



**NOTICE OF 2016 ANNUAL MEETING  
AND PROXY STATEMENT**

**2015 ANNUAL REPORT  
TO STOCKHOLDERS**

**May 4, 2016  
10:00 a.m., Eastern Daylight Time**

**GIANT Center  
550 West Hersheypark Drive  
Hershey, Pennsylvania**



**John P. Bilbrey**  
*Chairman of the Board,  
President and Chief Executive Officer*

March 24, 2016

Dear Stockholder:

It is my pleasure to invite you to attend the 2016 Annual Meeting of Stockholders of The Hershey Company, which will be held at 10:00 a.m., Eastern Daylight Time on Wednesday, May 4, 2016. Detailed instructions regarding meeting attendance and how to vote your Hershey shares prior to the meeting can be found in the proxy materials that accompany this letter. Your vote is extremely important, and I encourage you to review the materials and submit your vote today.

Each day, millions of people choose from our portfolio of more than 80 delicious snack and confection brands to satisfy an ever widening array of purposes. They choose us when celebrating birthdays, holidays and special occasions. They reach for our products to stay connected with loved ones and colleagues. They choose us when they're happy, when they need a break, to fuel workouts and to stay nourished on the go. Our broad spectrum of offerings appeals to both budget-minded consumers as well as those looking for more premium choices.

Today's consumers are increasingly thoughtful about their food, seeking to know more about what's in the product they buy, where it comes from and how it's made. At Hershey, we're committed to responsible sourcing, using the highest quality ingredients, and providing consumers with more information about what's involved in the making of their food. Understanding our consumers and being a valuable partner to our retailers and suppliers is central to the job we do each day.

We are operating in a time of unprecedented change. Consumer's relationship with food is changing, the retail landscape is evolving and the global macroeconomic environment has shown a marked slow-down. Within the broader snacks category – which includes candy, mint and gum (CMG) – growth has slowed versus historical trends. Regardless of these conditions, it is our goal to grow our share of market. Many of the challenges impacting other food companies have had an effect on our business as well. Income bifurcation in the U.S., macroeconomic pressures in emerging markets, changing shopper habits and increased competitive activity have resulted in slower CMG growth. Specifically, over the last three years, the compounded annual growth rate (CAGR) for the U.S. CMG category was just below 2.5%, well below the historical 3-4% growth rate. Hershey U.S. CMG retail takeaway for 2015 was relatively in line with the recent market performance average, increasing by 2.4%.

Despite these challenges, The Hershey Company made progress on many important initiatives in 2015, including gross margin expansion and holding the line on our expenses, which contributed to a 3.5% increase in full year adjusted earnings per share-diluted. We continued to generate strong cash flow, returning \$900 million to shareholders through a 9% dividend increase and share repurchases, and we maintained our industry-leading U.S. CMG market share at 31.3%. We also made great progress with the *Krave* meat snacks business and saw our new innovation products such as *Reese's* Snack Mix, *Hershey's* Snack Bites and *Brookside* Dark Chocolate Fruit and Nut Bar perform in line with expectations. During the fourth-quarter holiday season we debuted Holiday *Hershey's Kisses* Milk Chocolates and *Hershey's* Milk Chocolate Bars made with simple ingredients and no artificial flavors across the U.S. These are some of the first products from Hershey to transition to simpler ingredients, a commitment announced last year. *Hershey's*

*Kisses* Milk Chocolates holiday packages were also the first in the industry to include *SmartLabel*<sup>™</sup> technology, an innovative initiative that allows consumers to scan a QR code and instantly access detailed product information, from ingredient and nutrition facts to allergens.

It was a difficult year for our international businesses. The strength of the U.S. dollar and fluctuation of foreign currency exchange rates had an impact on all U.S. multinationals. Additionally, we made a significant investment in the China business in the midst of a macroeconomic slowdown and a tough integration with our Shanghai Golden Monkey acquisition. In China, the chocolate category was nearly flat and our focus in the hyper market channel, where chocolate underperformed the overall category for all participants, resulted in a 1.1 point loss in market share there. In Mexico, although full year local currency sales increased 6%, our chocolate marketplace performance lagged the category and fell below our expectations. While only a small part of our overall international business, in Brazil, we were the fastest growing chocolate company as retail takeaway increased about 13%, resulting in a share gain of 0.2%. In India, our core brands performed well, but constant-currency net sales declined, in line with estimates. I remain confident in our long-term plan for our international businesses and am encouraged where we have maintained and gained market share.

I am particularly proud of our ongoing commitment to bring goodness to the world through our brands, talented employees and global citizenship. Our work resulted in several significant honors and recognition:

- Ranked #6 out of the top 500 U.S. companies in Newsweek's 2015 Green Rankings
- Named to the Dow Jones Sustainability World and North America Index for a third straight year
- Listed as one of the "Best Places to Work for LGBT Equality" in the 2016 Human Rights Campaign Corporate Equality Index
- Listed as a 2015 World's Most Ethical Companies by Ethisphere Institute
- Named to Civic 50 list as one of America's most community-minded companies

We remain focused on our responsible sourcing commitments. In 2015, we achieved our goal to source 50 percent of our global cocoa supply from certified and sustainable sources, a full year ahead of our original schedule. Given this accelerated progress, the company has set a new target of sourcing 75% of its global cocoa supply from certified and sustainable sources by the end of 2017. We also made progress on our commitment to source 100% traceable and responsible palm oil by mapping more than 90% of all mills that supply our palm and kernel oil globally.

In 2015, we launched Nourishing Minds, our shared social purpose that uses our expertise in food nutrition and production to provide access to basic nutrition so children can learn, grow, and develop. As part of this initiative, each day we provide 50,000 school age children in Ghana with Vivi, a nutritional supplement developed by a team of Hershey employees, to help these children focus on their studies rather than their stomachs. In the U.S., we are partnering with Feeding America, supporting child nutrition programs in six cities across the U.S. And with 1,233 employees giving 4,200 hours of service in eight countries, our employees are truly living our values and showing what shared goodness looks like in action.

As we look to 2016 and beyond, we'll continue to invest in our core brands in the U.S., as well as capabilities related to turning insights into action. We'll make incremental investments in our existing snacks portfolio, providing another lever of growth. We will focus on winning share of quality merchandising and incremental space in store, and executing strong consumer marketing that is more targeted and engaging.

At Hershey, our brands have become iconic symbols of goodness, delivering on a promise to give back to the people we nourish and delight. I am honored and grateful to work alongside 21,000 remarkable individuals with deep expertise in food, distribution, manufacturing, marketing, technology, quality and safety. We all appreciate your support and dedication as we work to continue to bring goodness to the world every day.

Thank you for your continued investment in The Hershey Company. I look forward to seeing you at the meeting.

A handwritten signature in black ink, appearing to read "John P. Bilbrey". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

John P. Bilbrey

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### **Safe Harbor Statement**

*Please refer to the 2015 Annual Report to Stockholders that accompanies this letter for a discussion of Risk Factors that could cause future results to differ materially from the forward-looking statements, expectations and assumptions expressed or implied in this letter to stockholders or elsewhere. This letter to stockholders is not part of our proxy soliciting material.*



## Q&A WITH JIM NEVELS, OUR LEAD INDEPENDENT DIRECTOR

**Q: What were the Board's most significant priorities over the past year?**

**Nevels:** As a Board, we include strategy, enterprise risk management, leadership development and our commitment to ethics and compliance among the items we believe create the most value for our stockholders. During 2015, we engaged with management on the development of Hershey's overall portfolio as the Company expanded into the snacks business and invested in key international markets. This oversight work included review of the macroeconomic slowdown in China and its impact on the chocolate and confectionery categories as well as the Company's efforts to integrate the newly acquired Shanghai Golden Monkey portfolio of products. We also focused on the continued development of our leadership team as we realigned our people resources to ignite a new phase of growth, including the hiring of a new Chief Financial Officer and a new Chief Marketing Officer. Finally, from a risk oversight perspective, the Board focused on a diverse set of issues ranging from the changing consumer landscape and increased competitive activity to cybersecurity and the continuing importance of food safety.

**Q: You mentioned the Company's commitment to ethics and compliance in your response above. What is the Board's role in fostering this commitment throughout the organization?**

**Nevels:** Our Code of Ethical Business Conduct sets the standards by which we conduct our operations. We expect everyone connected to our Company – including our directors, officers, employees, suppliers and other third-parties with whom we do business – to operate ethically and to lead with integrity. As a Board, we must set a strong tone at the top and encourage our people leaders to do the same. Setting clear expectations regarding how we do business was particularly important in 2015 given our acquisition activity, our resource realignment initiative and the overall slow-down in the global macroeconomic environment. With the oversight of the Audit Committee, the Board reinforced the importance of leading by example with the Company's senior leaders.

The Board is very proud of the Company's selection by Ethisphere Institute in 2015 as one of the most ethical food and beverage companies in the world. While winning such an award is excellent recognition of what has been accomplished, what's most important is for the Board to clearly communicate its expectation that the Company and its employees act with the highest standards of integrity in all that we do each day.

**Q: What do you believe are the most important elements of good corporate governance?**

**Nevels:** Strong, independent Board leadership and a team of highly effective directors are absolutely essential to good corporate governance. Other than our CEO, each of our directors is independent, and, therefore, each of our key committees is comprised solely of independent directors. This structure helps to ensure that key strategic decisions made by senior management, including our CEO, are reviewed and overseen by independent directors of the Board. To provide that oversight, the independent directors meet in executive sessions at each regularly scheduled Board meeting. I chair these sessions and serve as a liaison between the Chairman and the independent directors. As Lead Independent Director, I also work to ensure that the Board receives the appropriate quality of information needed to perform their oversight responsibilities and that we have appropriate level of dialogue and engagement with management.

As Board members for the greatest confectionery Company in the world, we're very conscious of the need for board effectiveness. We conduct an annual performance review of the Board, its independent committees and each director. This work, led by our Governance Committee, helps ensure the Board and its committees remain focused on those key priorities that will continue to drive stockholder value and that we are spending our time together as a Board on the most important issues facing the Company. In addition, the annual review process allows us to assess the composition of the Board in order to ensure it reflects an appropriate balance of knowledge, skills, expertise, diversity and independence.

**Q: Any final thoughts?**

**Nevels:** It is an exciting time to be a part of The Hershey Company, and I am extremely honored to serve as the Lead Independent Director. We value the investment our stockholders have made in this great Company and the trust placed in us as representatives on the Board, and we will work hard to ensure we continue to earn that trust and support.

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# Notice of 2016 Annual Meeting of Stockholders

**Wednesday, May 4, 2016  
10:00 a.m., Eastern Daylight Time  
GIANT Center**

The 2016 Annual Meeting of Stockholders (the "Annual Meeting") of The Hershey Company (the "Company") will be held on Wednesday, May 4, 2016, beginning at 10:00 a.m., Eastern Daylight Time, at GIANT Center, 550 West Hersheypark Drive, Hershey, Pennsylvania. The purposes of the meeting are as follows:

1. To elect the 11 nominees named in the Proxy Statement to serve as directors of the Company until the 2017 Annual Meeting of Stockholders;
2. To ratify the appointment of KPMG LLP as the Company's independent auditors for the fiscal year ending December 31, 2016;
3. To approve the compensation of the Company's named executive officers on a non-binding advisory basis;
4. To re-approve the material terms of the performance criteria under The Hershey Company Equity and Incentive Compensation Plan;
5. To consider the stockholder proposal set forth in the Proxy Statement, if properly presented at the Annual Meeting; and
6. To discuss and take action on any other business that is properly brought before the Annual Meeting.

The Proxy Statement accompanying this Notice of 2016 Annual Meeting of Stockholders describes each of these items in detail. The Proxy Statement contains other important information that you should read and consider before you vote.

The Board of Directors of the Company has established the close of business on March 7, 2016 as the record date for determining the stockholders who are entitled to notice of, and to vote at, the Annual Meeting and any adjournment or postponement thereof.

The Company is furnishing proxy materials to its stockholders through the Internet as permitted under the rules of the Securities and Exchange Commission. Under these rules, many of the Company's stockholders will receive a Notice of Internet Availability of Proxy Materials instead of a paper copy of the Notice of 2016 Annual Meeting of Stockholders and Proxy Statement, our proxy card, and our Annual Report on Form 10-K. We believe this process gives us the opportunity to serve you more efficiently by making the proxy materials available quickly online and reducing costs associated with printing and postage. Stockholders who do not receive a Notice of Internet Availability of Proxy Materials will receive a paper copy of the proxy materials by mail.

By order of the Board of Directors,

A handwritten signature in dark ink, appearing to read "Leslie M. Turner". The signature is written in a cursive, flowing style.

Leslie M. Turner  
Senior Vice President,  
General Counsel and Secretary

March 24, 2016

**Your vote is important. Instructions on how to vote are contained in our Proxy Statement and in the Notice of Internet Availability of Proxy Materials. Please cast your vote by telephone or over the Internet as described in those materials. Alternatively, if you requested a copy of the proxy/voting instruction card by mail, you may mark, sign, date and return the proxy/voting instruction card in the envelope provided.**



# Proxy Statement Summary

## 2016 ANNUAL MEETING OF STOCKHOLDERS

**Date and Time:** Wednesday, May 4, 2016  
10:00 a.m., Eastern Daylight Time

**Place:** GIANT Center  
550 West Hersheypark Drive  
Hershey, Pennsylvania 17033

**Record Date:** March 7, 2016

## VOTING MATTERS AND BOARD RECOMMENDATIONS

Voting Matter	Board Vote Recommendation	Page Number with More Information
<b>Proposal 1: Election of Directors</b>	<b>FOR each nominee</b>	<b>23</b>
<b>Proposal 2: Ratification of Appointment of KPMG LLP as Independent Auditors</b>	<b>FOR</b>	<b>41</b>
<b>Proposal 3: Approval of Named Executive Officer Compensation on a Non-binding Advisory Basis</b>	<b>FOR</b>	<b>81</b>
<b>Proposal 4: Re-approval of Material Terms of the Performance Criteria under The Hershey Company Equity and Incentive Compensation Plan</b>	<b>FOR</b>	<b>82</b>
<b>Proposal 5: Stockholder Proposal Entitled "Report on Use of Nanomaterials"</b>	<b>AGAINST</b>	<b>89</b>

*This Proxy Statement Summary contains highlights of certain information in this Proxy Statement. Because it is only a summary, it does not contain all the information that you should consider prior to voting. Please review the complete Proxy Statement and the Company's Annual Report on Form 10-K for additional information.*

## OUR DIRECTOR NOMINEES

You have the opportunity to vote on the election of the following 11 nominees for director. Additional information regarding each director nominee's experience, skills and qualifications to serve as a member of the Company's Board of Directors (the "Board") can be found on pages 24 – 29.

Name	Age	Years on Board	Position	Independent	Committee Memberships*
Pamela M. Arway	62	6	Former President, Japan/Asia Pacific/Australia Region of American Express Company, Inc.	Yes	Audit Executive Governance <sup>+</sup>
John P. Bilbrey**	59	5	Chairman of the Board, President and Chief Executive Officer of The Hershey Company	No	Executive <sup>+</sup>
Robert F. Cavanaugh	57	13	Former Chief Executive Officer of ValueRock Investment Partners	Yes	Finance & Risk Governance
Charles A. Davis	67	9	Chief Executive Officer of Stone Point Capital LLC	Yes	Audit <sup>+</sup> Executive
Mary Kay Haben	59	3	Retired President, North America of Wm. Wrigley Jr. Company	Yes	Compensation Governance
Robert M. Malcolm	63	5	Retired President, Global Marketing, Sales & Innovation of Diageo PLC	Yes	Compensation Finance & Risk
James M. Mead	70	5	Founder and Managing Director of JM Mead, LLC	Yes	Audit Compensation <sup>+</sup> Executive
James E. Nevels***	64	9	Chairman of The Swarthmore Group	Yes	Audit Compensation**** Executive Finance & Risk**** Governance
Anthony J. Palmer	56	5	President, Global Brands and Innovation of Kimberly-Clark Corporation	Yes	Compensation Finance & Risk
Thomas J. Ridge	70	9	Chairman of Ridge Global, LLC	Yes	Finance & Risk Governance
David L. Shedlarz	67	8	Retired Vice Chairman of Pfizer Inc.	Yes	Compensation Executive Finance & Risk <sup>+</sup>

\* Compensation = Compensation and Executive Organization Committee  
Finance & Risk = Finance and Risk Management Committee

\*\* Chairman of the Board

\*\*\* Lead Independent Director

\*\*\*\* Mr. Nevels, as our Lead Independent Director, is an ex-officio member of the Compensation and Executive Organization Committee and the Finance and Risk Management Committee

+ Committee Chair

## GOVERNANCE HIGHLIGHTS

### Board Composition

- 11 director nominees; 10 are independent
- Average age of director nominees is 63
- Average tenure of director nominees is seven years
- Five new directors in last five years
- Highly qualified directors reflect broad mix of business backgrounds, skills and experiences

### Corporate Governance

- Strong Lead Independent Director position
- Four fully independent Board committees plus an Executive Committee
- Executive session of independent directors held at each regularly-scheduled Board meeting
- Declassified Board – all directors elected annually
- Frequent Board and committee meetings to ensure awareness and alignment
  - 10 Board meetings in 2015
  - 32 committee meetings in 2015
- On average, directors attended 97% of Board and committee meetings held in 2015
- Generally, committee chair required to step down after four consecutive years as chair
- Annual Board and committee self-assessments and discussions with individual directors
- Resignation requirement upon material change in director occupation (subject to acceptance by the Board)
- Directors generally not nominated for re-election after 72<sup>nd</sup> birthday
- Strong clawback and anti-hedging policies
- Significant stock ownership requirements for directors and senior executives
- Active role in risk oversight, including separate risk management committee
- Annual advisory vote on named executive officer compensation
  - Approximately 95% stockholder approval (based on votes cast) every year
- Two directors elected by holders of common stock voting separately

## EXECUTIVE COMPENSATION HIGHLIGHTS

Our executive compensation program is intended to provide competitive compensation based on performance and contributions to the Company, to incentivize, attract and retain key executives, to align the interests of our executive officers and our stockholders and to drive stockholder value over the long term. To achieve these objectives, our executive compensation program includes the following key features:

- **We Pay for Performance** by aligning our short- and long-term incentive compensation plans with business strategies to reward executives who achieve or exceed applicable Company and business division goals.
  - In 2015, variable compensation represented 86% of our Chairman of the Board, President and Chief Executive Officer’s (“CEO’s”) target total direct compensation and, on average, 71% of target total direct compensation for our other named executive officers (“NEOs”).
  - Payouts under our annual cash incentive program for 2015 were 100% performance based.
  - 50% of the equity awards granted to our NEOs in 2015 took the form of performance stock units, which will be earned based on achievement of pre-determined performance goals.
  - 50% of the equity awards granted to our NEOs in 2015 took the form of stock options, which will only have value to our NEOs to the extent our stock price increases over the long term.
- **We Pay Competitively** by targeting total cash compensation and total direct compensation for each of our NEOs around the 50<sup>th</sup> percentile of our defined market for talent.
  - We regularly review and, as appropriate, make changes to our compensation peer group to ensure it is representative of our market for talent, our business portfolio, our overall size and our global footprint.
  - We do not provide excessive benefits and perquisites to our executives.
- **We Align Our Compensation Program with Stockholder Interests** by providing a significant amount of each NEO’s compensation opportunity in the form of equity and requiring executive stock ownership.
  - Equity grants represented 66% of our CEO’s 2015 target total direct compensation and, on average, 50% of the 2015 target total direct compensation for our other NEOs.
  - Stock ownership requirements for our NEOs (excluding those who served in interim positions in 2015) range from 5x salary (for our CEO) to 3x salary (for NEOs other than our CEO).

CEO Target Total Direct Compensation for 2015				
Compensation Element	% of Total	Description	Cash	Equity
Salary	14	Fixed annual cash amount	✓	
Annual Cash Incentive	20	Variable annual cash payment	✓	
Long-Term Incentive	66	Equity awards with 3-4 year vest periods		✓

# Proxy Statement

The Board of Directors (the “Board”) of The Hershey Company (the “Company,” “we,” or “us”) is furnishing this Proxy Statement and the accompanying form of proxy in connection with the solicitation of proxies for the 2016 Annual Meeting of Stockholders of the Company (the “Annual Meeting”). The Annual Meeting will be held on May 4, 2016, beginning at 10:00 a.m., Eastern Daylight Time (“EDT”), at GIANT Center, 550 West Hersheypark Drive, Hershey, Pennsylvania 17033.

## **Important Notice Regarding the Availability of Proxy Materials for the 2016 Annual Meeting of Stockholders to be held on May 4, 2016**

**The Notice of 2016 Annual Meeting of Stockholders and Proxy Statement, our proxy card, our Annual Report on Form 10-K and other annual meeting materials are available free of charge on the Internet at [www.proxyvote.com](http://www.proxyvote.com).** We intend to begin mailing our Notice of Internet Availability of Proxy Materials to stockholders on or about March 24, 2016. At that time, we also will begin mailing paper copies of our proxy materials to stockholders who requested them.

## **QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING**

### **Q: Who is entitled to attend and vote at the Annual Meeting?**

**A:** You can attend and vote at the Annual Meeting if, as of the close of business on March 7, 2016 (the “Record Date”), you were a stockholder of record of the Company’s common stock (“Common Stock”) or Class B common stock (“Class B Common Stock”). As of the Record Date, there were 154,349,189 shares of our Common Stock and 60,619,777 shares of our Class B Common Stock outstanding.

