- European Commission
- United Nations Development Program



Partners with on-the-ground expertise review the ratings and may override calculated risk ratings if they have additional context, e.g., a particular sourcing region may have lower or higher rates of deforestation compared to the whole country.

Origin risk helps determine the appropriate approach to deforestation monitoring & verification, such as engaging and collaborating with suppliers to prioritize mapping and collecting traceability and geolocation data in higher-risk countries or regions.

Hershey does not stop sourcing from a supplier simply due to its location in a country that is considered high risk for deforestation and conversion.

Note: Deforestation and conversion risk assessments are part of a more holistic Country Risk Assessment process for raw material supply chains, which also evaluates legality and social risks, such as rule of law, illegal logging or trade, regard for Indigenous Peoples and local communities (“IPLC”) rights and Free and Prior Informed Consent (“FPIC”), and regard for workers’ rights and labor issues including child labor.

Supplier Due Diligence

Hershey conducts additional due diligence on suppliers to understand their DCF approach and maturity. We use various tools to determine potential risks and improvement actions in our supply chain, including:

- **Supplier Maturity Assessments:** Focused on cocoa and palm oil, Hershey utilizes various surveys to collect information from suppliers about their DCF policies, commitments, and management systems, including their monitoring and response processes. These assessments help determine gaps and areas for improvement for which we request suppliers to take action.
- **Third-Party Certification:** Hershey views certification as a tool that can help enable assurance through chain of custody and documentation to mitigate risk and assess DCF. Please see the call-out box below.
- **Supplier Third-Party Verified Programs:** Hershey recognizes some suppliers’ own sustainability programs (particularly for cocoa sourcing, in line with our Cocoa Key Requirements) can help enable assurance and documentation to mitigate risk and assess DCF when these programs are third-party verified.

Third-Party Certification: Hershey sources some ingredients and materials certified to particular schemes, such as [Rainforest Alliance](#), [Roundtable on Sustainable Palm Oil](#) (“RSPO”), or [Forest Stewardship Council](#) (“FSC”). Some of these certification schemes provide adequate assurance to cover DCF requirements, as outlined in the AFi and CDP 2024 [Time for Transparency](#) report’s Annex 2:



Allowable certification schemes providing DCF assurance. However, ingredients and materials certified under the Mass Balance model generally cannot be considered DCF based on the certification alone and require additional monitoring approaches as outlined in the “DCF Monitoring & Assessment” section below.

DCF Assessment & Monitoring

Hershey utilizes traceability data and the origin risk assessments to assess and monitor its in-scope raw material supply chains as DCF.

Hershey partners with Earthworm to conduct its DCF assessments and generally aligns with both the [DCF Methodology provided by the Consumer Goods Forum’s Forest Positive Coalition](#) (“GCF FPC”), available for Palm Oil, Pulp & Paper, and Soy, and the [AFi DCF guidance](#). Both methodologies follow the same core principles and produce similar outcomes. While assessment differs slightly between raw materials, the three approaches for determining volumes as DCF according to the [AFi](#) are outlined below:

A1: Area-level assurance / traceable to negligible or low risk sourcing area

Supplier-submitted traceability data is integrated with origin risk assessment data utilizing Earthworm’s Country Prioritization Matrices. Raw material volumes may be classified as DCF when traced to sourcing regions in which there is a low or negligible risk of deforestation and/or conversion having occurred since the commodity cut-off date.

A2: Farm-level Monitoring

Remote monitoring: We assess and monitor for land use change, including deforestation, via [Starling](#), a satellite monitoring solution co-developed by Airbus and Earthworm Foundation.

- Satellite monitoring looks at historical data as well as near real-time alerts for land clearance since the relevant cut-off date for the particular raw material.
- Traceability To Plantation/ Farm/ Farm or Forest Management Unit (“TTP”/ “TTF”/ “TTFMU”) data provides the highest level of supply chain granularity and thus the most accurate assessment. In cases where boundary data is not available, Earthworm approximates the boundary based on available data, with more precise data leading to more accurate boundary approximations for assessing DCF.

Field monitoring: While Hershey team members and partner organizations (e.g., suppliers, non-governmental organizations) may visit farms and producer-communities throughout the year, field assessments are not currently used as a systematic monitoring approach.

A3: Certification Some certification schemes may allow volumes to be considered DCF if they have been certified “according a standard whose criteria prohibit deforestation and conversion after a stated cut-off date and when using a chain of custody model that allows products to be linked to the site on which they were produced” ([AFi](#)). Segregated and identity preserved volumes meet these requirements, whereas mass balance or mixed volumes generally require further assessment mechanisms to be considered DCF ([AFi](#)).



Other platforms and solutions, such as Sourcemap and Global Forest Watch, as well as suppliers' own monitoring processes, inform our supply chain assessment and monitoring efforts.

Response & Recovery

Hershey takes any reported grievances regarding deforestation and conversion in our raw material supply chains seriously. We also hold a continuous improvement mindset, take a collaborative approach, and have a bias for action. We recognize that maintaining strong relationships with suppliers is key to driving positive change. Therefore, our approach is not to immediately suspend a supplier in violation of our DCF Policy requirements, but rather, to engage our direct suppliers on detected deforestation alerts and require time-bound action plans to address any confirmed non-compliance.

Our [Grievance Procedure for Potential Violations of our DCF Policy](#) outlines how we address and respond in a transparent, timely and effective manner to supply chain grievances raised by stakeholders.

We acknowledge there is not an industry-wide standard across commodity supply chains for what constitutes an adequate recovery plan for deforestation and conversion. There is also no industry-wide standard related to re-entry criteria for a suspended supplier.

While we continue to refine guidelines and monitor industry expectations, Hershey indicates the following:

- Certification standards' Response & Recovery expectations are recognized, such as the [Rainforest Alliance's Environment Annex \(including details on Minor Conversion\)](#), [RSPO's Remediation and Compensation Procedure](#), and the [FSC's Remedy Framework](#)
- Smallholders, as defined in the "Definitions" section, are not expected to finance recovery plans
- At a minimum, we expect recovery plans to:
 - Restore or reforest the cleared land or participate in a recovery project to restore and/or conserve an area at least equivalent to that cleared since the cut-off date (twice as large if on peat), and preferably in the same landscape, along with a timebound plan for implementation.
 - Recovery plans must be accompanied by a commitment by the supplier to:
 - Halt the deforestation and land conversion immediately; and
 - Commit to a DCF Policy.

Grievances can be expressed via any of the following channels:

- Hershey's [Concern Line](#), an independent third-party monitored service available 24/7 via phone and internet. Reports can be made anonymously.
- Hershey's Legal Department by emailing ethics@hersheys.com or mailing:
c/o General Counsel
The Hershey Company
19 East Chocolate Avenue
Hershey, PA 17033 USA
- Directly emailing Hershey's Responsible Sourcing team (responsiblesourcing@hersheys.com)
- For reference, please see our [Grievance Procedure for Potential Violations of our DCF Policy](#) and our [palm oil grievance log](#).



- Grievances can also be reported to relevant certification standards, such as, [Rainforest Alliance](#) and the [RSPO](#).

Hershey does not retaliate nor permit retaliation against anyone who has reported a concern in good faith or collaborated with Hershey on an investigation.

Public Reporting

On at least an annual basis, Hershey will publicly disclose metrics and progress made towards achieving our DCF Policy through channels, including, but not limited to, our website and Responsible Business Report.