### **Q: How do I gain admission to the Annual Meeting?**

**A:** If you are a *registered stockholder*, you must bring with you the Notice of Internet Availability of Proxy Materials and a government-issued photo identification (such as a valid driver’s license or passport) to gain admission to the Annual Meeting. If you did not receive a Notice of Internet Availability of Proxy Materials because you elected to receive a paper copy of the proxy materials, please bring the admission ticket printed on the top half of the proxy card supplied with those materials, together with your government-issued photo identification. If you receive your proxy materials by email, please call our Investor Relations Department at (800) 539-0261 and request an admission ticket for the meeting.

If you hold your shares in *street name* and want to attend the Annual Meeting, you must bring your government-issued photo identification, together with:

- The Notice of Internet Availability of Proxy Materials you received from your broker, bank or other holder of record; or
- A letter from your broker, bank or other holder of record indicating that you were the beneficial owner of Company stock as of the Record Date; or
- Your most recent account statement indicating that you were the beneficial owner of Company stock as of the Record Date.

**Q: What is the difference between a registered stockholder and a stockholder who owns stock in street name?**

**A:** If you hold shares of Common Stock or Class B Common Stock directly in your name, you are a *registered stockholder*. If you own your Company shares indirectly through a broker, bank or other holder of record, those shares are held in *street name*.

**Q: What are the voting rights of each class of stock?**

**A:** Stockholders are entitled to cast one vote for each share of Common Stock held as of the Record Date, and 10 votes for each share of Class B Common Stock held as of the Record Date. There are no cumulative voting rights.

**Q: Can I vote my shares before the Annual Meeting?**

**A:** Yes. If you are a *registered stockholder*, there are three ways to vote your shares before the Annual Meeting:

- By Internet (*www.proxyvote.com*) – Use the Internet to transmit your voting instructions until 11:59 p.m. EDT on May 3, 2016. Have your Notice of Internet Availability of Proxy Materials or proxy card available and follow the instructions on the website to vote your shares.
- By telephone (800-690-6903) – Submit your vote by telephone until 11:59 p.m. EDT on May 3, 2016. Have your Notice of Internet Availability of Proxy Materials or proxy card available and follow the instructions provided by the recorded message to vote your shares.
- By mail – If you received a paper copy of the proxy materials, you can vote by mail by filling out the proxy card enclosed with those materials and returning it pursuant to the instructions set forth on the card. To be valid, proxy cards must be received before the start of the Annual Meeting.

If your shares are held in *street name*, your broker, bank or other holder of record may provide you with a Notice of Internet Availability of Proxy Materials that contains instructions on how to access our proxy materials and vote online or to request a paper or email copy of our proxy materials. If you received these materials in paper form, the materials included a voting instruction card so you can instruct your broker, bank or other holder of record how to vote your shares.

Please see the Notice of Internet Availability of Proxy Materials or the information your bank, broker or other holder of record provided you for more information on these voting options.

**Q: Can I vote in person at the Annual Meeting instead of by proxy?**

**A:** If you are a *registered stockholder*, you can vote at the Annual Meeting any shares that were registered in your name as the stockholder of record as of the Record Date.

If your shares are held in *street name*, you cannot vote those shares at the Annual Meeting unless you have a legal proxy from the holder of record. If you plan to attend and vote your street-name shares at the Annual Meeting, you should request a legal proxy from your broker, bank or other holder of record and bring it with you to the Annual Meeting.

If you plan to vote at the Annual Meeting, please pick up a ballot at the designated voting booth upon your arrival. You may then either deposit your ballot in any of the designated ballot boxes located inside the meeting room before the meeting begins or submit your ballot to a meeting usher at the time designated during the meeting. *Ballots will not be distributed during the meeting.* Shares may not be voted after the polls close.

Whether or not you plan to attend the Annual Meeting, we strongly encourage you to vote your shares by proxy prior to the Annual Meeting.

**Q: Can I revoke my proxy or change my voting instructions once submitted?**

**A:** If you are a *registered stockholder*, you can revoke your proxy and change your vote prior to the Annual Meeting by:

- Sending a written notice of revocation to our Corporate Secretary at 100 Crystal A Drive, Hershey, Pennsylvania 17033 (the notification must be received by the close of business on May 3, 2016);
- Voting again by Internet or telephone prior to 11:59 p.m. EDT on May 3, 2016 (only the latest vote you submit will be counted); or
- Submitting a new properly signed and dated paper proxy card with a later date (your proxy card must be received before the start of the Annual Meeting).

If your shares are held in *street name*, you should contact your broker, bank or other holder of record about revoking your voting instructions and changing your vote prior to the Annual Meeting.

If you are eligible to vote at the Annual Meeting, you also can revoke your proxy or voting instructions and change your vote at the Annual Meeting by submitting a written ballot before the polls close.

**Q: What will happen if I submit my proxy but do not vote on a proposal?**

**A:** If you submit a valid proxy but fail to provide instructions on how you want your shares to be voted, your proxy will be voted in the manner recommended by the Board on all matters presented in this Proxy Statement, which is as follows:

- “FOR” the election of all director nominees;
- “FOR” the ratification of the appointment of KPMG LLP as our independent auditors;
- “FOR” the approval of the compensation of the Company’s named executive officers (“NEOs”);
- “FOR” the re-approval of the material terms of the performance criteria under The Hershey Company Equity and Incentive Compensation Plan; and
- “AGAINST” the stockholder proposal set forth in this Proxy Statement (if such stockholder proposal is properly presented at the Annual Meeting).

If any other item is properly presented for a vote at the Annual Meeting, the shares represented by your properly submitted proxy will be voted at the discretion of the proxies.



**Q: What will happen if I neither submit my proxy nor vote my shares in person at the Annual Meeting?**

**A:** If you are a *registered stockholder*, your shares will not be voted.

If your shares are held in *street name*, your broker, bank or other holder of record may vote your shares on certain “routine” matters. The ratification of independent auditors is currently considered to be a routine matter. On this matter, your broker, bank or other holder of record can:

- Vote your street-name shares even though you have not provided voting instructions; or
- Choose not to vote your shares.

The other matters you are being asked to vote on are not routine and cannot be voted by your broker, bank or other holder of record without your instructions. When a broker, bank or other holder of record is unable to vote shares for this reason, it is called a “broker non-vote.”

**Q: How do I vote if I am a participant in one of the Company’s 401(k) Plans?**

**A:** If you are a participant in either The Hershey Company 401(k) Plan or The Hershey Company Puerto Rico 401(k) Plan, you may have certain voting rights with respect to shares of our Common Stock credited to your account in the plan. You do not own these shares. They are owned by the plan trustee.

Each of the plans provides you with voting rights based on the number of shares of Common Stock that were constructively invested in your plan account as of the close of business on the Record Date. We originally contributed these shares to the plan on your behalf as matching or supplemental retirement contributions. You may vote these shares in much the same way as registered stockholders vote their shares, but you have an earlier deadline. Your vote must be received by the plan trustee by 11:59 p.m. EDT on April 29, 2016. You may vote these shares by following the instructions provided on the Notice of Internet Availability of Proxy Materials and on the voter website, *www.proxyvote.com*. If you requested a paper copy of the proxy materials, you also may vote by mail by signing, dating and returning the proxy/voting instruction card included with those materials.

The plan trustee will submit one proxy to vote all shares of Common Stock in the plan. The trustee will vote the shares of Common Stock credited to participants submitting voting instructions in accordance with their instructions and will vote the shares of Common Stock in the plan for which no voting instructions were received in the same proportion as the final votes of all participants who actually voted. Please note that if you do not submit voting instructions for the shares of Common Stock in your account by the voting deadline, those shares will be included with the other undirected shares and voted by the trustee as described above. Because the trustee submits one proxy to vote all shares of Common Stock in the plan, you may not vote plan shares in person at the Annual Meeting.

**Q: How do I vote my shares in the Company’s Automatic Dividend Reinvestment Service Plan?**

**A:** Computershare, our transfer agent, has arranged for any shares that you hold in the Automatic Dividend Reinvestment Service Plan to be included in the total registered shares of Common Stock shown on the Notice of Internet Availability of Proxy Materials or proxy card we have provided you. By voting these shares, you also will be voting your shares in the Automatic Dividend Reinvestment Service Plan.

**Q: What does it mean if I received more than one Notice of Internet Availability of Proxy Materials or proxy card?**

**A:** You probably have multiple accounts with us and/or brokers, banks or other holders of record. You should vote all of the shares represented by these Notices/proxy cards. Certain brokers, banks and other holders of record have procedures in place to discontinue duplicate mailings upon a stockholder's request. You should contact your broker, bank or other holder of record for more information. Additionally, Computershare can assist you if you want to consolidate multiple registered accounts existing in your name. To contact Computershare, write to P.O. Box 30170, College Station, Texas 77842-3170; or for overnight delivery, to Computershare, 211 Quality Circle, Suite 210, College Station, Texas 77845; or call:

- (800) 851-4216 Domestic Holders
- (201) 680-6578 Foreign Holders
- (800) 952-9245 Domestic TDD line for hearing impaired
- (312) 588-4110 Foreign TDD line for hearing impaired

**Q: How many shares must be present to conduct business at the Annual Meeting?**

**A:** To carry on the business of the Annual Meeting, a minimum number of shares, constituting a quorum, must be present, either in person or by proxy.

On most matters, the votes of the holders of the Common Stock and Class B Common Stock are counted together. However, there are some matters that must be voted on only by the holders of one class of stock. We will have a quorum for all matters to be voted on at the Annual Meeting if the following number of votes is present, in person or by proxy:

- *For any matter requiring the vote of the Common Stock voting separately:* a majority of the votes of the Common Stock outstanding on the Record Date.
- *For any matter requiring the vote of the Class B Common Stock voting separately:* a majority of the votes of the Class B Common Stock outstanding on the Record Date.
- *For any matter requiring the vote of the Common Stock and Class B Common Stock voting together without regard to class:* a majority of the votes of the Common Stock and Class B Common Stock outstanding on the Record Date.

It is possible that we could have a quorum for certain items of business to be voted on at the Annual Meeting and not have a quorum for other matters. If that occurs, we will proceed with a vote only on the matters for which a quorum is present.

**Q: What vote is required to approve each proposal?**

**A:** Assuming that a quorum is present:

- *Proposal No. 1: Election of Directors* – the two nominees to be elected by holders of our Common Stock voting separately as a class who receive the greatest number of votes cast “FOR,” and the nine nominees to be elected by holders of our Common Stock and Class B Common Stock voting together who receive the greatest number of votes cast “FOR,” will be elected as directors.
- *Proposal No. 2: Ratification of the Appointment of KPMG LLP as Independent Auditors* – the affirmative vote of the holders of at least a majority of the shares of Common Stock and Class B Common Stock (voting together as a class) represented at the Annual Meeting.

- *Proposal No. 3: Approval of Named Executive Officer Compensation on a Non-binding Advisory Basis* – the affirmative vote of the holders of at least a majority of the shares of Common Stock and Class B Common Stock (voting together as a class) represented at the Annual Meeting.
- *Proposal No. 4: Re-approval of the Material Terms of the Performance Criteria under The Hershey Company Equity and Incentive Compensation Plan* – the affirmative vote of the holders of at least a majority of the shares of Common Stock and Class B Common Stock (voting together as a class) represented at the Annual Meeting.
- *Proposal No. 5: Stockholder Proposal Entitled “Report on Use of Nanomaterials”*– the affirmative vote of the holders of at least a majority of the shares of Common Stock and Class B Common Stock (voting together as a class) represented at the Annual Meeting.

**Q: Are abstentions and broker non-votes counted in the vote totals?**

**A:** Abstentions are counted as being present and entitled to vote in determining whether a quorum is present. Shares as to which broker non-votes exist will be counted as present and entitled to vote in determining whether a quorum is present for any matter requiring the vote of the Common Stock and Class B Common Stock voting together as a class, but they will not be counted as present and entitled to vote in determining whether a quorum is present for any matter requiring the vote of the Common Stock or Class B Common Stock voting separately as a class.

If you mark or vote “abstain” on any of Proposal Nos. 2-5, the abstention will have the effect of being counted as a vote “AGAINST” the proposal. Broker non-votes with respect to Proposal Nos. 1-5 are not included in vote totals and will not affect the outcome of the vote on those proposals.

**Q: Who will pay the cost of soliciting votes for the Annual Meeting?**

**A:** We will pay the cost of preparing, assembling and furnishing proxy solicitation and other required Annual Meeting materials. We do not use a third-party solicitor. It is possible that our directors, officers and employees might solicit proxies by mail, telephone, telefax, electronically over the Internet or by personal contact, without receiving additional compensation. We will reimburse brokers, banks and other nominees, fiduciaries and custodians who nominally hold shares of our stock as of the Record Date for the reasonable costs they incur furnishing proxy solicitation and other required Annual Meeting materials to street-name holders who beneficially own those shares on the Record Date.

## **CORPORATE GOVERNANCE**

We have a long-standing commitment to good corporate governance practices. Our corporate governance policies and other documents establish the high standards of professional and personal conduct we expect of our Board, members of senior management and all employees, and promote compliance with various financial, ethical, legal and other obligations and responsibilities.

The business activities of the Company are carried out by our employees under the direction and supervision of our Chairman of the Board, President and Chief Executive Officer (“CEO”). The Board is responsible for overseeing these activities. In doing so, each director is required to use his or her business judgment in the best interests of the Company. The Board’s responsibilities include:

- Reviewing the Company’s performance, strategies and major decisions;
- Overseeing the Company’s compliance with legal and regulatory requirements and the integrity of its financial statements;
- Overseeing the Company’s policies and practices for identifying, managing and mitigating key enterprise risks;
- Overseeing management, including reviewing the CEO’s performance and succession planning for key management roles; and
- Overseeing executive and director compensation, and our compensation program and policies.

### **Corporate Governance Guidelines**

The Board has adopted Corporate Governance Guidelines that, along with the charters of the Board committees, provide the basic framework for the Board’s operation and role in the governance of the Company. The guidelines include the Board’s policies regarding director independence, qualifications and responsibilities, access to management and outside advisors, compensation, continuing education, oversight of management succession and stockholding requirements. They also provide a process for directors to annually evaluate the performance of the Board.

The Governance Committee is responsible for overseeing and reviewing the Board’s Corporate Governance Guidelines at least annually and recommending any proposed changes to the Board for approval. The Corporate Governance Guidelines are available on the Investors section of our website at [www.thehersheycompany.com](http://www.thehersheycompany.com).

### **Code of Ethical Business Conduct**

The Board has adopted a Code of Ethical Business Conduct (the “Code”) that applies to all of our directors, officers and employees worldwide. Adherence to this Code assures that our directors, officers and employees are held to the highest standards of integrity. The Code covers areas such as conflicts of interest, insider trading and compliance with laws and regulations. The Audit Committee oversees the Company’s communication of, and compliance with, the Code. The Code, including amendments thereto or waivers granted to a director or officer, if any, can be viewed on the Investors section of our website at [www.thehersheycompany.com](http://www.thehersheycompany.com).

## **Stockholder and Interested Party Communications with Directors**

Stockholders and other interested parties may communicate with our directors in several ways. Communications regarding accounting, internal accounting controls or auditing matters may be emailed to the Audit Committee at [auditcommittee@hersheys.com](mailto:auditcommittee@hersheys.com) or addressed to the Audit Committee at the following address:

Audit Committee  
c/o Corporate Secretary  
The Hershey Company  
100 Crystal A Drive  
P.O. Box 810  
Hershey, PA 17033-0810

Stockholders and other interested parties also can submit comments, confidentially and anonymously if desired, to the Audit Committee by calling the Hershey Concern Line at (800) 362-8321 or by accessing the Hershey Concern Line website at [www.HersheysConcern.com](http://www.HersheysConcern.com).

Stockholders and other interested parties may contact any of the independent directors, including the Lead Independent Director, as well as the independent directors as a group, by writing to the specified party at the address set forth above or by emailing the independent directors (or a specific independent director, including the Lead Independent Director) at [independentdirectors@hersheys.com](mailto:independentdirectors@hersheys.com). Stockholders and other interested parties may also contact any of the independent directors using the Hershey Concern Line telephone number or website noted above.

Communications to the Audit Committee, any of the independent directors and the Hershey Concern Line are processed by the Office of General Counsel. The Office of General Counsel reviews and summarizes these communications and provides reports to the applicable party on a periodic basis. Communications regarding any accounting, internal control or auditing matter are reported immediately to the Audit Committee, as are allegations about our officers. The Audit Committee will address communications from any interested party in accordance with our Board-approved Procedures for Submission and Handling of Complaints Regarding Compliance Matters, which are available for viewing on the Investors section of our website at [www.thehersheycompany.com](http://www.thehersheycompany.com). Solicitations, junk mail and obviously frivolous or inappropriate communications are not forwarded to the Audit Committee or the independent directors, but copies are retained and made available to any director who wishes to review them.

## **Director Independence**

The Board, in consultation with the Governance Committee, determines which of our directors are independent. The Board has adopted categorical standards for independence that the Board uses in determining which directors are independent. The Board bases its determination of independence for each director on the more stringent independence standards applicable to Audit Committee members regardless of whether such director serves on the Audit Committee. These standards are contained in the Board's Corporate Governance Guidelines.

Applying these categorical standards for independence, as well as the independence requirements set forth in the listing standards of the New York Stock Exchange (the "NYSE Rules") and the rules and regulations of the Securities and Exchange Commission ("SEC"), the Board determined that the following directors recommended for election at the Annual Meeting are independent: Pamela M. Arway, Robert F. Cavanaugh, Charles A. Davis, Mary Kay Haben, Robert M. Malcolm, James M. Mead, James E. Nevels, Anthony J. Palmer, Thomas J. Ridge and David L. Shedlarz. The Board determined that John P. Bilbrey is not independent because he is an executive officer of the Company.

In making its independence determinations, the Board, in consultation with the Governance Committee, reviewed the direct and indirect relationships between each director and the Company and its subsidiaries, as well as the compensation and other payments each director received from or made to the Company and its subsidiaries.

In making its independence determinations with respect to Messrs. Cavanaugh, Mead and Nevels, the Board considered each of their roles as independent members of the board of directors of Hershey Trust Company and the board of managers (governing body) of Milton Hershey School, as well as certain transactions the Company had or may have with these entities.

Hershey Trust Company, as trustee for the trust established by Milton S. and Catherine S. Hershey that has as its sole beneficiary Milton Hershey School (such trust, the “Milton Hershey School Trust”), is our controlling stockholder. Hershey Trust Company is in turn owned by the Milton Hershey School Trust. As such, Hershey Trust Company, Milton Hershey School, the Milton Hershey School Trust and companies owned by the Milton Hershey School Trust are considered affiliates of the Company under SEC rules. During 2015, we had a number of transactions with Hershey Trust Company, Milton Hershey School and companies owned by the Milton Hershey School Trust involving the purchase and sale of goods and services in the ordinary course of business and the leasing of real estate at market rates. We have outlined these transactions in greater detail in the section entitled “Certain Transactions and Relationships,” beginning on page 91. We have provided information about Company stock owned by Hershey Trust Company, as trustee for the Milton Hershey School Trust, and by Hershey Trust Company for its own investment purposes beginning on page 36.

Messrs. Cavanaugh, Mead and Nevels do not receive any compensation from The Hershey Company, from Hershey Trust Company or from Milton Hershey School other than compensation they receive or will receive in the ordinary course as members of the board of directors or board of managers of each of those entities. In addition, Messrs. Cavanaugh, Mead and Nevels do not participate in Board decisions in connection with the Company’s transactions with Hershey Trust Company, Milton Hershey School and companies owned by the Milton Hershey School Trust. The Board therefore concluded that the positions Messrs. Cavanaugh, Mead and Nevels have as members of the board of directors of Hershey Trust Company and the board of managers of Milton Hershey School do not impact their independence.

## **Director Nominations**

The Governance Committee is responsible for identifying and recommending to the Board candidates for Board membership. As our controlling stockholder, Hershey Trust Company, as trustee for the Milton Hershey School Trust, also may from time to time recommend to the Governance Committee, or elect outright, individuals to serve on our Board.

In administering its responsibilities, the Governance Committee has not adopted formal selection procedures, but instead utilizes general guidelines that allow it to adjust the selection process to best satisfy the objectives established for any director search. The Governance Committee considers director candidates recommended by any reasonable source, including current directors, management, stockholders (including Hershey Trust Company, as trustee for the Milton Hershey School Trust) and other sources. The Governance Committee evaluates all director candidates in the same manner, regardless of the source of the recommendation. The Governance Committee has established a policy that it will not recommend a candidate to the full Board until all members of the Governance Committee have interviewed and approved the candidate for nomination.

Occasionally, the Governance Committee engages a paid third-party consultant to assist in identifying and evaluating director candidates. The Governance Committee has sole authority under its charter to retain, compensate and terminate these consultants. No such third-party consultants were engaged by the Governance Committee in 2015.

Stockholders desiring to recommend or nominate a director candidate must comply with certain procedures. If you are a stockholder and desire to nominate a director candidate at the 2017 Annual Meeting of Stockholders of the Company, you must comply with the procedures for nomination set forth in the section entitled “Information Regarding the 2017 Annual Meeting of Stockholders,” beginning on page 93. Stockholders who do not intend to nominate a director at an annual meeting may recommend a director candidate to the Governance Committee for consideration at any time. Stockholders desiring to do so must submit their recommendation in writing to The Hershey Company, c/o Corporate Secretary, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810, and include in the submission all of the information that would be required if the stockholder nominated the candidate at an annual meeting. The Governance Committee may require the nominating stockholder to submit additional information before considering the candidate.

There were no changes to the procedures relating to stockholder nominations during 2015, and there have been no changes to such procedures to date in 2016. These procedural requirements are intended to ensure the Governance Committee has sufficient time and a basis on which to assess potential director candidates and are not intended to discourage or interfere with appropriate stockholder nominations. The Governance Committee does not believe that these procedural requirements subject any stockholder or proposed nominee to unreasonable burdens. The Governance Committee and the Board reserve the right to change the procedural requirements from time to time and/or to waive some or all of the requirements with respect to certain nominees, but any such waiver shall not preclude the Governance Committee from insisting upon compliance with any and all of the above requirements by any other recommending stockholder or proposed nominees.

## **THE BOARD OF DIRECTORS**

### **General Oversight**

The Board has general oversight responsibility for the Company’s affairs. Although the Board does not have responsibility for day-to-day management of the Company, Board members stay informed about the Company’s business through regular meetings, site visits and other periodic interactions with management. The Board is deeply involved in the Company’s strategic planning process. The Board also plays an important oversight role in the Company’s leadership development and succession planning processes.

### **Composition**

The Board is currently comprised of 11 members, each serving a one-year term that expires at the Annual Meeting. Ten of the 11 director nominees are considered independent under the NYSE Rules and the Board’s Corporate Governance Guidelines.

### **Leadership Structure**

The Company’s governance documents provide the Board with flexibility to select the leadership structure that is most appropriate for the Company and its stockholders. The Board regularly evaluates its governance structure and has concluded that the Company and its stockholders are best served by not having a formal policy regarding whether the same individual should serve as both Chairman of the Board and CEO. This approach allows the Board to exercise its business judgment in determining the most appropriate leadership structure in light of the current facts and circumstances facing the Company, including the composition and tenure of the Board, the tenure of the CEO, the strength of the Company’s management team, the Company’s recent financial performance, the Company’s current strategic plan, and the current economic environment, among other factors.

At the beginning of 2015, the roles of Chairman of the Board and CEO were held by separate individuals, with John P. Bilbrey serving as CEO and James E. Nevels serving as Chairman of the Board. As part of its regular evaluation of the Board's leadership structure during the first quarter of 2015, the Board determined that the interests of the Company and its stockholders would best be served by combining the roles of Chairman of the Board and CEO in a single individual. Accordingly, effective April 2, 2015, the Board elected Mr. Bilbrey to serve as Chairman of the Board, in addition to his responsibilities as President and CEO.

Several factors led to the Board's decision:

- Mr. Bilbrey has served as the Company's CEO and a member of the Board for nearly five years. During that time, he has developed a strong working relationship between the Board and management and has cultivated a high level of trust with the Board. He also has a deep understanding of Board governance and operations, having worked closely with the Chairman of the Board to develop meeting topics, set meeting schedules and agendas, and ensure efficient communications among the directors.
- Having served as an executive in numerous positions with the Company for more than a dozen years, Mr. Bilbrey has an unparalleled knowledge of the Company and its products, which the Board believes puts him in the best position to lead the Board through the strategic business issues facing the Company. During his tenure as CEO, Mr. Bilbrey has proven his ability to drive business strategy and operational excellence. The Board believes that providing Mr. Bilbrey with an opportunity to leverage these skills as Chairman of the Board provides the Company with a significant competitive advantage in the current marketplace.
- The Board believes that combining the roles of Chairman of the Board and CEO promotes decisive, unified leadership, which will enable the Company to make rapid strategic decisions in the face of increasing competition and shifting market opportunities.

In making its decision to combine the roles of Chairman of the Board and CEO, the Board also recognized the importance of strong independent Board leadership. For that reason, on April 1, 2015, the Board amended the Company's by-laws and the Board's Corporate Governance Guidelines to establish the position and responsibilities of Lead Independent Director. Effective April 2, 2015, the Board elected Mr. Nevels to serve as the Lead Independent Director. Having previously served as Chairman of the Board since February 2009, Mr. Nevels's service as Lead Independent Director helps ensure continuity of Board leadership and effective communication between the Chairman of the Board and the independent directors.

Under the terms of the Board's Corporate Governance Guidelines, the Lead Independent Director's responsibilities include the following:

- In the absence of the Chairman of the Board, presiding at all Board and stockholder meetings;
- Calling meetings of the independent directors of the Board, in addition to the executive sessions of independent directors held after each Board meeting;
- Establishing the agenda and presiding at all executive sessions and other meetings of the independent directors of the Board;
- Communicating with the independent directors of the Board between meetings as necessary or appropriate;
- Serving as a liaison between the Chairman of the Board and the independent directors, ensuring independent director consensus is communicated to the Chairman of the Board, and communicating the results of meetings of the independent directors to the Chairman of the Board and other members of management, as appropriate;
- Approving Board meeting agendas and schedules to assure there is sufficient time for discussion of all agenda items;



- Approving Board meeting materials and other information sent to the Board;
- Evaluating the quality and timeliness of information sent to the Board by the CEO and other members of management;
- Assisting the Chairman of the Board on matters of Board succession planning and crisis management;
- Overseeing the evaluation of the CEO;
- Assisting the chair of the Governance Committee with Board and individual director evaluations; and
- Being available for consultation and direct communication at the request of major stockholders.

The Board has determined that Mr. Nevels is an independent member of the Board under the NYSE Rules and the Board's Corporate Governance Guidelines.

In addition to the Lead Independent Director role, the Board has established five standing committees to assist with its oversight responsibilities: (1) Audit Committee; (2) Compensation and Executive Organization Committee ("Compensation Committee"); (3) Finance and Risk Management Committee; (4) Governance Committee; and (5) Executive Committee. Each of the Audit Committee, the Compensation Committee, the Finance and Risk Management Committee, and the Governance Committee is comprised entirely of independent directors. Finally, three of the Board's current 11 directors are direct representatives of the Company's largest stockholder. The composition of our Board helps to ensure that boardroom discussions reflect the views of management, our independent directors and our stockholders.

## **Board Role in Risk Oversight**

Our Board takes an active role in risk oversight. While management is responsible for identifying, evaluating, managing and mitigating the Company's exposure to risk, it is the Board's responsibility to oversee the Company's risk management process and to ensure that management is taking appropriate action to identify, manage and mitigate key risks. The Board administers its risk oversight responsibilities both through active review and discussion of key risks facing the Company and by delegating certain risk oversight responsibilities to committees for further consideration and evaluation.

In August 2009, the Board established the Finance and Risk Management Committee. This committee was established, in part, to enhance the Board's oversight of how senior management manages the material risks facing the Company.

The following table summarizes the role of the Board and each of its committees in overseeing risk:

<b>Governing Body</b>	<b>Role in Risk Oversight</b>
Board	<ul style="list-style-type: none"> <li>• Regularly reviews and evaluates the Company’s strategic plans and associated risks.</li> <li>• Oversees the Company’s enterprise risk management (“ERM”) framework and the overall ERM process.</li> <li>• Conducts annual succession plan reviews to ensure the Company maintains appropriate succession plans for members of senior management.</li> </ul>
Audit Committee	<ul style="list-style-type: none"> <li>• Oversees compliance with legal and regulatory requirements and the Company’s Code of Ethical Business Conduct.</li> <li>• Oversees risks relating to key accounting policies.</li> <li>• Reviews internal controls with the Principal Financial Officer, Principal Accounting Officer, and internal auditors.</li> <li>• Meets regularly with representatives of the Company’s independent auditors.</li> </ul>
Compensation and Executive Organization Committee	<ul style="list-style-type: none"> <li>• Oversees risks relating to the Company’s compensation program and policies.</li> <li>• Oversees the process for conducting annual risk assessments of the Company’s compensation policies and practices.</li> <li>• Employs independent compensation consultants to assist in reviewing the Company’s compensation program, including the potential risks created by such program.</li> <li>• Oversees the Company’s succession planning and talent processes and programs.</li> </ul>
Finance and Risk Management Committee	<ul style="list-style-type: none"> <li>• Reviews enterprise-level and other key risks identified through the Company’s ERM process as well as management’s plans to mitigate those risks.</li> <li>• Oversees key financial risks.</li> <li>• Oversees and approves proposed merger and acquisition activities and related risks.</li> <li>• Chair meets at least annually with the Audit Committee to discuss the Company’s risk management programs.</li> </ul>
Governance Committee	<ul style="list-style-type: none"> <li>• Oversees risks relating to the Company’s governance structure and other corporate governance matters and processes.</li> <li>• Oversees compliance with key corporate governance documents, including the Corporate Governance Guidelines and the Insider Trading Policy.</li> </ul>
Executive Committee	<ul style="list-style-type: none"> <li>• Reviews and approves, through a special committee of independent directors on the Executive Committee, any related party transactions between the Company and entities affiliated with the Company and certain of its directors.</li> </ul>

The decision to administer the Board's oversight responsibilities in this manner has a key effect on the Board's leadership and committee structure, described in more detail above. The Board believes that its structure – including a strong Lead Independent Director, 10 of 11 independent directors and key committees comprised entirely of independent directors – helps to ensure that key strategic decisions made by senior management, up to and including the CEO, are reviewed and overseen by independent directors of the Board.

## **Experiences, Skills and Qualifications**

The Governance Committee works with the Board to determine the appropriate characteristics, skills and experiences that should be possessed by the Board as a whole as well as its individual members. While the Governance Committee has not established minimum criteria for director candidates, in general the Board seeks individuals with skills and backgrounds that will complement those of other directors and maximize the diversity and effectiveness of the Board as a whole.

In addition, the Board's Corporate Governance Guidelines describe the general experiences, qualifications, attributes and skills sought by the Board of any director nominee, including:

- Integrity;
- Judgment;
- Skill;
- Diversity;
- The ability to express informed, useful and constructive views;
- Experience with businesses and other organizations of comparable size;
- The ability to commit the time necessary to learn our business and to prepare for and participate actively in committee meetings and in Board meetings;
- Experience and how it relates to the experience of the other Board members; and
- Overall desirability as an addition to the Board and its committees.

The Board seeks individuals with knowledge and experience in such disciplines as finance, international business, marketing, mergers and acquisitions, supply chain management, information technology, human resources and consumer products. The Board also seeks individuals who bring unique and varied perspectives and life experiences to the Board. As such, the Governance Committee assists the Board by recommending prospective director candidates who will enhance the overall diversity of the Board. The Board views diversity broadly, taking into consideration the age, professional experience, race, education, gender and other attributes of its members.

In addition to evaluating new director candidates, the Governance Committee regularly assesses the composition of the Board in order to ensure it reflects an appropriate balance of knowledge, skills, expertise, diversity and independence. As part of this assessment, each director is asked to identify and assess the particular experiences, skills and other attributes that qualify him or her to serve as a member of the Board. Based on the most recent assessment of the Board's composition completed in February 2016, the Governance Committee and the Board have determined that, in light of the Company's current business structure and strategies, the Board has an appropriate mix of director experiences, skills, qualifications and backgrounds.

A description of the most relevant experiences, skills, attributes and qualifications that qualify each director nominee to serve as a member of the Board is included in his or her biography.

## MEETINGS AND COMMITTEES OF THE BOARD

### Meetings of the Board of Directors and Director Attendance at Annual Meeting

The Board held 10 meetings in 2015. Each director attended at least 90% of all of the meetings of the Board and committees of the Board on which he or she served in 2015. Average attendance for all of these meetings equaled 97%.

In addition, the independent directors meet regularly in executive session at every Board meeting and at other times as the independent directors deem necessary. These meetings allow the independent directors to discuss important issues, including the business and affairs of the Company as well as matters concerning management, without any member of management present. Each executive session is chaired by Mr. Nevels, the Lead Independent Director. In the absence of the Lead Independent Director, executive sessions are chaired by an independent director assigned on a rotating basis. Members of the Audit Committee, Compensation Committee, Finance and Risk Management Committee, and Governance Committee also meet regularly in executive session.

Directors are expected to attend our annual meetings of stockholders. All 11 directors that were standing for election at the 2015 Annual Meeting of Stockholders of the Company attended that meeting.

### Committees of the Board

The Board has established five standing committees. Membership on each of these committees, as of March 7, 2016, is shown in the following chart:

Name	Audit	Compensation and Executive Organization	Finance and Risk Management	Governance	Executive
Pamela M. Arway	▲			Chair	▲
John P. Bilbrey					Chair
Robert F. Cavanaugh			▲	▲	
Charles A. Davis	Chair				▲
Mary Kay Haben		▲		▲	
Robert M. Malcolm		▲	▲		
James M. Mead	▲	Chair			▲
James E. Nevels	▲	▲*	▲*	▲	▲
Anthony J. Palmer		▲	▲		
Thomas J. Ridge			▲	▲	
David L. Shedlarz		▲	Chair		▲

▲ Committee Member

▲\* Ex-Officio

All directors, including committee chairs, served on the respective committees listed above throughout 2015, except as follows:

- Mr. Cavanaugh served as chair of the Compensation Committee and as a member of the Executive Committee throughout 2015.

- Mr. Mead served as a member of the Governance Committee throughout 2015. He was added as chair of the Compensation Committee and as a member of the Executive Committee effective January 1, 2016.
- Ms. Haben was added as a member of the Governance Committee effective January 1, 2016.
- Mr. Bilbrey was added as chair of the Executive Committee concurrent with his election as Chairman of the Board on April 2, 2015.
- Mr. Nevels was added as an ex-officio member of the Compensation Committee and the Finance and Risk Management Committee concurrent with his election as Lead Independent Director on April 2, 2015.

The Board's Corporate Governance Guidelines require that every member of the Audit Committee, Compensation Committee, Finance and Risk Management Committee, and Governance Committee be independent.

The Board may also from time to time establish committees of limited duration for a special purpose. No such committees were established in 2015.

The table below identifies the number of meetings held by each committee in 2015, provides a brief description of the duties and responsibilities of each committee, and provides general information regarding the location of each committee's charter:

<b>Committee</b>	<b>Audit</b>
<b>Meetings</b>	9
<b>Duties and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Oversee the Company's financial reporting processes and the integrity of the Company's financial statements.</li> <li>• Oversee the Company's compliance with legal and regulatory requirements.</li> <li>• Oversee the performance of the Company's independent auditors and the internal audit function.</li> <li>• Approve all audit and non-audit services and fees.</li> <li>• Oversee (in consultation with the Finance and Risk Management Committee) the Company's risk management processes and policies.</li> <li>• Review the adequacy of internal controls.</li> <li>• Review and discuss with management Quarterly Reports on Form 10-Q and Annual Report on Form 10-K prior to filing with the SEC.</li> <li>• Review and discuss with management earnings releases.</li> <li>• Administer the Company's Procedures for Submission and Handling of Complaints Regarding Compliance Matters.</li> </ul>
<b>General Information</b>	<ul style="list-style-type: none"> <li>• The Board has determined that all directors on the Audit Committee are financially literate. The Board has also determined that Messrs. Davis, Mead and Nevels qualify as "audit committee financial experts" as defined in SEC regulations and that each has accounting or related financial management expertise.</li> <li>• Charter can be viewed on the Investors section of our website at <a href="http://www.thehersheycompany.com">www.thehersheycompany.com</a>.</li> <li>• Charter prohibits any member of the Audit Committee from serving on the audit committees of more than two other public companies unless the Board determines that such simultaneous service would not impair the ability of the director to effectively serve on the Committee.</li> <li>• Audit Committee Report begins on page 38.</li> </ul>

<b>Committee</b>	<b>Compensation and Executive Organization</b>
<b>Meetings</b>	12
<b>Duties and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Establish executive officer compensation (other than CEO compensation) and oversee the compensation program and policies for all executive officers.</li> <li>• Evaluate the performance of the CEO and make recommendations to the independent directors of the Board regarding CEO compensation.</li> <li>• Review and recommend to the Board the form and amount of director compensation.</li> <li>• Make equity grants under and administer the Company’s Equity and Incentive Compensation Plan (the “EICP”).</li> <li>• Establish target award levels and make awards under the annual cash incentive component of the EICP.</li> <li>• Monitor executive compensation arrangements for consistency with corporate objectives and stockholders’ interests.</li> <li>• Review the executive organization of the Company.</li> <li>• Monitor the development of personnel available to fill key executive positions as part of the succession planning process.</li> </ul>
<b>General Information</b>	<ul style="list-style-type: none"> <li>• Charter can be viewed on the Investors section of our website at <a href="http://www.thehersheycompany.com">www.thehersheycompany.com</a>.</li> <li>• Compensation Committee Report begins on page 60.</li> </ul>

<b>Committee</b>	<b>Finance and Risk Management</b>
<b>Meetings</b>	7
<b>Duties and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Oversee management of the Company’s assets, liabilities and risks.</li> <li>• Review and make recommendations regarding capital projects, acquisitions and dispositions of assets and changes in capital structure.</li> <li>• Review the annual budget and monitor performance against operational plans.</li> <li>• Recommend to the Board the terms of the Company’s principal banking relationships, credit facilities and commercial paper programs.</li> <li>• Oversee (in consultation with the Audit Committee) the Company’s risk management processes and policies.</li> </ul>
<b>General Information</b>	<ul style="list-style-type: none"> <li>• Charter can be viewed on the Investors section of our website at <a href="http://www.thehersheycompany.com">www.thehersheycompany.com</a>.</li> </ul>

<b>Committee</b>	<b>Governance</b>
<b>Meetings</b>	4
<b>Duties and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Review and make recommendations on the composition of the Board and its committees.</li> <li>• Identify, evaluate and recommend candidates for election to the Board consistent with the Board’s membership qualifications.</li> <li>• Review and make recommendations to the Board on corporate governance matters and policies, including the Board’s Corporate Governance Guidelines.</li> <li>• Administer the Company’s Related Person Transaction Policy as directed by the Board.</li> <li>• Evaluate the performance of the Board, its independent committees and each director.</li> </ul>
<b>General Information</b>	<ul style="list-style-type: none"> <li>• Charter can be viewed on the Investors section of our website at <a href="http://www.thehersheycompany.com">www.thehersheycompany.com</a>.</li> </ul>

<b>Committee</b>	<b>Executive</b>
<b>Meetings</b>	0
<b>Duties and Responsibilities</b>	<ul style="list-style-type: none"> <li>• Manage the business and affairs of the Company, to the extent permitted by the Delaware General Corporation Law, when the Board is not in session.</li> <li>• Review and approve, through a subcommittee consisting of the independent directors on the Executive Committee who are not affiliated with Hershey Trust Company, Hershey Entertainment &amp; Resorts Company and/or Milton Hershey School, or any of their affiliates, any transaction not in the ordinary course of business between the Company and any of these entities, unless otherwise provided by the Board or the Corporate Governance Guidelines.</li> <li>• Currently, the Corporate Governance Guidelines provide that, unless directed otherwise by the independent members of the Board who have no affiliation with any of the above entities, such transactions will be reviewed and approved in advance by a special committee consisting of the directors elected by the holders of our Common Stock voting separately, and only in the absence of such directors will the subcommittee of the Executive Committee approve such transactions.</li> </ul>
<b>General Information</b>	<ul style="list-style-type: none"> <li>• Charter can be viewed on the Investors section of our website at <a href="http://www.thehersheycompany.com">www.thehersheycompany.com</a>.</li> <li>• For more information regarding the review, approval or ratification of related-party transactions, please refer to the section entitled “Certain Transactions and Relationships” beginning on page 91.</li> </ul>

## PROPOSAL NO. 1 – ELECTION OF DIRECTORS



The Board of Directors unanimously recommends that stockholders vote **FOR** each of the nominees for director at the 2016 Annual Meeting

The first proposal to be voted on at the Annual Meeting is the election of 11 directors. If elected, the directors will hold office until the 2017 Annual Meeting of Stockholders of the Company or until their successors are elected and qualified.

### Election Procedures

We have two classes of common stock outstanding: Common Stock and Class B Common Stock. Under our certificate of incorporation and by-laws:

- One-sixth of the total number of our directors (which equates presently to two directors) will be elected by the holders of our Common Stock voting separately as a class. For the 2016 Annual Meeting, the Board has nominated Robert M. Malcolm and Anthony J. Palmer for election by the holders of our Common Stock voting separately as a class.
- The remaining nine directors will be elected by the holders of our Common Stock and Class B Common Stock voting together without regard to class.

With respect to the nominees to be elected by the holders of the Common Stock and the Class B Common Stock voting together, the nine nominees receiving the greatest number of votes of the Common Stock and Class B Common Stock will be elected as directors. With respect to the nominees to be elected by the holders of the Common Stock voting separately as a class, the two nominees receiving the greatest number of votes of the Common Stock will be elected as directors.

The Board's Corporate Governance Guidelines provide that directors will generally not be nominated for re-election after their 72<sup>nd</sup> birthday. All of the directors standing for election at the 2016 Annual Meeting satisfied the applicable age requirement at the time of their nomination.

All nominees for election as director have indicated their willingness to serve if elected. If a nominee becomes unavailable for election for any reason, the proxies will have discretionary authority to vote for a substitute.

### Nominees for Director

The Board unanimously recommends the following nominees for election at the 2016 Annual Meeting, each of whom is currently a member of the Board. These nominees were recommended to the Board by the Governance Committee. In making its recommendation, the Governance Committee considered the experience, qualifications, attributes and skills of each nominee, as well as each director's past performance on our Board, as reflected in the Governance Committee's annual evaluation of Board and individual director performance. This evaluation considers, among other things, each director's individual contributions to the Board, the director's ability to work collaboratively with other directors and the effectiveness of the Board as a whole.

On the following pages, we provide certain biographical information about each nominee for director, as well as information regarding the nominee's specific experience, qualifications, attributes and skills that qualify him or her to serve as a director and as a member of the committee(s) of the Board on which the nominee serves.





**PAMELA M. ARWAY**

**Committees:**

- Governance (Chair)
- Audit
- Executive

Director since May 2010

Age 62

**Experience and Qualifications**

- Formerly served in a number of capacities with the American Express Company, Inc., a global payments, network and travel company, and its subsidiaries:
  - President, Japan/Asia Pacific/Australia Region, American Express International, Inc. (October 2005 to January 2008)
  - Chief Executive Officer, American Express Australia Ltd. (December 2004 to October 2005)
  - Executive Vice President and General Manager, Corporate Travel North America, American Express Company, Inc. (July 2000 to December 2004)

Throughout her 21-year career with American Express Company, Inc., Ms. Arway gained experience in the areas of finance, marketing, international business, government affairs, consumer products and human resources. She is a significant contributor to the Board in each of these areas.

**Public and Other Key Directorships**

- Iron Mountain Incorporated (May 2014 to present)
- DaVita HealthCare Partners, Inc. (July 2009 to present)

**Education**

- Bachelor’s degree in languages from Memorial University of Newfoundland
- Masters of Business Administration degree from Queen’s University, Kingston, Ontario, Canada



**JOHN P. BILBREY**

**Committees:**

- Executive (Chair)

Chairman since April 2015

Director since June 2011

Age 59

**Experience and Qualifications**

- Chairman of the Board, President and Chief Executive Officer of The Hershey Company (April 2015 to present):
  - President and Chief Executive Officer (May 2011 to April 2015)
  - Executive Vice President, Chief Operating Officer (November 2010 to May 2011)
  - Senior Vice President, President Hershey North America (December 2007 to November 2010)
  - Senior Vice President, President International Commercial Group (November 2005 to December 2007)
  - Senior Vice President, President Hershey International (November 2003 to November 2005)
- Various executive positions at Mission Foods and Danone Waters of North America, Inc.
- 22-year career at The Procter & Gamble Company, serving in positions of increasing responsibility in the United States as well as numerous international assignments

As our President and Chief Executive Officer, Mr. Bilbrey is responsible for day-to-day global operations and commercial activities and has a thorough and comprehensive knowledge of all aspects of the Company’s business. He has extensive experience in the consumer packaged goods and fast-moving consumer goods categories in the United States and international markets and has the benefit of having served as both a Chief Executive Officer and Chief Operating Officer of the Company. His leadership within the Company, as well as his extensive industry and international experience, make Mr. Bilbrey a key contributor to the Board on a wide range of issues. As Chairman, his leadership in the boardroom also ensures efficient communication between the Board and Company management.

**Public and Other Key Directorships**

- Colgate-Palmolive Company (March 2015 to present)
- Former director of McCormick & Company, Incorporated (November 2005 to May 2015)

**Education**

- Bachelor’s degree in psychology from Kansas State University



**ROBERT F. CAVANAUGH**

**Committees:**

Finance and Risk  
Management  
Governance

Director since October 2003  
Age 57

**Experience and Qualifications**

- Director of Hershey Trust Company; member of the board of managers of Milton Hershey School:
  - Chairman of both organizations (2012 to 2015)
- Chief Executive Officer of ValueRock Investment Partners, an owner/operator of retail real estate properties located throughout the western United States (January 2013 to February 2014)
- Chief Investment Officer of Vestar Development Company, a privately held retail real estate operating company in the western United States (October 2011 to January 2013)
- Managing Director of DLJ Real Estate Capital Partners, a global real estate private equity firm (October 1999 to October 2011)
- Various positions with Deutsche Bank Securities; Goldman, Sachs & Co.; and LaSalle Partners

One of three representatives of Hershey Trust Company and Milton Hershey School serving on our Board, Mr. Cavanaugh, a 1977 graduate of Milton Hershey School, brings unique perspectives to our Board not only as a representative of our largest stockholder, but also of the school that is its sole beneficiary. He also brings experience in investment banking, finance, real estate and risk management.

**Education**

- Bachelor's degree, *cum laude*, in economics from the Wharton School of the University of Pennsylvania
- Masters of Business Administration degree from Harvard Business School, where he earned academic honors



**CHARLES A. DAVIS**

**Committees:**

Audit (Chair)  
Executive

Director since November 2007  
Age 67

**Experience and Qualifications**

- Chief Executive Officer of Stone Point Capital LLC, a global private equity firm (June 2005 to present)
- MMC Capital, Inc., the private equity business of Marsh & McLennan Companies, Inc.:
  - Chairman (January 2002 to May 2005)
  - Chief Executive Officer (January 1999 to May 2005)
  - President (April 1998 to December 2002)
- Vice Chairman of Marsh & McLennan Companies, Inc., a global professional services firm (September 1999 to May 2005)
- Spent 23 years at Goldman, Sachs & Co. where he served as head of Investment Banking Services worldwide, co-head of the Americas Group, head of the Financial Services Industry Group, a member of the International Executive Committee and a General Partner

Having served in the fields of investment banking and private equity for more than 40 years, Mr. Davis brings extensive experience in finance, investment banking and real estate to our Board, which is of particular importance in his role as chair of the Audit Committee. His experience as a leader in international business allows him to bring important insights to the Board as the Company continues to expand its international footprint.

**Public and Other Key Directorships**

- AXIS Capital Holdings Limited (November 2001 to present)
- The Progressive Corporation (October 1996 to present)

**Education**

- Bachelor's degree from the University of Vermont
- Masters of Business Administration degree from Columbia University Graduate School of Business



**MARY KAY HABEN**

**Committees:**

- Compensation
- Governance

Director since August 2013  
Age 59

**Experience and Qualifications**

- Retired from Wm. Wrigley Jr. Company, a leading confectionery company, in February 2011:
  - President, North America (October 2008 to February 2011)
  - Group Vice President and Managing Director, North America (April 2007 to October 2008)
- Held several key positions during 27-year career with Kraft Foods, Inc., a grocery manufacturing and processing conglomerate:
  - Senior Vice President, Open Innovation (2006 to 2007)
  - Senior Vice President, Global Snack Sector (2004 to 2006)
  - Group Vice President, Kraft Foods and President, Cheese, Enhancers and Meals (2001 to 2004)

Throughout her 33-year career, Ms. Haben gained extensive experience managing businesses in the consumer packaged goods industry and developed a track record of growing brands and developing new products. Her knowledge of and ability to analyze the overall consumer packaged goods industry, evolving market dynamics and consumers’ relationships with brands make her a valuable contributor to the Board and the Company.

**Public and Other Key Directorships**

- Bob Evans Farms, Inc. (August 2012 to present); currently serves as Lead Director
- Trustee of Equity Residential (July 2011 to present); currently serves as Chair of Compensation Committee

**Education**

- Bachelor’s degree, *magna cum laude*, in business administration from the University of Illinois
- Masters of Business Administration degree in marketing from the University of Michigan, Ross School of Business



**ROBERT M. MALCOLM**

**Committees:**

- Compensation
- Finance and Risk Management

Director since December 2011  
Age 63

**Experience and Qualifications**

- Retired from Diageo PLC, a leading premium drinks company, in December 2008:
  - President, Global Marketing, Sales & Innovation (June 2002 to December 2008)
- Spent 24 years at The Procter & Gamble Company in positions of increasing responsibility, including Vice President, General Manager, Beverages Europe, Middle East, Africa

Mr. Malcolm is a globally recognized expert in strategic marketing and is currently Executive in Residence, Center for Customer Insight and Marketing Solutions, McCombs School of Business, University of Texas. He brings to the Board significant experience in international business and in the marketing and sales of consumer products, including consumer packaged goods and fast-moving consumer goods.

**One of two directors nominated for election by the holders of the Common Stock voting separately as a class.**

**Public and Other Key Directorships**

- American Marketing Association
- Just Marketing, Inc. (advisory board)
- Boston Consulting Group (senior advisor)
- Former director of Logitech International S.A. (June 2007 to September 2010)

**Education**

- Bachelor’s degree in marketing from the University of Southern California
- Masters of Business Administration degree in marketing from the University of Southern California



**JAMES M. MEAD**

**Committees:**

- Compensation (Chair)
- Audit
- Executive

Director since April 2011  
Age 70

**Experience and Qualifications**

- Director and non-executive president of Hershey Trust Company; member of the board of managers of Milton Hershey School
- Founder and Managing Director of JM Mead, LLC, an economic advisory firm serving the health care industry (July 2004 to present)
- Co-CEO of PinnacleCare International, a private healthcare advisory and navigation company (July 2015 to present)
- President and Chief Executive Officer of Capital BlueCross, a full-service managed-care and health insurance provider (1984 to 2004)

One of three representatives of Hershey Trust Company and Milton Hershey School serving on our Board, in addition to bringing to our Board the perspectives of our largest stockholder, Mr. Mead brings extensive experience in finance, marketing, insurance, information technology and risk management. Having served as a chief executive officer for 20 years, Mr. Mead also brings considerable leadership experience to the boardroom.

**Public and Other Key Directorships**

- Serves on the board of directors of several privately held health care and health care technology firms
- Capital BlueCross (Vice Chairman)
- PinnacleCare International (July 2015 to present)
- Federal Reserve Bank of Philadelphia (1991 to 1996)
  - Chairman (1994 to 1996)
- Actively involved in other professional and community board activities, including as board member and treasurer of the North American branch of the International Life Sciences Institute, Washington, D.C.

**Education**

- Bachelor's degree in economics from The Pennsylvania State University
  - Masters of Arts degree in economics from The Pennsylvania State University
- 



**JAMES E. NEVELS**

**Committees:**

- Audit
- Compensation (ex-officio)
- Executive
- Finance and Risk
- Management (ex-officio)
- Governance

Lead Independent Director  
since April 2015  
Chairman from February 2009  
to April 2015  
Director since November 2007  
Age 64

**Experience and Qualifications**

- Director of Hershey Trust Company; member of the board of managers of Milton Hershey School
- Chairman of The Swarthmore Group, an investment-advisory firm that he founded (1991 to present)
- Appointed by the President of the United States to a three-year term on the advisory committee to the Pension Benefit Guaranty Corporation (2004 to 2007):
  - Chairman (2005 to 2007)

As Lead Independent Director and one of three representatives of Hershey Trust Company and Milton Hershey School serving on our Board, Mr. Nevels is uniquely positioned to help ensure that boardroom discussions reflect the views of management, the independent directors and our stockholders. He also brings extensive financial and leadership experience to our Board.

**Public and Other Key Directorships**

- First Data Corporation (November 2014 to present)
- WestRock Company (formerly MeadWestvaco Corporation) (June 2014 to present)
- Federal Reserve Bank of Philadelphia (January 2010 to December 2015):
  - Chairman (January 2014 to December 2015)
  - Deputy Chairman (January 2012 to January 2014)
- Former director of Tasty Baking Company (May 2005 to May 2011)

**Education**

- Bachelor's degree, *cum laude* and Phi Beta Kappa, in political science and philosophy from Bucknell University
- Masters of Business Administration degree from the Wharton School of the University of Pennsylvania
- Juris Doctor degree from the University of Pennsylvania Law School



**ANTHONY J. PALMER**

**Committees:**

- Compensation
- Finance and Risk Management

Director since April 2011

Age 56

**Experience and Qualifications**

- President, Global Brands and Innovation of Kimberly-Clark Corporation, a manufacturer and marketer of various personal care and health care products worldwide (April 2012 to present):
  - Senior Vice President and Chief Marketing Officer (October 2006 to March 2012)
- Held positions of increasing responsibility at the Kellogg Company (June 2002 to September 2006):
  - Member of Worldwide Leadership Team (February 2003 to September 2006)
- Held various positions of significant responsibility in the consumer products field, including marketing and general management positions with the Minute Maid division of the Coca-Cola Company USA and as region director for Coca-Cola in Austral-Asia

Having spent most of his professional career in the consumer packaged goods industry, Mr. Palmer brings to our Board substantial experience and insight in several key strategic areas for the Company, including fast-moving consumer packaged goods, international business, marketing and human resources.

**One of two directors nominated for election by the holders of the Common Stock voting separately as a class.**

**Education**

- Bachelor’s degree in business marketing from Monash University in Melbourne, Australia
- Masters of Business Administration degree, with distinction, from the International Management Institute, Geneva, Switzerland



**THOMAS J. RIDGE**

**Committees:**

- Finance and Risk Management
- Governance

Director since November 2007

Age 70

**Experience and Qualifications**

- Chairman of Ridge Global, LLC, a global strategic consulting company (August 2015 to present):
  - Chief Executive Officer (July 2006 to July 2015)
- Co-founder (with Howard Schmidt) of Ridge Schmidt Cyber, a provider of strategic services to companies in the area of cyber security (March 2014 to present)
- Partner of Ridge Policy Group, a bipartisan, full-service government affairs and issue management group (April 2010 to present)
- Secretary of the U.S. Department of Homeland Security (October 2001 to February 2005)
- Governor of Pennsylvania (1995 to 2001)

Mr. Ridge’s background and experiences are invaluable to our Board. As Chairman of Ridge Global, LLC, he leads a team of international experts that helps businesses and governments address issues such as risk management, global trade security, technology integration and crisis management. As a partner in Ridge Policy Group, he provides strategic advice to clients to assist them in navigating the complexities of state and local government and raising awareness of their products and services that are relevant to government markets. As twice-elected Governor of Pennsylvania, he earned a reputation for high standards and results and championed issues such as health care and the environment. As Secretary of the Department of Homeland Security, he formed a new agency from 22 agencies employing more than 180,000 employees.

**Public and Other Key Directorships**

- Advaxis, Inc. (August 2015 to present)
- Safety Quick Lighting & Fans Corp. (November 2014 to present)
- LifeLock, Inc. (March 2010 to present)
- Former director of Chart Acquisition Corp. (July 2011 to August 2015); FS Investment Corporation (November 2011 to February 2014); Exelon Corporation (May 2005 to October 2013); Brightpoint, Inc. (September 2009 to October 2012); and Geospatial Holdings, Inc. (April 2010 to May 2012)

**Education**

- Bachelor’s degree, *cum laude*, from Harvard University
- Juris Doctor degree from The Dickinson School of Law of The Pennsylvania State University



**DAVID L. SHEDLARZ**

**Committees:**

Finance and Risk  
Management (Chair)  
Compensation  
Executive

Director since August 2008

Age 67

**Experience and Qualifications**

- Retired from Pfizer Inc., a pharmaceutical, consumer and animal products health company, in December 2007:
  - Vice Chairman (July 2005 to December 2007)
  - Executive Vice President and Chief Financial Officer (January 1999 to July 2005)

Mr. Shedlarz spent the majority of his professional career with Pfizer. At the time of his retirement in 2007, Mr. Shedlarz was responsible for operations including the animal health business, finance, accounting, strategic planning, business development, global sourcing, manufacturing, information systems and human resources, skills that are particularly valuable to the Board given his role as chair of the Finance and Risk Management Committee. Mr. Shedlarz also brings to our Board considerable international business and leadership experience he gained while at Pfizer.

**Public and Other Key Directorships**

- Pitney Bowes, Inc. (May 2001 to present)
- Teachers Insurance and Annuity Association Board of Trustees (March 2007 to present)

**Education**

- Bachelor's degree in economics and mathematics from Oakland/Michigan State University
- Masters of Business Administration degree in finance and accounting from the New York University, Leonard N. Stern School of Business

# NON-EMPLOYEE DIRECTOR COMPENSATION

## The Hershey Company Directors' Compensation Plan

We maintain a Directors' Compensation Plan that is designed to:

- Attract and retain highly qualified, non-employee directors; and
- Align the interests of non-employee directors with those of our stockholders by paying a portion of non-employee compensation in units representing shares of our Common Stock.

Directors who are employees of the Company receive no additional compensation for their service on our Board. Mr. Bilbrey, our current Chairman of the Board, President and CEO, is the only employee of the Company who also served as a director during 2015 and thus received no additional compensation for his Board service.

The Board targets non-employee director compensation at the 50<sup>th</sup> percentile of compensation paid to directors at a peer group of companies we call the 2015 Peer Group. Information about the 2015 Peer Group is included on page 48 of the Compensation Discussion & Analysis. Each year, with the assistance of the Compensation Committee and the Compensation Committee's compensation consultant, the Board reviews the compensation paid to directors at companies in the current peer group to determine whether any changes to non-employee director compensation are warranted.

As a result of its review in December 2014, the Board determined that no changes to non-employee director compensation were warranted for 2015. However, effective April 2, 2015, in connection with the establishment of the Lead Independent Director position, and upon the recommendation of the Compensation Committee, the Board approved an annual fee of \$25,000 for the Lead Independent Director, to be paid in addition to the annual retainer for non-employee directors.

Accordingly, compensation paid to non-employee directors in 2015 was as follows:

Form of Compensation	Payment (\$)
Annual retainer for Chairman of the Board <sup>(1)</sup>	215,000
Annual retainer for other non-employee directors	100,000
Annual restricted stock unit ("RSU") award	135,000
Annual fee for Lead Independent Director <sup>(2)</sup>	25,000
Annual fee for chairs of Audit, Compensation, and Finance and Risk Management Committees <sup>(2)</sup>	15,000
Annual fee for chair of Governance Committee <sup>(2)</sup>	10,000

(1) Applies only when Chairman of the Board is a non-employee director.

(2) Paid in addition to \$100,000 annual retainer for non-employee directors.

The Board completed its annual review of non-employee director compensation in October 2015 and determined that no changes to any of the compensation elements were warranted for 2016.

## **Payment of Annual Retainer, Lead Independent Director Fee and Committee Chair Fees**

The annual retainer and any applicable Lead Independent Director or committee chair fees for all non-employee directors are paid in quarterly installments on the 15<sup>th</sup> day of March, June, September and December, or the prior business day if the 15<sup>th</sup> is not a business day. Non-employee directors may elect to receive all or a portion of the annual retainer in cash or in Common Stock. Non-employee directors may also elect to defer receipt of all or a portion of the retainer, Lead Independent Director fee or committee chair fees until the date their membership on the Board ends. Lead Independent Director and committee chair fees that are not deferred are paid only in cash.

Non-employee directors choosing to defer all or a portion of their retainer, Lead Independent Director fee or committee chair fees may invest the deferred amounts in two ways:

- In a cash account that values the performance of the investment based upon the performance of one or more third-party investment funds selected by the director from among the mutual funds or other investment options available to all employees participating in our 401(k) Plan. Amounts invested in the cash account are paid only in cash.
- In a deferred common stock unit account that we value according to the performance of our Common Stock, including reinvested dividends. Amounts invested in the deferred common stock unit account are paid in shares of Common Stock.

## **Restricted Stock Units**

RSUs are granted quarterly to non-employee directors on the first day of January, April, July and October. In 2015, the number of RSUs granted in each quarter was determined by dividing \$33,750 by the average closing price of a share of our Common Stock on the New York Stock Exchange (“NYSE”) on the last three trading days preceding the grant date. RSUs awarded to non-employee directors vest one year after the date of grant, or earlier upon termination of the director’s membership on the Board by reason of retirement (termination of service from the Board after the director’s 60<sup>th</sup> birthday), death or disability, for any reason after a Change in Control as defined in our Executive Benefits Protection Plan (Group 3A) (“EBPP 3A”), or under such other circumstances as the Board may determine. Vested RSUs are payable to directors in shares of Common Stock or, at the option of the director, can be deferred as common stock units under the Directors’ Compensation Plan until the director’s membership on the Board ends. Dividend equivalent units are credited at regular rates on the RSUs during the restriction period and, upon vesting of the RSUs, are payable in shares of Common Stock or deferred as common stock units together with any RSUs the director has deferred.

As of March 7, 2016, Messrs. Davis, Malcolm, Mead, Nevels, Ridge and Shedlarz and Ms. Arway had attained retirement age for purposes of the vesting of RSUs.

## **Other Compensation, Reimbursements and Programs**

The Board occasionally establishes committees of limited duration for special purposes. The Board will consider paying additional compensation to non-employee directors who serve on special committees, generally \$1,250 per meeting, if the special committee holds six or more meetings, each lasting one hour or more. No director received compensation for service on a special committee in 2015.

We reimburse our directors for travel and other out-of-pocket expenses they incur when attending Board and committee meetings and for minor incidental expenses they incur when performing



directors' services. We also provide reimbursement for at least one director continuing education program each year. Directors receive travel accident insurance while traveling on the Company's business and receive discounts on the purchase of our products to the same extent and on the same terms as our employees. Directors also are eligible to participate in the Company's Gift Matching Program. Under the Gift Matching Program, the Company will match, upon a director's request, contributions made by the director to one or more charitable organizations, on a dollar-for-dollar basis up to a maximum aggregate contribution of \$5,000 annually.

## Stock Ownership Guidelines

Pursuant to the Board's Corporate Governance Guidelines, non-employee directors are expected to own shares of Common Stock having a value equal to at least four times the annual retainer. Each non-employee director has until January 1 of the year following his or her fifth anniversary of becoming a director to satisfy the guideline. The Compensation Committee reviews the stock ownership guidelines annually to ensure they are aligned with external market comparisons.

## 2015 Director Compensation

The following table and explanatory footnotes provide information with respect to the compensation paid or provided to non-employee directors during 2015:

Name	Fees Earned or Paid in Cash <sup>(1)</sup> (\$)	Stock Awards <sup>(2)</sup> (\$)	All Other Compensation <sup>(3)</sup> (\$)	Total (\$)
Pamela M. Arway	110,000	135,000	5,000	250,000
Robert F. Cavanaugh	115,000	135,000	4,800	254,800
Charles A. Davis	115,000	135,000	5,000	255,000
Mary Kay Haben	100,000	135,000	5,000	240,000
Robert M. Malcolm	100,000	135,000	5,000	240,000
James M. Mead	100,000	135,000	5,000	240,000
James E. Nevels*	147,748	135,000	5,000	287,748
Anthony J. Palmer	100,000	135,000	5,000	240,000
Thomas J. Ridge	100,000	135,000	2,500	237,500
David L. Shedlarz	115,000	135,000	—	250,000

\* On April 2, 2015, Mr. Nevels was appointed Lead Independent Director and ceased serving as Chairman of the Board.

(1) Includes amounts earned or paid in cash or shares of Common Stock at the election of the director or deferred by the director under the Directors' Compensation Plan. Amounts credited as earnings on amounts deferred under the Directors' Compensation Plan are based on investment options available to all participants in our 401(k) Plan or our Common Stock and, accordingly, the earnings credited during 2015 were not considered "above market" or "preferential" earnings.

The following table sets forth the portion of fees earned or paid in cash or Common Stock, and the portion deferred with respect to retainers and fees earned during 2015:

Name	Immediate Payment			Deferred and Investment Election		
	Cash Paid (\$)	Value Paid in Shares of Common Stock (\$)	Number of Shares of Common Stock (#)	Value Deferred to a Cash Account (\$)	Value Deferred to a Common Stock Unit Account (\$)	Number of Deferred Common Stock Units (#)
Pamela M. Arway	110,000	—	—	—	—	—
Robert F. Cavanaugh	115,000	—	—	—	—	—
Charles A. Davis	115,000	—	—	—	—	—
Mary Kay Haben	100,000	—	—	—	—	—
Robert M. Malcolm	100,000	—	—	—	—	—
James M. Mead	100,000	—	—	—	—	—
James E. Nevels	103,424	44,324	456	—	—	—
Anthony J. Palmer	—	100,000	1,045	—	—	—
Thomas J. Ridge	100,000	—	—	—	—	—
David L. Shedlarz	115,000	—	—	—	—	—

- (2) Represents the dollar amount recognized as expense during 2015 for financial statement reporting purposes with respect to RSUs awarded to the directors during 2015. RSUs awarded to directors are charged to expense in the Company's financial statements at the grant date fair value on each quarterly grant date. The target annual grant date fair value of the RSUs for each director during 2015 was \$135,000.

The following table provides information with respect to the number and market value of deferred common stock units and RSUs held as of December 31, 2015, based on the \$89.27 closing price of our Common Stock as reported by NYSE on December 31, 2015, the last trading day of the year. The information presented includes the accumulated value of each director's common stock units and RSUs. Balances shown below include dividend equivalent units credited in the form of additional common stock units on retainers and committee chair fees that have been deferred as common stock units and dividend equivalent units credited in the form of additional common stock units on RSUs.

Name	Number of Deferred Common Stock Units (#)	Market Value of Retainers and Committee Chair Fees Deferred to the Common Stock Unit Account as of December 31, 2015 (\$)	Number of RSUs (#)	Market Value of RSUs as of December 31, 2015 (\$)
Pamela M. Arway	—	—	1,423	127,031
Robert F. Cavanaugh	41,234	3,680,959	1,423	127,031
Charles A. Davis	—	—	1,423	127,031
Mary Kay Haben	1,977	176,487	1,423	127,031
Robert M. Malcolm	—	—	1,423	127,031
James M. Mead	6,485	578,916	1,423	127,031
James E. Nevels	—	—	1,423	127,031
Anthony J. Palmer	—	—	1,423	127,031
Thomas J. Ridge	29,207	2,607,309	1,423	127,031
David L. Shedlarz	—	—	1,423	127,031

- (3) Represents the Company match for contributions made by the director to one or more charitable organizations during 2015 under the Gift Matching Program.

## SHARE OWNERSHIP OF DIRECTORS, MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information with respect to the beneficial ownership of our outstanding voting securities and stock options by:

- Stockholders who we believe owned more than 5% of our outstanding Common Stock or Class B Common Stock, as of March 7, 2016; and
- Our directors, NEOs and all directors and executive officers as a group, as of March 7, 2016.

Holder	Common Stock <sup>(1)</sup>	Exercisable Stock Options <sup>(2)</sup>	Percent of Common Stock <sup>(3)</sup>	Class B Common Stock	Percent of Class B Common Stock <sup>(4)</sup>
Hershey Trust Company, as trustee for the Milton Hershey School Trust <sup>(5)</sup> 100 Mansion Road Hershey, PA 17033 Milton Hershey School <sup>(5)</sup> Founders Hall Hershey, PA 17033	12,703,921	—	8.2	60,612,012	99.9
Hershey Trust Company <sup>(6)</sup>	199,000	—	**	—	—
BlackRock, Inc. <sup>(7)</sup> 55 East 52nd Street New York, NY 10055	9,634,666	—	6.2	—	—
Vanguard Group, Inc. <sup>(8)</sup> 100 Vanguard Blvd. Malvern, PA 19355	8,404,140	—	5.4	—	—
Pamela M. Arway*	9,599	—	**	—	—
John P. Bilbrey*	101,092	594,414	**	—	—
Michele G. Buck	18,757	115,368	**	—	—
Robert F. Cavanaugh*	1,000	—	**	—	—
Charles A. Davis*	17,577	—	**	—	—
Mary Kay Haben*	—	—	**	—	—
Patricia A. Little	—	7,207	**	—	—
Robert M. Malcolm*	5,535	—	**	—	—
Richard M. McConville	1,731	33,452	**	—	—
James M. Mead*	700	—	**	—	—
James E. Nevels*	4,889	—	**	—	—
Terence L. O'Day	33,308	136,114	**	—	—
Anthony J. Palmer*	12,882	—	**	—	—
Thomas J. Ridge*	666	—	**	—	—
David L. Shedlarz*	16,391	—	**	—	—
Leslie M. Turner	959	55,449	**	—	—
All directors and executive officers as a group (20 persons)	262,656	1,195,881	**	—	—

\* Director

\*\* Less than 1%

- (1) Amounts listed for NEOs and other executive officers include, if applicable, shares of Common Stock allocated by the Company to the officer's account in The Hershey Company 401(k) Plan. Amounts listed also include the following RSUs that will vest and be paid to the following holders within 60 days of March 7, 2016:

Name	RSUs (#)
Pamela M. Arway	338
Charles A. Davis	338
Robert M. Malcolm	338
James E. Nevels	338
Anthony J. Palmer	338
Thomas J. Ridge	338
David L. Shedlarz	338

Amounts listed also include shares for which certain of the directors and NEOs share voting and/or investment power with one or more other persons as follows: Ms. Arway, 9,261 shares owned jointly with her spouse; Mr. Cavanaugh, 1,000 shares owned jointly with his spouse; Mr. Malcolm, 5,197 shares owned jointly with his spouse; Mr. Nevels, 4,110 shares owned jointly with his spouse and 441 shares owned jointly with another individual; Mr. Palmer, 12,544 shares owned jointly with his spouse; and Mr. Ridge, 328 shares owned jointly with his spouse.

- (2) This column reflects stock options that were exercisable by the NEOs and the executive officers as a group on March 7, 2016. For Ms. Little column reflects stock options that will become exercisable within 60 days of March 7, 2016.
- (3) Based upon 154,349,189 shares of Common Stock outstanding on March 7, 2016.
- (4) Based upon 60,619,777 shares of Class B Common Stock outstanding on March 7, 2016.
- (5) Hershey Trust Company, as trustee for the Milton Hershey School Trust, has the right at any time to convert its Class B Common Stock into Common Stock on a share-for-share basis. If on March 7, 2016, Hershey Trust Company, as trustee for the Milton Hershey School Trust, converted all of its Class B Common Stock into Common Stock, Hershey Trust Company, as trustee for the Milton Hershey School Trust, would own beneficially 73,315,933 shares of our Common Stock (12,703,921 Common Stock shares plus 60,612,012 converted Class B Common Stock shares), or 34.1% of the 214,961,201 shares of Common Stock outstanding following the conversion (calculated as 154,349,189 Common Stock shares outstanding prior to the conversion plus 60,612,012 converted Class B Common Stock shares). For more information about the Milton Hershey School Trust, Hershey Trust Company, Milton Hershey School and the ownership and voting of these securities, please see pages 36 and 37.
- (6) Please see pages 36 and 37 for more information about shares of Common Stock held by Hershey Trust Company as investments.
- (7) Information regarding BlackRock, Inc. and its beneficial holdings was obtained from a Schedule 13G/A filed with the SEC on January 26, 2016. The filing indicated that, as of December 31, 2015, BlackRock, Inc. had sole voting and investment power over 9,634,666 shares of Common Stock. The filing indicated that BlackRock, Inc. is a parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G) and that various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, our Common Stock.
- (8) Information regarding Vanguard Group, Inc. and its beneficial holdings was obtained from a Schedule 13G filed with the SEC on February 11, 2016. The filing indicated that, as of December 31, 2015, Vanguard Group, Inc. had sole voting and investment power over 8,404,140 shares of Common Stock. The filing indicated that Vanguard Group, Inc. is a parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G) and that various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of, our Common Stock.

## Ownership of Other Company Securities

Certain directors and NEOs hold Company securities not reflected in the beneficial ownership table above because they will not convert, or cannot be converted, to shares of Common Stock within 60 days of our March 7, 2016 Record Date. These securities include:

- Certain unvested RSUs or deferred common stock units held by our directors and NEOs; and
- Certain unvested stock options held by our NEOs.

The table below shows these holdings as of March 7, 2016. You can find additional information about RSUs and deferred common stock units held by directors in the Non-Employee Director Compensation section beginning on page 30. You can find additional information about stock options, RSUs and deferred common stock units held by the NEOs in the Executive Compensation section beginning on page 42.

<b>Holder</b>	<b>Shares Underlying RSUs and Common Stock Units Not Beneficially Owned</b>	<b>Shares Underlying Stock Options Not Beneficially Owned</b>
Pamela M. Arway*	1,130	—
John P. Bilbrey*	87,877	387,564
Michele G. Buck	36,622	91,793
Robert F. Cavanaugh*	43,031	—
Charles A. Davis*	1,130	—
Mary Kay Haben*	3,773	—
Patricia A. Little	31,603	53,908
Robert M. Malcolm*	1,130	—
Richard M. McConville	722	17,868
James M. Mead*	8,282	—
James E. Nevels*	1,130	—
Terence L. O'Day	2,732	63,911
Anthony J. Palmer*	1,130	—
Thomas J. Ridge*	30,337	—
David L. Shedlarz*	1,130	—
Leslie M. Turner	70,093	83,847

\* Director

## **Information Regarding Our Controlling Stockholder**

In 1909, Milton S. and Catherine S. Hershey established a trust having as its sole beneficiary Milton Hershey School, a non-profit school for the full-time care and education of disadvantaged children located in Hershey, Pennsylvania. Hershey Trust Company, a state-chartered trust company, is trustee of the Milton Hershey School Trust.

In its capacity as trustee for the Milton Hershey School Trust, Hershey Trust Company is our controlling stockholder. In this capacity, it will have the right to cast 8.2% of all of the votes entitled to be cast on matters requiring the vote of the Common Stock voting separately and 81.4% of all of the votes entitled to be cast on matters requiring the vote of the Common Stock and Class B Common Stock voting together. The board of directors of Hershey Trust Company, with the approval of the board of managers (governing body) of Milton Hershey School, decides how funds held by Hershey Trust Company, as trustee for the Milton Hershey School Trust, will be invested. The board of directors of Hershey Trust Company generally decides how shares of The Hershey Company held by Hershey Trust Company, as trustee for the Milton Hershey School Trust, will be voted.

As of the Record Date, Hershey Trust Company also held 199,000 shares of our Common Stock as investments. The board of directors or management of Hershey Trust Company decides how these shares will be voted.

In all, Hershey Trust Company, as trustee for the Milton Hershey School Trust and as direct owner of investment shares, will be entitled to vote 12,902,921 shares of our Common Stock and 60,612,012 shares of our Class B Common Stock at the Annual Meeting. Stated in terms of voting power, Hershey Trust Company will have the right to cast 8.4% of all of the votes entitled to be cast on matters requiring the vote of the Common Stock voting separately and 81.4% of all of the votes entitled to be cast on matters requiring the vote of the Common Stock and Class B Common Stock voting together at the Annual Meeting.

Our certificate of incorporation contains the following important provisions regarding our Class B Common Stock:

- All holders of Class B Common Stock, including Hershey Trust Company, as trustee for Milton Hershey School, may convert any of their Class B Common Stock shares into shares of our Common Stock at any time on a share-for-share basis.
- All shares of Class B Common Stock will automatically be converted to shares of Common Stock on a share-for-share basis if Hershey Trust Company, as trustee for Milton Hershey School, or any successor trustee, or Milton Hershey School, as appropriate, ceases to hold more than 50% of the total Class B Common Stock shares outstanding and at least 15% of the total Common Stock and Class B Common Stock shares outstanding.
- We must obtain the approval of Hershey Trust Company, as trustee for Milton Hershey School, or any successor trustee, or Milton Hershey School, as appropriate, before we issue any Common Stock or take any other action that would deprive Hershey Trust Company, as trustee for Milton Hershey School, or any successor trustee, or Milton Hershey School, as appropriate, of the ability to cast a majority of the votes on any matter where the Class B Common Stock is entitled to vote, either separately as a class or together with any other class.

# AUDIT COMMITTEE REPORT

## To Our Stockholders:

The Audit Committee is currently comprised of four directors, each of whom is considered independent under the NYSE Rules and the rules and regulations of the SEC. The Board has determined that each member of the Audit Committee is financially literate and that each of Messrs. Davis, Mead and Nevels qualifies as an “audit committee financial expert,” as that term is defined under the rules promulgated by the SEC.

Our role as the Audit Committee is to assist the Board in its oversight of:

- The integrity of the Company’s financial statements;
- The Company’s compliance with legal and regulatory requirements;
- The independent auditors’ qualifications and independence; and
- The performance of the independent auditors and the Company’s internal audit function.

The Audit Committee operates under a written charter that was last reviewed by the Audit Committee on December 1, 2015.

Our duties as an Audit Committee include overseeing the Company’s management, internal auditors and independent auditors in their performance of the following functions, for which they are responsible:

### Management

- Preparing the Company’s financial statements;
- Establishing effective financial reporting systems and internal controls and procedures; and
- Reporting on the effectiveness of the Company’s internal control over financial reporting.

### Internal Audit Department

- Independently assessing management’s system of internal controls and procedures; and
- Reporting on the effectiveness of that system.

### Independent Auditors

- Auditing the Company’s financial statements;
- Expressing an opinion about the financial statements’ conformity with U.S. generally accepted accounting principles; and
- Annually auditing the effectiveness of the Company’s internal control over financial reporting.

We meet periodically with management, the internal auditors and independent auditors, independently and collectively, to discuss the quality of the Company’s financial reporting process and the adequacy and effectiveness of the Company’s internal controls. Prior to the Company filing its Annual Report on Form 10-K for the year ended December 31, 2015 with the SEC, we also:

- Reviewed and discussed the audited financial statements with management and the independent auditors;
- Discussed with the independent auditors the matters required to be discussed by Auditing Standard No. 16, *Communications with Audit Committees*, of the Public Company Accounting Oversight Board;

- Received the written disclosures and the letter from the independent auditors in accordance with applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditors' communications with the Audit Committee concerning independence; and
- Discussed with the independent auditors their independence from the Company.

We are not employees of the Company and are not performing the functions of auditors or accountants. We are not responsible as an Audit Committee or individually to conduct "field work" or other types of auditing or accounting reviews or procedures or to set auditor independence standards. In carrying out our duties as Audit Committee members, we have relied on the information provided to us by management and the independent auditors. Consequently, we do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with U.S. generally accepted accounting principles or that the Company's auditors are in fact "independent."

Based on the reports and discussions described in this report, and subject to the limitations on our role and responsibilities as an Audit Committee referred to above and in our charter, we recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on February 26, 2016.

**Submitted by the Audit Committee:**

Charles A. Davis, Chair  
Pamela M. Arway  
James M. Mead  
James E. Nevels



## INFORMATION ABOUT OUR INDEPENDENT AUDITORS

The following table sets forth the amount of audit fees, audit-related fees, tax fees and all other fees billed or expected to be billed by KPMG LLP, our independent auditors, for the fiscal years ended December 31, 2015 and December 31, 2014:

Nature of Fees	2015 (\$)	2014 (\$)
Audit Fees	5,674,000	6,736,000
Audit-Related Fees <sup>(1)</sup>	346,500	1,204,340
Tax Fees <sup>(2)</sup>	222,398	146,413
All Other Fees <sup>(3)</sup>	—	188,624
<b>Total Fees</b>	<b>6,242,898</b>	<b>8,275,377</b>

- 
- (1) Fees associated primarily with services related to due diligence for potential business acquisitions, auditing of carve-out financial statements and auditing of employee benefit plans.
- (2) Fees pertaining primarily to tax consultation and tax compliance services.
- (3) Fees associated primarily with professional services rendered in connection with the Company's Global Shared Services organization.

The Audit Committee pre-approves all audit, audit-related and non-audit services performed by KPMG LLP. The Audit Committee is authorized by its charter to delegate to one or more of its members the authority to pre-approve any audit, audit-related or non-audit services, provided that the approval is presented to the Audit Committee at its next scheduled meeting.

The Audit Committee pre-approved all services provided by KPMG LLP in 2015.

## PROPOSAL NO. 2 – RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS



The Board of Directors unanimously recommends that stockholders vote **FOR** ratification of the Audit Committee’s appointment of KPMG LLP as the Company’s independent auditors for 2016

The Audit Committee has appointed KPMG LLP as the Company’s independent auditors for 2016. Although not required to do so, the Board, upon the Audit Committee’s recommendation, has determined to submit the Audit Committee’s appointment of KPMG LLP as our independent auditors to stockholders for ratification as a matter of good corporate governance.

The Audit Committee’s appointment of KPMG LLP as the Company’s independent auditors for 2016 will be considered ratified if a majority of the shares of the Common Stock and Class B Common Stock (voting together without regard to class) present and entitled to vote at the Annual Meeting are voted for the proposal. If stockholders do not ratify the appointment of KPMG LLP as the Company’s independent auditors for 2016, the Audit Committee will reconsider its appointment.

Representatives of KPMG LLP will attend the Annual Meeting, will have the opportunity to make a statement, if they so desire, and will respond to questions.

# COMPENSATION DISCUSSION & ANALYSIS

## EXECUTIVE COMPENSATION

This section discusses and analyzes the decisions we made concerning the compensation of our named executive officers (“NEOs”) for 2015, including our former interim Principal Financial Officer (“PFO”). It also describes the process for determining executive compensation and the factors considered in determining the amount of compensation awarded to our NEOs. The NEOs for 2015 include the following:

Name	Title
John P. Bilbrey <sup>(1)</sup>	Chairman of the Board, President and Chief Executive Officer (“CEO”)
Patricia A. Little <sup>(2)</sup>	Senior Vice President, Chief Financial Officer (“CFO”)
Michele G. Buck	President, North America
Terence L. O’Day	Senior Vice President, Chief Supply Chain Officer
Leslie M. Turner	Senior Vice President, General Counsel and Secretary
Richard M. McConville <sup>(3)</sup>	Former interim Principal Financial Officer

(1) Mr. Bilbrey has served as our President and CEO since 2011 and was appointed Chairman of the Board on April 2, 2015.

(2) Ms. Little was hired and appointed as our CFO on March 16, 2015.

(3) Mr. McConville has served as our Vice President, Chief Accounting Officer since July 2012 and served as our interim PFO from January 1, 2015 through March 15, 2015.

### Executive Summary

#### 2015 Highlights

The Hershey Company (the “Company”), headquartered in Hershey, Pa., is a global confectionery leader known for bringing goodness to the world through its chocolate, sweets, mints and other great-tasting snacks. The Company has approximately 21,000 employees around the world who work every day to deliver delicious, quality products. The Company has more than 80 brands that drive approximately \$7.4 billion in annual revenues. Building on its core business, the Company is expanding its portfolio to include a broader range of delicious snacks. The Company remains focused on growing its presence in key international markets while continuing to extend its competitive advantage in North America.

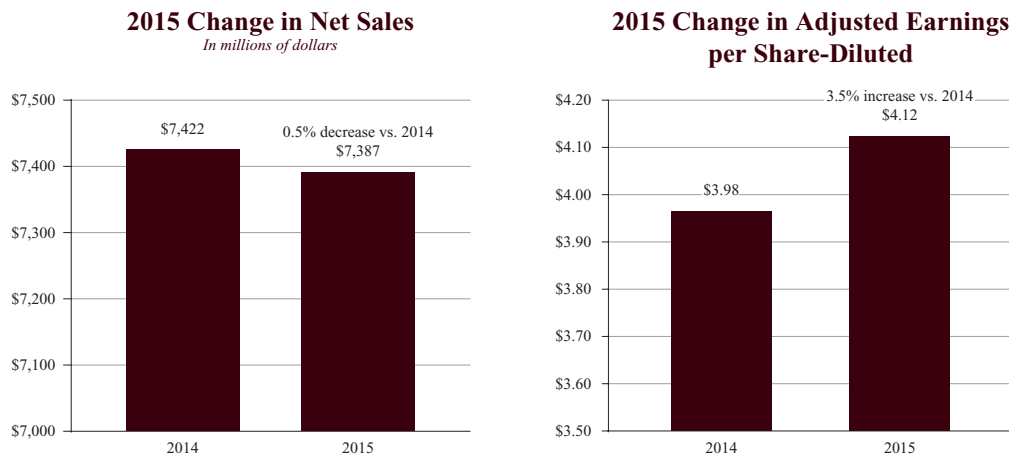
In January 2015, we announced high expectations for the Company, which we also incorporated into our 2015 incentive programs:

- Volume-driven, full-year 2015 net sales to increase 5.5% to 7.5% from 2014; and
- 2015 adjusted earnings per share-diluted<sup>(1)</sup> to increase 8% to 10% from 2014.

<sup>(1)</sup> While we report our financial results in accordance with U.S. generally accepted accounting principles (“GAAP”), we also use non-GAAP financial measures within Management’s Discussion and Analysis in the 2015 Annual Report on Form 10-K that accompanies this Proxy Statement in order to provide additional information to investors to facilitate the comparison of past and present performance. Some of the financial targets under our short- and long-term incentive programs are also based on non-GAAP financial measures. Non-GAAP financial measures are used by management in evaluating results of operations internally and in assessing the impact of known trends and uncertainties on our business, but they are not intended to replace the presentation of financial results in accordance with GAAP.

Adjusted earnings per share-diluted is a non-GAAP performance measure. We define adjusted earnings per share-diluted as diluted earnings per share of the Company’s common stock (“Common Stock”), excluding business realignment charges, asset impairment charges, costs relating to business and asset acquisitions and disposals, loss on early extinguishment of debt, and non-service related components of our pension expense (income).

Actual results for 2015 were as follows:



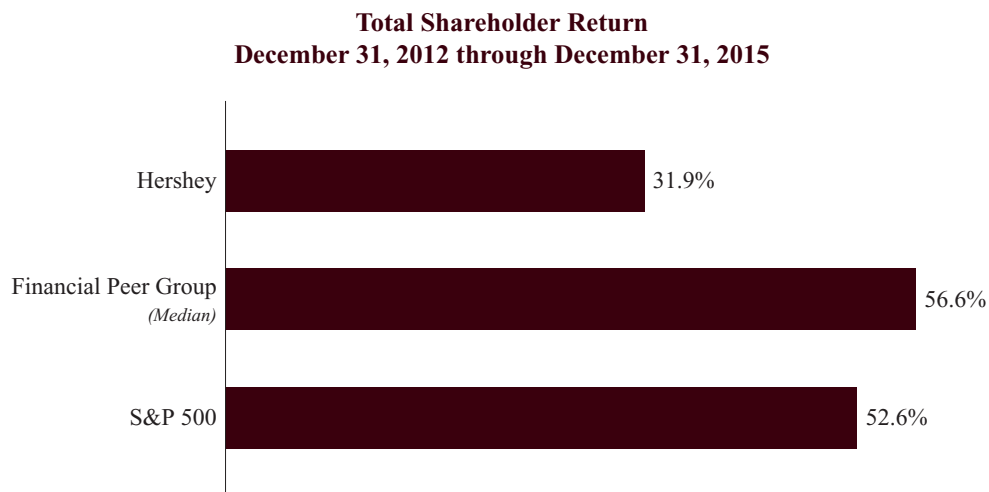
Because we did not meet our expectations, our NEOs earned significantly below-target performance stock unit (“PSU”) payouts and annual cash incentive awards, further reinforcing our pay-for-performance philosophy.

### *Hershey Has Strong Pay-for-Performance Alignment*

The Compensation and Executive Organization Committee (the “Compensation Committee”) of our Board of Directors (the “Board”) has oversight responsibility for our executive compensation framework and for aligning our executive’s pay with the Company’s performance. We believe we have a strong pay-for-performance alignment because a significant portion of each NEO’s target total direct compensation is tied to the financial performance of the Company as well as shareholder returns.

In 2015, approximately 86% of our CEO’s and 71% of our other NEOs’ target total direct compensation was variable and tied to Company performance, including a substantial portion tied to shareholder value. Specifically, 50% of our PSUs were tied to Total Shareholder Return (“TSR”). Combined with the other financial and strategic metrics that determine our NEOs’ compensation, we have aligned our executive compensation program with the long-term interests of our stockholders.

Over the last three years, we have delivered a TSR of 31.9%, which is at the 9<sup>th</sup> percentile of our Financial Peer Group described on pages 53 and 54.



Because our TSR metric was below threshold for the 2013-2015 PSU cycle, our NEOs received a 0% payout for this metric, significantly reducing their overall PSU payout, as described in more detail on page 54.

### *Our Stockholders Strongly Approve of Our Pay Practices*

Last year, our stockholders overwhelmingly approved our “say-on-pay” resolution, with more than 94% of the votes cast by the holders of Common Stock and more than 99% of the combined votes cast by the holders of the Common Stock and Class B Common Stock voting in favor. Our approach to executive compensation in 2015 was substantially the same as the approach stockholders approved in 2014. In keeping with the preference expressed by our stockholders at the 2011 Annual Meeting of Stockholders, our Board has committed to having an annual “say-on-pay” vote as described on page 81. We plan to ask stockholders to express a preference for the frequency of the “say-on-pay” vote at our 2017 Annual Meeting of Stockholders.

We believe our compensation and governance policies and practices are significant drivers of our stockholder support. These policies and practices include:

- **Pay for performance.** A substantial percentage of each of our NEO’s target total direct compensation is variable, performance-based compensation.
- **Performance measures support strategic objectives.** The performance measures we use for our variable, performance-based compensation reflect strategic and operating objectives, creating long-term value for our stockholders.
- **Appropriate risk-taking.** We set performance goals that consider our publicly-announced financial expectations, which we believe will encourage appropriate risk taking.
- **No tax gross-ups.** We do not provide tax gross-ups, except for relocation expenses.
- **“Double-trigger” benefits in the event of a change in control.** In the event of a change in control, the payment of severance benefits and the acceleration of vesting of time-based long-term incentive awards are “double-trigger” benefits. The severance payments and accelerated vesting of continuing incentive awards will not occur unless there is also a qualifying termination of employment upon or after the change in control.
- **No re-pricings or exchanges of underwater stock options.** Our stockholder-approved Equity and Incentive Compensation Plan (“EICP”) prohibits re-pricing or exchange of underwater stock options without stockholder approval.
- **Significant stock ownership guidelines.** Our NEOs and other executives are required to accumulate and hold stock equal to a multiple of base salary. If an executive has not met his or her ownership requirement in a timely manner, the executive is required to retain a portion of shares received under long-term incentive awards until the requirements are met.
- **Anti-hedging policy.** Our NEOs, directors and other insiders are prohibited from entering into hedging transactions related to our stock.
- **Protective covenants.** For the protection of the Company, we require our NEOs to enter into an Employee Confidentiality and Restrictive Covenant Agreement (“ECRCA”) as a condition of receipt of long-term incentive awards. Failure to comply with the ECRCA may subject the employee to cancellation of awards and a requirement to repay amounts received from awards.

## The Role and Philosophy of the Compensation Committee

The Compensation Committee has primary responsibility for making compensation decisions for our NEOs other than our CEO. Our CEO's compensation is approved by the independent members of the Board based on the recommendations of the Compensation Committee.

The Compensation Committee operates under a charter approved by the Board. The Compensation Committee uses information from Mercer (US) Inc. ("Mercer"), the Compensation Committee's independent executive compensation consultant, input from our CEO (except for matters regarding his own pay) and assistance from our Human Resources Department to make decisions and to conduct its annual review of the Company's executive compensation program.

The Compensation Committee works with a rolling agenda, with its heaviest workload occurring during the first quarter of the year. During this quarter, decisions are made with respect to annual and long-term incentives earned based on the prior year's performance and target compensation levels are finalized for the current year. The Compensation Committee also reviews and approves this Compensation Discussion & Analysis. During the second and third quarters, the Compensation Committee reviews materials relating to peer group composition, tally sheets, competitive pay analysis and other information that forms the foundation for future decisions. The Compensation Committee uses the third and fourth quarters to finalize decisions relating to the peer group and compensation plan design for use in the upcoming year.

The philosophy of our executive compensation program is to provide a compelling, dynamic, market-based total compensation program tied to performance and aligned with our stockholders' interests. Our goal is to ensure the Company has the talent it needs to maintain sustained long-term performance for our stockholders, employees and communities. The guiding principles that help us achieve this goal are:

- **Recruit and retain.** Our program is designed to be market competitive and flexible to recruit and retain top talent for our critical roles.
- **Pay for performance.** A significant portion of our executives' compensation is tied to the performance of our Company, rewarding executives for both short-term and long-term progress towards our strategic and operational goals.
- **Aligned with strategy.** Our compensation program is aligned with the strategies of our Company.
- **Aligned with stockholders.** Our compensation program, through both design and payouts, is aligned with the long-term interests of our stockholders.
- **Reinforce robust succession planning.** Our compensation program plays a key role in making sure we have the talent we need for long-term success and to deliver our Company strategies.
- **Data-driven decision making.** We design our executive compensation program and make pay decisions considering a balance of information.

### *Compensation Advisor Independence*

Under its engagement letter with the Compensation Committee, Mercer has acknowledged that the firm is retained by and performs its services for the Compensation Committee while working with management to provide advice, counsel and recommendations that reinforce the Company's business strategy, economics, organization and management style. Mercer has provided and continues to provide services and products to the Company in addition to its work for the Compensation Committee, including services related to global compensation consulting and surveys for various geographies. Mercer and its affiliates also provide products and services to the Company that are unrelated to compensation, including expatriate consulting services (provided by Mercer), international benefits

consulting and claims processing services (provided by Mercer) and property and casualty insurance consulting services (provided by Marsh USA Inc. and Marsh INSCO LLC). The Compensation Committee reviews all fees for services related to executive and director compensation provided by Mercer to the Compensation Committee, as well as fees for compensation-related products and services provided to the Company. The Compensation Committee has no role in the engagement of Mercer or Mercer affiliates that provide products or services to the Company that are unrelated to compensation; however, the Compensation Committee reviews the fees for such products and services concurrently with its review of compensation-related fees paid to Mercer.

Fees paid to Mercer and its affiliates for services provided in 2015 related to executive and director compensation totaled \$372,745. Fees paid to Mercer and its affiliates for other services provided in 2015 were as follows:

Compensation-related products and services	\$128,820
Services unrelated to compensation	<u>\$588,007</u>
Total other services	<u>\$716,827</u>

The Compensation Committee also received and discussed with Mercer its letter to the Compensation Committee addressing factors relevant under the Securities Exchange Commission (“SEC”) and New York Stock Exchange (“NYSE”) rules in assessing Mercer’s independence from management and whether Mercer’s work for the Compensation Committee has raised any conflicts of interest, as well as Mercer’s belief that no conflict of interest exists and that it serves as an independent advisor to the Compensation Committee. The factors addressed included the extent of any business or personal relationships with any member of the Compensation Committee or any executive officer of the Company; Mercer’s and its affiliates’ provision of other services to the Company; the level of fees received from the Company as a percentage of total revenue of each of Mercer and Mercer’s parent company; the policies and procedures employed by Mercer to avoid conflicts of interest; and any ownership of Company stock by individuals employed by Mercer to advise the Compensation Committee. The Compensation Committee considered these factors before selecting or receiving advice from Mercer, and after considering these and other factors in their totality, the Compensation Committee identified no conflicts of interest with respect to Mercer’s advice.

In establishing compensation levels and awards for executive officers other than our CEO, the Compensation Committee takes into consideration the recommendations of Mercer and the Human Resources Department, evaluations by our CEO of each officer’s individual performance and Company performance. The Compensation Committee evaluates director compensation primarily on the basis of peer group data used for benchmarking director compensation provided by Mercer.

## Compensation Components

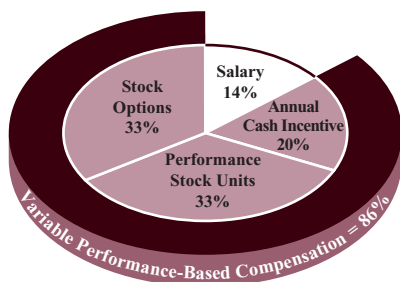
Our executive compensation program includes the following key elements:

Element	Design	Purpose	Key 2015 Actions
Base Salary	Fixed compensation component. Reviewed annually and adjusted as appropriate.	Intended to attract and retain executives with proven skills and leadership abilities that will enable us to be successful.	Each NEO, with the exception of Ms. Little, received an increase to their base salary in the beginning of the year consistent with how the Company sets compensation as described beginning on page 48.
Annual Incentive Award	Variable, performance-based compensation component. Payable based on business results and individual performance.	Intended to motivate and reward executives for successful execution of strategic priorities.	Targets as a percentage of base salary were established at the beginning of 2015 for each NEO and at the time of hire for Ms. Little. Mr. Bilbrey also received a target increase upon his appointment as Chairman of the Board. No changes were made to the plan design from the previous year.
Long-Term Incentive Awards	Variable, performance-based compensation component. Typically granted annually as a combination of PSUs and stock options. The value of amounts actually earned depend on Company and stock price performance.	Intended to motivate and reward executives for long-term Company financial performance and enhanced long-term stockholder value by balancing compensation opportunity and risk, while encouraging sustained performance and retention.	Targets as a percentage of base salary were established at the beginning of 2015 for each NEO and at the time of hire for Ms. Little. The plan design remained consistent with the previous year.

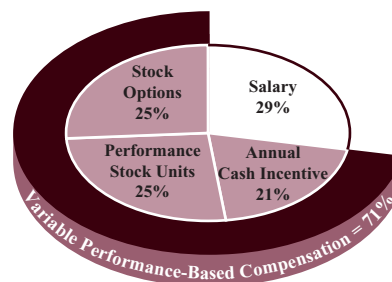


The following charts illustrate the weighting of base salary, annual incentive awards and long-term incentive awards at target for our CEO and our other NEOs during 2015:

**Target Total Direct Compensation  
CEO<sup>(1)</sup>**



**Target Total Direct Compensation  
Other NEOs  
(Average)**



- (1) Mr. Bilbrey's target annual cash incentive award was initially set at 140% of base salary in January 2015. Upon his appointment as Chairman of the Board, Mr. Bilbrey's target increased to 150%. The above calculation uses the proration of Mr. Bilbrey's incentive targets to calculate his annual cash incentive.

## Setting Compensation

The Compensation Committee's annual compensation review for 2015 included an analysis of data, comparing the Company's executive and director compensation levels against a peer group of publicly-held consumer products companies. Mercer provides the Compensation Committee with advice, counsel and recommendations with respect to the composition of the peer group and competitive data used for benchmarking our compensation program. The Compensation Committee uses this and other information provided by Mercer to reach an independent recommendation regarding compensation to be paid to our CEO. The Compensation Committee's final recommendation is then given to the independent directors of our Board for review and final approval.

In prior years, the Company had two separate peer groups, which we referred to as our Compensation Peer Group and our Financial Peer Group. In 2014, the Compensation Committee decided to utilize one common peer group for 2015 (the "2015 Peer Group"). Companies in the 2015 Peer Group used to benchmark executive and director pay levels for 2015 are:

Brown-Forman Corporation  
Campbell Soup Company  
ConAgra Foods, Inc.  
Constellation Brands, Inc.  
Dean Foods Company  
Dr Pepper Snapple Group, Inc.  
General Mills, Inc.  
Hormel Foods Corporation

Kellogg Company  
Kraft Foods Group  
McCormick & Company, Inc.  
Molson Coors Brewing Company  
Mondelez International  
The Clorox Company  
The J. M. Smucker Company

The Compensation Committee selected these companies after reviewing publicly-held companies offering products/services similar to ours, with annual revenues within a range of approximately one-half to two and one-half times our annual revenue (with the exception of Mondelez International whom we also consider a peer company for executive talent) and market capitalization within a reasonable range of our market capitalization. The 2015 Peer Group was composed of companies with annual revenues ranging from \$3.9 billion to \$35.2 billion (measured as of the most recent fiscal year end) and market capitalization ranging from \$1.6 billion to \$63.8 billion (measured in the second quarter of

2014). Hershey's 2013 annual revenue of \$7.2 billion and third-quarter 2014 market capitalization of \$21.7 billion were at the 47<sup>th</sup> and 75<sup>th</sup> percentiles, respectively. Except for Mondelez International, all of the companies in our 2015 Peer Group were included in our 2014 Compensation Peer Group. Energizer Holdings, Inc. and Hillshire Brands, included in 2014, were not included in the 2015 Peer Group due to a split and a merger, respectively, occurring in 2014.

Data from the 2015 Peer Group was supplemented by composite data from consumer products companies ranging in size from \$3 billion to \$17 billion in approximate annual sales. This information was included in three national surveys conducted by Aon Hewitt, Mercer and Towers Watson. The survey composite data provided us with broader, industry-specific information regarding pay levels at consumer products companies for our NEOs.

The Compensation Committee reviewed a report summarizing compensation levels at the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles of the 2015 Peer Group and the survey composite data for positions comparable to those held by each of our NEOs. The Compensation Committee also reviewed a report comparing the target total cash compensation (base salary plus target annual incentive) and target total direct compensation (base salary plus target annual incentive plus target long-term incentive) for each of the NEOs against these benchmarks. For retention and competitive considerations, the Company targets each NEO's total cash compensation and total direct compensation levels around the 50<sup>th</sup> percentile of the 2015 Peer Group data or survey composite data applicable to his or her position. The Compensation Committee's final determinations with respect to base salary, target annual incentive compensation and target long-term incentive compensation reflect consideration of the Company's and the NEO's performance, internal comparisons and other factors the Compensation Committee deems appropriate. As a result of these factors, the target total cash compensation and target total direct compensation of our NEOs in 2015 was generally set around the applicable median.

During 2015, the Compensation Committee received detailed tally sheets prepared by management. Each tally sheet captures comprehensive compensation, benefits and stock ownership data. The tally sheets provide the Compensation Committee with a complete picture of each executive's current and projected compensation and the amount of each element of compensation or other benefit the executive would receive in the event of voluntary or involuntary termination, retirement, disability, death, or upon change in control. The Compensation Committee considers this information, as well as the benchmark information, when making compensation decisions.

## **Base Salary**

Base salary is the largest fixed component of our executive compensation program and is determined by considering the relative importance of the position, the competitive marketplace and the individual's performance, responsibilities and experience. Salary reviews are generally conducted annually at the beginning of the year. Each NEO's base salary is compared to internal and external references. Base salary adjustments, if any, are made after considering market references, Company performance against financial goals and individual performance. CEO performance is evaluated by the Compensation Committee and independent members of the Board. The CEO evaluates the performance of his direct reports, including all NEOs except interim officers, and reviews his recommendations for salary adjustments with the Compensation Committee prior to its approval of the base salary for each NEO. If a NEO has responsibility for a particular business unit, the business unit's financial results also will be strongly considered.

On the basis of the foregoing considerations, the Compensation Committee, and all independent directors in the case of our CEO, approved base salaries for 2015 as follows:

Name	2015 Base Salary (\$)	Increase from 2014 (%)	Percent of Target Total Direct Compensation (%)
Mr. Bilbrey	1,200,000	3.5	13.8
Ms. Little	600,000	N/A <sup>(1)</sup>	29.0
Ms. Buck	652,800	2.0	25.3
Mr. O'Day	570,650	1.0	29.9
Ms. Turner	600,000	14.3 <sup>(2)</sup>	29.4
Mr. McConville	316,404	3.5	44.4

(1) Ms. Little was hired as CFO effective March 16, 2015.

(2) In addition to a merit increase, Ms. Turner received a market adjustment to more closely align her compensation with median level.

See Column (c) of the 2015 Summary Compensation Table on page 61 for information regarding the base salary earned by each of our NEOs during 2015.

## Annual Incentives

Our NEOs are eligible to receive an annual cash incentive award under the One Hershey Incentive Program (“OHIP”), a program established under our EICP.

The OHIP links the NEO’s payout opportunity to measures he or she can affect most directly. For 2015, our CEO and all employees reporting directly to him, including the NEOs, had common financial objectives tied to total Company performance consistent with their responsibility to manage the entire Company. Total Company performance targets are established in the context of our announced expectations for financial performance, prior year results and market conditions.

For 2015, our NEOs were eligible to earn individual OHIP awards, expressed as a percentage of base salary, contingent upon attainment of Company and individual performance objectives. Each of the NEOs was eligible to receive an OHIP award based on the following target percentages:

Name	2015 Target One Hershey Incentive Program (% of Base Salary)	Percent of Target Total Direct Compensation (%)
Mr. Bilbrey	150 <sup>(1)</sup>	20.4 <sup>(1)</sup>
Ms. Little	75	21.7
Ms. Buck	85	21.5
Mr. O'Day	65	19.4
Ms. Turner	70	20.6
Mr. McConville	45	20.0

(1) Mr. Bilbrey’s target was initially set at 140% in January 2015. Upon his appointment as Chairman of the Board, Mr. Bilbrey’s target increased to 150%.

In determining the target OHIP percentage for each of the NEOs (excluding interim officers), the Compensation Committee, and the independent directors in the case of our CEO, considered the

value of target total cash compensation against market references. For each of the NEOs, in 2015 the target total cash compensation fell in the second and third quartiles of target total cash compensation for comparable positions.

In general, the final OHIP award is determined by multiplying the NEO's base salary, the applicable target percentage and performance scores ranging from 0% to 200% based on Company and individual performance. The Company performance goals are established at the beginning of each year by the Compensation Committee. Individual performance goals also are established at that time, or at the time of hire if later. If performance scores exceed the target objectives, a NEO may receive an OHIP payout greater than his or her target award value. If performance scores are below the target objectives, the NEO's OHIP payout will be below his or her target award value, subject to no award if performance is below threshold levels.

For 2015, Company financial performance metrics accounted for 65% of each NEO's target award under the program. The remaining 35% was based upon individual performance toward achievement of up to five individual performance goals focused on strategic priorities applicable to the NEO's position, but tied to the overall Company's top priorities for the year.

### *2015 OHIP Performance Targets and Results*

The Company performance objectives for the 2015 OHIP centered on the following targets:

- Consolidated net sales of \$7.866 billion, a 6.0% increase from 2014;
- Adjusted earnings per share-diluted<sup>(1)</sup> of \$4.34, a 9.0% increase from 2014; and
- Operating cash flow<sup>(2)</sup> of \$1.129 billion, a 12.5% increase from 2014.

Our financial performance during 2015 and the resulting financial performance scores for OHIP were as follows:

<b>Metric</b>	<b>2015 Target (\$)</b>	<b>2015 Actual (\$)</b>	<b>Target Award (%)</b>	<b>Performance Score (%)</b>
Net Sales	7.866 billion	7.387 billion	50.00	13.10
Adjusted Earnings per Share-Diluted <sup>(1)</sup>	4.34	4.12	40.00	24.20
Operating Cash Flow <sup>(2)</sup>	1.129 billion	1.102 billion	10.00	9.85
<b>Total One Hershey Incentive Program Company Score</b>			<b>100.00</b>	<b>47.15</b>

(1) Adjusted earnings per share-diluted is a non-GAAP performance measure. For more information regarding how we define adjusted earnings per share-diluted and our use of non-GAAP performance measures, please see footnote (1) on page 42.

(2) Operating cash flow is a non-GAAP performance measure. We define operating cash flow as the average of cash from operations less pension contributions and commodities hedging transactions, measured in five 12-month periods ending on the last day of fiscal year 2014 and each quarter of fiscal year 2015. For more information regarding our use of non-GAAP performance measures, please see footnote (1) on page 42.

We achieved below-target performance in net sales, adjusted earnings per share-diluted and operating cash flow. As a result, 65% of the 2015 OHIP award for each NEO was based on the Company performance score of 47.15%. The remainder of the OHIP award was determined by individual performance ratings.

Following the close of 2015, the Compensation Committee provided the independent directors with an assessment of Mr. Bilbrey's 2015 performance and achievement relative to his individual performance goals. The individual performance goals for Mr. Bilbrey centered on delivery of the Company's financial goals, strategic leadership and portfolio and geographic expansion. Although our financial results were below target due to challenging industry conditions in the category and the negative impact of foreign

exchange fluctuations, Mr. Bilbrey delivered on his strategic leadership and portfolio expansion goals including growing in key geographies, capturing significant cost savings, delivering above-target innovation, successfully integrating acquisitions, succession planning and diversity efforts. Thus, the Compensation Committee recommended to the independent directors, and the independent directors agreed, that Mr. Bilbrey earned an individual performance award of \$464,092, resulting in a total OHIP payout of \$1,005,930, as shown in the table below.

Ms. Little, our CFO, had individual performance goals that included expanding the Company's global financial capabilities, delivering process improvements and efficiencies, and expanding the mergers and acquisitions organization integration capability. For Ms. Buck, President, North America, the individual performance goals centered on delivering the North America financial plan, increasing innovation contribution and strategic leadership of our core North American businesses. The individual performance goals for Mr. O'Day, Senior Vice President, Chief Supply Chain Officer, focused on designing a supply chain network to enable growth and delivering enterprise margin expansion. For Ms. Turner, Senior Vice President, General Counsel and Secretary, the individual performance goals included architecting a global government relations strategy and developing legal capabilities in the Company's key geographies. Mr. McConville, Vice President, Chief Accounting Officer, was charged with the responsibility for overseeing the Company's financial statements during the period he was interim PFO.

Mr. Bilbrey provided the Compensation Committee with his assessment of each NEO's 2015 performance and achievement in relation to their performance goals. Based upon the results for each of our NEOs, Mr. Bilbrey recommended, and the Compensation Committee approved, the individual performance awards and total OHIP payouts as shown in the table below.

Based upon a 65% weight for the Company financial score of 47.15% of target and a 35% weight for the individual performance award, our NEOs earned the following 2015 OHIP awards:

Name	Award Target (%)	Award Target <sup>(1)</sup> (\$)	Company Financial Award (65% Weighting) (\$)	Individual Performance Award (35% Weighting) (\$)	2015 OHIP Award (\$)
Mr. Bilbrey	150 <sup>(2)</sup>	1,767,969 <sup>(2)</sup>	541,838	464,092	1,005,930
Ms. Little	75	354,808	108,740	180,065	288,805
Ms. Buck	85	554,754	170,018	232,997	403,015
Mr. O'Day	65	370,880	113,665	155,770	269,435
Ms. Turner	70	419,394	128,534	212,842	341,376
Mr. McConville	45	142,326	43,620	49,814	93,434

(1) Target award is based upon actual salary received in 2015.

(2) Mr. Bilbrey's target was initially set at 140% in January 2015. Upon his appointment as Chairman of the Board, Mr. Bilbrey's target increased to 150%.

The 2015 OHIP payments are included in Column (g) of the 2015 Summary Compensation Table for each NEO.

## Long-Term Incentives

We provide long-term incentive opportunities to motivate, retain and reward our NEOs for their contributions to multi-year performance in achieving strategies and improving long-term share value. In February of each year, the Compensation Committee awards long-term incentive grants, including PSUs and stock options, to our NEOs.

The Compensation Committee, and the independent directors in the case of our CEO, determines the value of long-term incentive awards made to each NEO by considering the NEO's target total direct compensation against internal and external references. The target award percentages approved in February 2015, or at the time of hire for Ms. Little, expressed as a percentage of base salary, were:

Name	Target Long-Term Incentive Award (% of Salary)	Percent of Target Total Direct Compensation (%)
Mr. Bilbrey	475	65.8
Ms. Little	170	49.3
Ms. Buck	210	53.2
Mr. O'Day	170	50.7
Ms. Turner	170	50.0
Mr. McConville	80	35.6

The Compensation Committee values PSUs using the closing stock price of the Company's Common Stock on the NYSE on the date of grant. The Compensation Committee values stock options using the value of the stock options at the date of grant as determined for financial reporting purposes (the Black-Scholes value). Overall, after taking into account the long-term incentive awards made in 2015, the target total direct compensation of our NEOs (excluding interim officers) was set within the second and third quartiles of target total direct compensation for comparable positions in the 2015 Peer Group and survey composite data.

### *Performance Stock Unit Targets and Results*

PSUs are granted to NEOs and other executives in a position to affect the Company's long-term results. At the start of each three-year cycle, a contingent target number of PSUs is established for each executive. This target is expressed as a percentage of the executive's base salary and is determined as part of a total compensation package based on the peer group and survey composite benchmarks. The PSU award generally represents approximately one-half of the recipient's long-term incentive compensation target award. Dividends are not paid on PSU awards during the three-year performance cycle.

The performance objectives for the 2013-2015 performance cycle awarded in 2013 were based upon the following metrics:

- Three-year relative TSR versus the Financial Peer Group described below;
- Three-year compound annual growth rate ("CAGR") in organic net sales outside the United States and Canada;
- Three-year CAGR in adjusted earnings per share-diluted measured against an internal target; and
- Annual (as opposed to three-year) growth in adjusted earnings per share-diluted measured against an internal target for each year of the three-year performance cycle.

The Compensation Committee selected these metrics to measure performance against internal targets aligned with our stockholders' interests and investment returns offered by our peer companies. Although the Company decided to utilize one common peer group beginning in 2015, PSU cycles prior to 2015 still utilize our Financial Peer Group. The Financial Peer Group is a high-performing group of companies with whom we compete for investors in the food and beverage industry. Initially the

Compensation Committee approved a Financial Peer Group of 15 companies with median revenues of \$7.9 billion. As a result of corporate transactions, H.J. Heinz Co., Hillshire Brands, Ralcorp Holdings, Inc. and Kraft Foods Group were removed from the Financial Peer Group. Therefore, 11 companies remained in the 2013-2015 cycle for use in assessing our Company's 2013-2015 TSR.

Companies included in the Financial Peer Group for the 2013-2015 PSU cycle award were:

Campbell Soup Company	Kellogg Company
ConAgra Foods, Inc.	McCormick & Company, Inc.
Dean Foods Company	Molson Coors Brewing Company
Dr Pepper Snapple Group, Inc.	Mondelez International
General Mills, Inc.	The J. M. Smucker Company
Hormel Foods Corporation	

The Compensation Committee approves the annual adjusted earnings per share-diluted target for each year of the three-year performance cycle at the beginning of the performance year. The annual component allows the Compensation Committee to establish performance targets that reflect current business conditions, thus strengthening the link between pay and performance for each year of the three-year cycle. Payment of any amounts earned, including amounts based on the annual performance goals, will be made in shares of our Common Stock at the conclusion of the three-year performance cycle. The maximum award for any participant in a performance cycle is 250% of the contingent target award.

Targets and results for the 2013-2015 performance cycle and the Company's TSR and financial performance during the three-year cycle were as follows:

Metric	Target	Actual Performance	Target Award Weighting (%)	Final Performance Score (%)
Total Shareholder Return	50 <sup>th</sup> Percentile	9 <sup>th</sup> Percentile	50.00	0.00
Three-year CAGR in Organic Net Sales Outside the United States and Canada	21.7% CAGR <sup>(1)</sup>	4.7% CAGR <sup>(1)</sup>	15.00	0.00
Three-year CAGR in Adjusted Earnings per Share-Diluted <sup>(3)</sup>	10.0% CAGR <sup>(1),(2)</sup>	11.2% CAGR <sup>(1),(2)</sup>	15.00	23.75
2013 Adjusted Earnings per Share-Diluted <sup>(3)</sup>	\$3.61 (11.4% increase)	\$3.72 (14.8% increase)	6.67	11.16
2014 Adjusted Earnings per Share-Diluted <sup>(3)</sup>	\$4.10 <sup>(1)</sup> (10.2% increase)	\$3.98 <sup>(1)</sup> (7.0% increase)	6.66	3.10
2015 Adjusted Earnings per Share-Diluted <sup>(3)</sup>	\$4.34 (9.0% increase)	\$4.12 (3.5% increase)	6.67	4.03
<b>Total</b>			<b>100.00</b>	<b>42.04</b>

(1) Results for our Shanghai Golden Monkey business were excluded from the following metrics as the acquisition was made in September 2014:

- Three-year CAGR in organic net sales outside the United States and Canada;
- Three-year CAGR in adjusted earnings per share-diluted; and
- 2014 adjusted earnings per share-diluted.

(2) Results for our Mauna Loa business were excluded from the three-year CAGR in adjusted earnings per share-diluted as the divestiture was completed in February 2015.

(3) Adjusted earnings per share-diluted is a non-GAAP performance measure. For more information regarding how we define adjusted earnings per share-diluted and our use of non-GAAP performance measures, please see footnote (1) on page 42.

At the conclusion of each three-year and annual performance period, the Compensation Committee reviews the level of performance achieved and the percentage, if any, of the applicable portion of the target number of PSUs earned. In determining the final performance cycle score, negative adjustments may be made by the Compensation Committee to the Company's performance score to take into account extraordinary or unusual items occurring during the period. No adjustments were made in determining the 42.04% performance score or the number of PSUs earned by our NEOs for the 2013-2015 performance cycle.

The performance metrics and weightings for the 2014-2016 and 2015-2017 performance cycles are the same as the 2013-2015 performance cycle. Actual Company results of \$4.12 for the 2015 adjusted earnings per share-diluted metric reflected a 3.5% increase from 2014 but did not meet the 2015 target of \$4.34. As a result, 4.03% of the final award was earned for this metric in the 2014-2016 and 2015-2017 performance cycles. These PSUs will be paid at the end of each of the applicable three-year performance cycles to participating executives who are entitled to payouts under the terms of the program.

See Column (e) of the 2015 Summary Compensation Table on page 61, Columns (f) through (h) of the 2015 Grants of Plan-Based Awards Table on page 64, Columns (i) and (j) of the Outstanding Equity Awards at 2015 Fiscal-Year End Table on page 66 and Columns (d) and (e) of the 2015 Option Exercises and Stock Vested Table on page 68 for more information about PSUs awarded to the NEOs.

### *Stock Options*

Stock options are an important element of our long-term incentive program, enabling us to align the interests of NEOs with those of stockholders. In general, stock options are awarded annually to the Company's executives as well as to other key managerial employees. Stock options entitle the holder to purchase a fixed number of shares of Common Stock at a set price during a specified period of time. The right to exercise the options is subject to a vesting schedule. Because stock options vest over time and only have value if the price of our Common Stock increases, they encourage efforts to enhance long-term stockholder value.

The Compensation Committee sets guidelines for the value of stock options to be awarded based on competitive compensation data. The stock option award represents approximately one-half of the NEO's long-term incentive compensation target award. In 2015, the target number of stock options awarded to each NEO was determined by multiplying the NEO's base salary by one-half of his or her target long-term incentive award percentage divided by the Black-Scholes value of each option on the grant date. The Black-Scholes option-pricing model is described in Note 10 to the Consolidated Financial Statements contained in the 2015 Annual Report on Form 10-K that accompanies this Proxy Statement. The actual number of options awarded may vary from the target level based on each NEO's individual performance evaluation.

Stock options vest in equal increments over four years and have a 10-year term. As required by the EICP, the options have an exercise price equal to the closing market price of the Common Stock on the NYSE on the date of the award.

See Column (f) of the 2015 Summary Compensation Table, Columns (j) through (l) of the 2015 Grants of Plan-Based Awards Table, Columns (b) through (f) of the Outstanding Equity Awards at 2015 Fiscal-Year End Table and Columns (b) and (c) of the 2015 Option Exercises and Stock Vested Table for more information on stock options awarded to the NEOs.

### *Restricted Stock Units*

The Compensation Committee awards Restricted Stock Units ("RSUs") to NEOs and other executives from time to time as special incentives. RSUs also are awarded by the Compensation Committee to



replace compensation forfeited by newly-hired executive officers and by the CEO to employees other than executive officers from the RSU pool described below. In 2015, the Compensation Committee granted an RSU award to Ms. Little to replace compensation forfeited as a result of her leaving her previous employer. See Column (e) of the 2015 Summary Compensation Table and Column (i) of the 2015 Grants of Plan-Based Awards Table for more information on RSUs awarded to the NEOs.

### *Equity Pools*

To ensure flexibility in providing awards for recruitment, retention, performance recognition or in conjunction with a promotion, the Compensation Committee is authorized under the EICP to establish a stock option pool, a PSU pool, a RSU pool and a separate CEO discretionary equity pool for use by our CEO for such purposes. The pools are available for approximately 12 months from the date created. The Compensation Committee determines whether to establish any or all of these pools annually. Options, PSUs and RSUs remaining in any pool at the end of the period do not carry over to pools established for a subsequent period. The CEO may not make discretionary awards from any pool to the NEOs. Awards from the CEO pools and the CEO discretionary equity pool are made monthly according to an annually pre-determined schedule. The exercise price for the options is based on the closing price of our Common Stock on the date of the award.

### **Perquisites**

Executive perquisites are kept to a minimal level relative to a NEO's total compensation and do not play a significant role in our executive compensation program. The perquisites that we provide, including personal use of Company aircraft, security services for our CEO, and financial counseling and tax preparation reimbursement, are of the type that we believe promote the efficiency, effectiveness and focus of our NEOs in the performance of their duties. See the footnotes to Column (i) of the 2015 Summary Compensation Table for information regarding the perquisites received by our NEOs.

Our CEO and the other NEOs are eligible to participate in our Gift Matching Program on the same basis as other employees, retirees or their spouses. Through the Gift Matching Program, we match contributions made to one or more non-profit organizations on a dollar-for-dollar basis up to a maximum aggregate contribution of \$5,000 per employee annually. These matching contributions are not considered compensation and are not included in Column (i) of the 2015 Summary Compensation Table.

### **Retirement Plans**

NEOs participate in our tax-qualified defined benefit pension plan ("pension plan") and tax-qualified defined contribution 401(k) plan ("401(k) plan") on the same basis as other salaried employees of the Company. Internal Revenue Code ("IRC") regulations do not permit the Company to use base salary and other compensation paid above certain limits to determine the benefits earned by the NEOs under tax-qualified plans. The Company maintains a defined benefit Supplemental Executive Retirement Plan ("DB SERP"), a defined contribution Supplemental Executive Retirement Plan ("DC SERP") and a Deferred Compensation Plan to provide these and additional benefits that are comparable to those offered by our peers. Under the provisions of the Deferred Compensation Plan, our NEOs may elect to defer payments from the DB SERP, DC SERP, OHIP, PSU and RSU awards, but not stock options or base salary.

The DB SERP was closed to new participants in 2006. No new participants have been or will be added to the DB SERP. NEOs and other senior executives reporting to the CEO not eligible for the DB SERP are considered by the Compensation Committee for participation in the DC SERP. In comparison, the DC SERP typically yields a lower benefit than the DB SERP upon retirement. The Company believes that the DB SERP, DC SERP and Deferred Compensation Plan help, in the aggregate, to attract and

retain executive talent, as similar plans are often components of the executive compensation programs within our Peer Group. The DC SERP was established as part of our Deferred Compensation Plan and is not a separate plan.

See the 2015 Pension Benefits Table and accompanying narrative beginning on page 68 and the 2015 Non-Qualified Deferred Compensation Table and accompanying narrative beginning on page 70 for more information regarding the DB SERP, DC SERP and other retirement benefits.

## **Employment Agreements**

We have not entered into employment agreements with any NEO, except for Mr. Bilbrey.

The Company entered into an employment agreement with Mr. Bilbrey in August 2012, which provides for Mr. Bilbrey's continued employment as President and CEO and as a member of the Board of Directors. In November 2015, the Company and Mr. Bilbrey entered into an amendment to this employment agreement to reflect revisions to Mr. Bilbrey's compensation and other benefits as a result of his election as Chairman of the Board. The employment agreement does not have a specified term. In the event Mr. Bilbrey's employment is terminated by the Company without Cause or he resigns for Good Reason (in each case as defined in the employment agreement), Mr. Bilbrey will be entitled to certain severance benefits. In the event of his termination after a change in control, Mr. Bilbrey will be eligible to receive benefits under the Executive Benefits Protection Plan (Group 3A) ("EBPP 3A"). He is not entitled to an excise tax gross-up. The employment agreement subjects Mr. Bilbrey to certain non-competition and non-solicitation covenants under the ECRCA and to compensation recovery (clawback) to the extent required by applicable law and regulations.

See the discussion beginning on page 72 for information regarding the payments Mr. Bilbrey would receive in the event of termination or a change in control.

## **Severance and Change in Control Plans**

Mr. McConville is covered by our Executive Benefits Protection Plan (Group 3) ("EBPP 3"), while all other NEOs are covered by our EBPP 3A. The EBPP 3A and EBPP 3 are intended to help us attract and retain executive talent and maintain a stable work environment in the event of activity that could potentially result in a Change in Control. The severance protection provided under the EBPP 3A and the EBPP 3 upon a Change in Control is based upon a "double trigger." The terms of the plans generally provide that a covered NEO whose employment with the Company terminates in qualifying circumstances within two years after a Change in Control of the Company is entitled to certain severance payments and benefits. The EBPP 3A and EBPP 3 also provide severance benefits in the event of involuntary termination without Cause unrelated to a Change in Control or voluntary termination for Good Reason within two years after election of a new CEO. Change in Control, Cause and Good Reason are defined in the EBPP 3A and EBPP 3, as applicable.

See the discussion beginning on page 72 for information regarding the payments that would be due to our NEOs under the EBPP 3A and EBPP 3 in the event of an applicable termination of employment or a Change in Control.

## Compensation Policies and Practices

### *Clawbacks*

Under the EICP, when an individual's actions result in the filing of financial documents not in compliance with financial reporting requirements, the Company has the right to recoup or require repayment of an award earned or accrued during the twelve-month period following the first public issuance or filing with the SEC of the financial document not in compliance with such financial reporting requirement. Repayment or clawback occurs where the material noncompliance results from misconduct, the participant's knowledge or gross negligence in engaging in the misconduct or failing to prevent the misconduct, or if the participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002.

In 2008, the Company initiated the execution of the ECRCA by executive officers as a condition for the receipt of long-term incentive awards and, for new executive officers, also as a condition of employment. The purpose of the ECRCA is to protect the Company and further align the interests of the executive officer with those of the Company. The terms of the ECRCA prohibit the executive from misusing or disclosing the Company's confidential information, competing with the Company in specific categories for a period of 12 months following separation from employment, recruiting or soliciting the Company's employees, or disparaging the Company's reputation in any way. For those officers or employees based outside the U.S., the restrictive covenants and terms may be modified to comply with local laws.

Failure to comply with the provisions of the ECRCA may result in cancellation of the unvested portion of PSU and RSU awards, cancellation of any unexercised stock options and a requirement for repayment of amounts received from equity awards during the last year of employment, as well as any amounts received from the DB SERP or DC SERP.

### *Tax Considerations*

The anticipated cost of the various components of executive compensation is also a factor in the Compensation Committee's deliberations. Section 162(m) of the IRC may limit the Company's ability to deduct certain compensation in excess of \$1 million paid to our CEO or to our other NEOs who are employed on the last day of the fiscal year (other than officers who served as CFO during the year). This limitation does not apply to compensation that qualifies as "performance-based" under applicable Internal Revenue Service ("IRS") regulations or that is paid after termination of employment. The Compensation Committee has considered the effect of Section 162(m) of the IRC on the Company's executive compensation program. The Compensation Committee exercises discretion in setting base salaries, structuring incentive compensation awards and in determining payments in relation to levels of achievement of performance goals. The Compensation Committee believes that the total compensation program for NEOs should be managed in accordance with the objectives outlined in the Company's compensation philosophy and in the best overall interests of the Company's stockholders. Accordingly, compensation paid by the Company may not be deductible because such compensation exceeds the limitations, or does not meet the "performance-based" or other requirements, for deductibility under Section 162(m) of the IRC.

Section 409A of the IRC specifies certain rules and limitations regarding the operation of our Deferred Compensation Plan and other retirement programs. Failure to comply with these rules could subject participants in those plans and programs to additional income tax and interest penalties. We believe our plans and programs comply with Section 409A of the IRC.

## Stock Ownership Guidelines

The Compensation Committee believes that requiring NEOs and other executive officers to hold significant amounts of our Common Stock strengthens their alignment with the interest of our stockholders and promotes achievement of long-term business objectives. Our executive stock ownership policy has been in place for more than 20 years. The Compensation Committee reviews ownership requirements annually to ensure they are aligned with external market comparisons.

Executives with stock ownership requirements have five years from their initial election to their position to accumulate and hold the minimum number of shares required. For purposes of this requirement, “shares” include shares of our Common Stock that are owned by the executive, unvested time-based RSUs, PSUs earned for the annual segments of open performance cycles and vested RSUs and PSUs that have been deferred by the executive as Common Stock units under our Deferred Compensation Plan. It is anticipated that executives will hold a significant number of the shares earned from PSU and RSU awards and the exercise of stock options to satisfy their obligations. Minimum stockholding requirements for the CEO and the other NEOs are as follows:

<b>Position</b>	<b>Stock Ownership Level</b>
CEO	5 times base salary
CFO and Senior Vice Presidents	3 times base salary
Other executives subject to stockholding requirements	1 times base salary

The dollar value of shares which must be acquired and held equals a multiple of the individual executive’s base salary. Stockholding requirements are updated whenever a change in base salary occurs. Failure to reach the minimum within the five-year period results in a notification letter to the executive, with a copy to the CEO, and a requirement that future stock option exercises and PSU payments be settled by retaining at least 50% of the shares of Common Stock received until the minimum ownership level is attained. The Compensation Committee receives an annual summary of each individual executive’s ownership status to monitor compliance.

## **COMPENSATION COMMITTEE REPORT**

### **To Our Stockholders:**

We have reviewed and discussed with management the Compensation Discussion & Analysis, beginning on page 42. Based on that review and discussion, we have recommended to the Board of Directors that the Compensation Discussion & Analysis be included in this Proxy Statement.

Submitted by the Compensation and Executive Organization Committee of the Board of Directors:

James M. Mead, Chair  
Mary Kay Haben  
Robert M. Malcolm  
Anthony J. Palmer  
David L. Shedlarz

The independent members of the Board of Directors who are not members of the Compensation and Executive Organization Committee join in the Compensation Committee Report with respect to the approval of Mr. Bilbrey's compensation.

Pamela M. Arway  
Robert F. Cavanaugh  
Charles A. Davis  
James E. Nevels  
Thomas J. Ridge

## 2015 Summary Compensation Table

The following table and explanatory footnotes provide information regarding compensation earned by, held by, or paid to, individuals holding the positions of Chief (Principal) Executive Officer and Chief (Principal) Financial Officer during 2015 and the three most highly compensated of our other executive officers, which collectively comprise our NEOs. The following table provides information with respect to 2015, as well as 2014 and 2013 compensation where required. 2014 and 2013 information is not provided for Ms. Little and Mr. McConville because they were not NEOs in those years, and 2014 information is not provided for Ms. Turner because she was not a NEO in 2014.

Name and Principal Position	Year	Salary <sup>(1)</sup> (\$)	Bonus <sup>(2)</sup> (\$)	Stock Awards <sup>(3)</sup> (\$)	Option Awards <sup>(4)</sup> (\$)	Non-Equity Incentive Plan Compensation <sup>(5)</sup> (\$)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings <sup>(6)</sup> (\$)	All Other Compensation <sup>(7)</sup> (\$)	Total (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mr. Bilbrey Chairman of the Board, President and CEO	2015	1,204,616	—	3,146,305	2,844,073	1,005,930	2,438,084	170,991	10,809,999
	2014	1,164,462	—	3,947,534	4,123,889	1,018,395	7,293,845	229,276	17,777,401
	2013	1,129,327	—	3,572,564	3,037,501	2,526,686	3,299,185	260,423	13,825,686
Ms. Little Senior Vice President, CFO	2015	482,308	—	2,172,076	510,003	288,805	—	246,579	3,699,771
Ms. Buck President, North America	2015	655,310	—	746,418	685,505	403,015	587,394	73,220	3,150,862
	2014	642,461	—	944,845	1,008,038	307,046	1,312,980	69,596	4,284,966
	2013	537,359	—	723,678	610,254	658,414	195,971	65,615	2,791,291
Mr. O'Day Senior Vice President, Chief Supply Chain Officer	2015	572,845	—	538,594	485,067	269,435	—	168,052	2,033,993
	2014	567,172	—	695,571	576,407	222,292	—	231,604	2,293,046
	2013	543,081	—	679,791	551,853	545,957	—	222,152	2,542,834
Ms. Turner Senior Vice President, General Counsel and Secretary	2015	602,308	—	550,394	765,062	341,376	—	196,234	2,455,374
	2013	491,885	—	465,978	367,566	456,483	—	238,855	2,020,767
Mr. McConville Vice President, Chief Accounting Officer, previously interim PFO	2015	317,621	—	139,815	151,970	93,434	—	37,071	739,911

(1) Column (c) reflects base salary earned, on an accrual basis, for the years indicated and includes IRC Section 125 deductions pursuant to The Hershey Company Flexible Benefits Plan and amounts deferred by the NEOs in accordance with the provisions of the 401(k) plan.

(2) Column (d) indicates that no discretionary bonuses were paid to the NEOs in 2015, 2014 or 2013.

(3) Column (e) shows the aggregate grant date fair value of contingent target PSU awards granted to the NEOs in the years indicated. The assumptions used to determine the grant date fair value of awards listed in Column (e) are set forth in Note 10 to the Company's Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K that accompanies this Proxy Statement. The amounts in Column (e) do not reflect the value of shares actually received or which may be received in the future with respect to such awards.

For 2015, the amount shown in Column (e) includes the aggregate grant date fair value of contingent target PSU awards for the 2015-2017 performance cycle and, with the exception of Ms. Little, the 2015 adjusted earnings per share-diluted component of the 2014-2016 and 2013-2015 performance cycles.

The number of contingent target PSUs awarded in 2015 to each NEO is shown on the 2015 Grants of Plan-Based Awards Table in Column (g). Assuming the highest level of performance is achieved for each of the PSU awards included in Column (e), the value of the awards at grant date for each of the NEOs would be as follows:

Name	Year	Maximum Value at Grant Date (\$)
Mr. Billbrey	2015	7,308,849
	2014	7,858,523
	2013	7,736,858
Ms. Little	2015	1,105,137
Ms. Buck	2015	1,732,476
	2014	1,872,631
	2013	1,568,234
Mr. O'Day	2015	1,251,856
	2014	1,389,453
	2013	1,481,029
Ms. Turner	2015	1,276,533
	2013	991,177
Mr. McConville	2015	324,932

For Ms. Little, the amount shown in Column (e) also includes the grant date fair value of a RSU award granted to her to replace compensation forfeited as a result of her leaving her prior employer. The unvested portion of this RSU award is included in the amounts presented in Columns (g) and (h) of the Outstanding Equity Awards at 2015 Fiscal-Year End Table. The number of shares acquired and value received by the NEOs with respect to PSU and RSU awards that vested in 2015 is included in Columns (d) and (e) of the 2015 Option Exercises and Stock Vested Table.

- (4) Column (f) presents the grant date fair value of stock options awarded to the NEOs for the years indicated and does not reflect the value of shares actually received or which may be received in the future with respect to such stock options. The assumptions we made to determine the value of these awards are set forth in Note 10 to the Company's Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K that accompanies this Proxy Statement. The number of stock options awarded to each NEO during 2015 appears in Column (j) of the 2015 Grants of Plan-Based Awards Table.
- (5) Column (g) reflects the OHIP payments made to each NEO based upon actual salary received in 2015.
- (6) Column (h) reflects the aggregate change in the actuarial present value of the NEO's retirement benefit under the Company's pension plan and the DB SERP. The change in value calculation uses the same discount rate and mortality rate assumptions as the 2014 and 2015 audited financial statements, as applicable, and measures the change in value between the pension plan measurement date in the 2014 and 2015 audited financial statements. The change in value during a year is primarily driven by three factors: 1) changes in valuation assumptions; 2) changes in the NEO's pensionable earnings; and 3) an additional year of service and age. During 2014, each of these factors contributed significantly to the increase in the pension value. During 2015, the primary driver of the increase in pension value was the additional year of age and service. The impact of changes in valuation assumptions and pensionable earnings during 2015 were relatively smaller and mostly offsetting. The amounts in Column (h) do not reflect amounts paid or that might be paid to the NEO.

Mmes. Little and Turner and Mr. O'Day participate in the DC SERP rather than the DB SERP. The DC SERP is established under the Company's Deferred Compensation Plan. DC SERP contributions for Mmes. Little and Turner and Mr. O'Day are included in Column (i) as explained in more detail in footnote (7) below. Mr. McConville does not participate in the DB SERP or the DC SERP.

The NEOs also participate in our non-qualified, non-funded Deferred Compensation Plan under which deferred amounts are credited with notional earnings based on the performance of one or more third-party investment options available to all participants in our 401(k) plan. No portion of the notional earnings credited during 2015 was "above market" or "preferential." Consequently, no Deferred Compensation Plan earnings are included in amounts reported in Column (h) above. See the 2015 Pension Benefits Table and the 2015 Non-Qualified Deferred Compensation Table for more information on the benefits payable to the NEOs under the pension plan, DB SERP and Deferred Compensation Plan.

(7) All other compensation includes amounts as described below:

Name	Year	Retirement Income						Perquisites and Other Benefits				
		401(k) Match (\$)	Supplemental 401(k) Match <sup>(a)</sup> (\$)	Supplemental Retirement Contribution (\$)	DC SERP Contribution (\$)	Core Retirement Contribution <sup>(b)</sup> (\$)	Supplemental Core Retirement Contribution <sup>(b)</sup> (\$)	Personal Use of Company Aircraft <sup>(c)</sup> (\$)	Security Services <sup>(d)</sup> (\$)	Company-Paid Financial Counseling <sup>(e)</sup> (\$)	Reimbursement of Personal Tax Return Preparation Fee <sup>(e)</sup> (\$)	Relocation Expenses and Related Taxes <sup>(f)</sup> (\$)
Mr. Bilbrey	2015	11,925	87,882	980	—	—	—	52,825	7,479	8,400	1,500	—
	2014	11,700	154,189	926	—	—	—	—	52,561	8,400	1,500	—
	2013	11,475	137,599	872	—	—	—	49,584	51,693	8,400	800	—
Ms. Little	2015	11,925	9,363	—	59,135	7,950	6,242	—	—	12,379	—	139,585
Ms. Buck	2015	11,925	31,261	859	—	—	—	18,975	—	10,200	—	—
	2014	11,700	46,692	805	—	—	—	—	—	8,914	1,485	—
	2013	11,475	37,789	751	—	—	—	6,050	—	8,750	800	—
Mr. O'Day	2015	11,925	23,754	—	99,110	7,950	15,836	—	—	8,400	1,077	—
	2014	11,700	38,285	—	138,847	7,800	25,523	—	—	8,400	1,049	—
	2013	11,475	36,439	—	133,095	7,650	24,293	—	—	8,400	800	—
Ms. Turner	2015	11,925	28,515	—	112,334	7,950	19,010	—	—	15,000	1,500	—
	2013	11,475	19,035	—	84,749	7,650	12,690	—	—	7,500	800	94,956
Mr. McConville	2015	11,925	—	—	—	7,950	4,541	—	—	12,655	—	—

- (a) Employees who earn over the IRS compensation limit and/or defer any portion of their OHIP award are eligible for the Supplemental 401(k) Match, contingent on the employee contributing an amount to the 401(k) plan equal to the annual pre-tax limit established by the IRS. Messrs. Bilbrey and O'Day and Mmes. Little, Buck, and Turner are eligible to receive a Supplemental 401(k) Match Contribution equal to 4.5% of the amount by which their income exceeds the IRS compensation limit.
- (b) As are all new hires of the Company since January 1, 2007, Mmes. Little and Turner and Messrs. O'Day and McConville are eligible to receive a contribution to their 401(k) plan account equal to 3% of base salary and OHIP up to the maximum amount permitted by the IRS. We call this contribution the Core Retirement Contribution ("CRC"). They also are eligible to receive a Supplemental Core Retirement Contribution ("Supplemental CRC") equal to the amount by which the CRC exceeds the IRS limit.
- (c) The value of any personal use of Company aircraft by the NEOs is based on the Company's aggregate incremental per-flight hour cost for the aircraft used and flight time of the applicable flight. The incremental per-flight hour cost is calculated by reference to fuel, maintenance (labor and parts), crew, landing and parking expenses.
- (d) From time to time the Company provides security services for Mr. Bilbrey when the Company determines that conditions warrant such services for the safety and protection of Mr. Bilbrey and his family. The amount reported is the Company's incremental cost for such services.
- (e) For 2015, Ms. Buck and Mr. McConville used The Ayco Company, L.P. ("Ayco") for both financial counseling and personal tax return preparation services. Because Ayco charges a combined rate for these services, the fee for both services is captured in the Company-Paid Financial Counseling column. Based on the timing of Ms. Little's hire, no tax preparation reimbursement was paid in 2015.
- (f) Ms. Little joined the Company in 2015 and received Company relocation benefits totaling \$119,567 for shipment of household goods, temporary living assistance and miscellaneous allowances, home finding trips, assistance in selling her prior residence and assistance in purchasing her new residence. She also received a net tax gross up totaling \$20,018 to offset the amounts imputed to her income as a result of these benefits.



## 2015 Grants of Plan-Based Awards Table

The following table and explanatory footnotes provide information with regard to the potential cash award that each NEO had the opportunity to earn during 2015 under the OHIP, and with regard to PSUs, RSUs and stock options awarded to each NEO during 2015, as applicable. The amounts that were actually earned under the OHIP during 2015 by the NEOs are set forth in Column (g) of the 2015 Summary Compensation Table.

Name	Grant Date <sup>(1)</sup>	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards <sup>(2)</sup>			Estimated Possible Payouts Under Equity Incentive Plan Awards <sup>(3)</sup>			All Other Stock Awards: Number of Shares of Stock or Units <sup>(4)</sup>	All Other Option Awards: Number of Securities Underlying Options <sup>(5)</sup>	Exercise or Base Price of Option Awards <sup>(6)</sup> (\$/Sh)	Grant Date Fair Value of Stock and Option Awards <sup>(7)</sup> (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)				
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Mr. Bilbrey	02/17/2015	6,188	1,767,969	3,535,938	105	27,604	69,010	—	147,285	105.91	5,990,378
Ms. Little	04/15/2015	1,242	354,808	709,616	17	4,392	10,980	16,543	28,830	100.65	2,682,079
Ms. Buck	02/17/2015	1,942	554,754	1,109,508	25	6,543	16,358	—	35,500	105.91	1,431,923
Mr. O'Day	02/17/2015	1,298	370,880	741,760	18	4,728	11,820	—	25,120	105.91	1,023,661
Ms. Turner	02/17/2015	1,468	419,394	838,788	18	4,821	12,053	—	39,620	105.91	1,315,456
Mr. McConville	02/17/2015	498	142,326	284,652	5	1,227	3,068	—	7,870	105.91	291,785

- (1) Column (b) represents the grant date for the PSUs reflected in Columns (f), (g) and (h), the RSUs reflected in Column (i) and the stock options reflected in Column (j). All awards were made under the EICP.
- (2) Columns (c), (d) and (e) represent the threshold, target and maximum potential amounts that each NEO had the opportunity to earn based on the OHIP targets approved for the NEOs in February 2015 and adjusted for Mr. Bilbrey's target change in April 2015. All amounts shown in Columns (c), (d) and (e) are based upon actual salary received in 2015.
- The threshold amount is the amount that would have been payable had the minimum individual performance score been achieved and the Company performance score been zero. The target amount is the amount that would have been payable had the business and individual performance scores been 100% on all metrics. The maximum amount is the amount that would have been payable had the maximum score been achieved on all metrics.
- (3) Columns (f), (g) and (h) represent the number of threshold, target and maximum potential PSUs that can be earned for the 2015-2017 performance cycle and for the 2015 adjusted earnings per share-diluted component of the 2014-2016 and 2013-2015 performance cycles.
- Each PSU represents the value of one share of our Common Stock. The number of PSUs earned for the 2015-2017 performance cycle and for the 2015 adjusted earnings per share-diluted component of the 2014-2016 and 2013-2015 performance cycles will depend upon achievement against the metrics explained in the Compensation Discussion & Analysis under "Performance Stock Unit Targets and Results" beginning on page 53.
- Payment, if any, will be made in shares of the Company's Common Stock at the conclusion of the three-year performance cycle. The Compensation Committee will approve the targets for the annual adjusted earnings per share-diluted metrics at the beginning of each of the three years in the performance cycle. The minimum award as shown in Column (f) is the number of shares payable for achievement of the threshold level of performance on one of the metrics and the maximum award as shown in Column (h) is the number of shares payable for achievement of the maximum level of performance on all metrics.
- More information regarding PSUs and the 2015 awards can be found in the Compensation Discussion & Analysis and the Outstanding Equity Awards at 2015 Fiscal-Year End Table.
- (4) Column (i) represents the number of RSUs granted to Ms. Little on April 15, 2015 to replace compensation forfeited as a result of her leaving her prior employer.
- (5) Column (j) represents the number of options awarded to each NEO. Target option awards were determined by multiplying one-half of the executive's long-term incentive target percentage times his or her 2015 base salary, divided by the Black-Scholes value of (i) \$19.31 per option for each NEO other than Ms. Little, or (ii) \$17.69 per option for Ms. Little. The Black-Scholes value is based on the option exercise price, which is equal to the closing price of the Company's Common Stock on the NYSE on the award date. The actual number of options awarded varied from the target level based on the executive's performance evaluation for the year ended December 31, 2014.

Stock option awards vest in 25% increments over four years and have a 10-year term. Information on the treatment of stock options upon retirement, death, disability, termination, or Change in Control can be found in Potential Payments upon Termination or Change in Control beginning on page 72.

- (6) Column (k) presents the exercise price for each option award based upon the closing price of the Company's Common Stock on the NYSE on the award date shown in Column (b).
- (7) Column (l) presents the aggregate grant date fair value of the target number of PSUs reported in Column (g), the number of RSUs reported in Column (i) and the number of stock options reported in Column (j), in each case as determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718. The assumptions used in determining these amounts are set forth in Note 10 to the Company's Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K that accompanies this Proxy Statement.

## Outstanding Equity Awards at 2015 Fiscal-Year End Table

The following table and explanatory footnotes provide information regarding unexercised stock options and unvested stock awards held by our NEOs as of December 31, 2015:

Name	Option Awards <sup>(1)</sup>					Stock Awards			
	Number of Securities Underlying Unexercised Options- Exercisable <sup>(2)</sup> (#)	Number of Securities Underlying Unexercised Options- Unexercisable <sup>(3)</sup> (#)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested <sup>(4)</sup> (#)	Market Value of Shares or Units of Stock That Have Not Vested <sup>(4)</sup> (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(5)</sup> (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(5)</sup> (\$)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mr. Billbrey	—	147,285	—	105.91	02/16/2025	—	—	26,967	2,407,344
	47,818	143,457	—	105.96	02/17/2024	—	—	28,750	2,566,513
	105,322	105,323	—	81.73	02/18/2023	—	—	—	—
	155,527	51,843	—	60.68	02/20/2022	—	—	—	—
	71,275	—	—	55.48	05/17/2021	—	—	—	—
	25,328	—	—	51.42	02/21/2021	—	—	—	—
<b>Total</b>	<b>405,270</b>	<b>447,908</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>55,717</b>	<b>4,973,857</b>
Ms. Little	—	28,830	—	100.65	04/14/2025	16,543	1,504,934	5,068	452,420
<b>Total</b>	<b>—</b>	<b>28,830</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>16,543</b>	<b>1,504,934</b>	<b>5,068</b>	<b>452,420</b>
Ms. Buck	—	35,500	—	105.91	02/16/2025	—	—	6,472	577,755
	11,688	35,067	—	105.96	02/17/2024	—	—	7,000	624,890
	21,160	21,160	—	81.73	02/18/2023	—	—	—	—
	27,338	13,669	—	60.68	02/20/2022	—	—	—	—
	10,369	—	—	51.42	02/21/2021	—	—	—	—
<b>Total</b>	<b>70,555</b>	<b>105,396</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>13,472</b>	<b>1,202,645</b>
Mr. O'Day	—	25,120	—	105.91	02/16/2025	—	—	4,580	408,857
	6,683	20,052	—	105.96	02/17/2024	—	—	5,000	446,350
	19,135	19,135	—	81.73	02/18/2023	—	—	—	—
	37,417	12,473	—	60.68	02/20/2022	—	—	—	—
	37,875	—	—	51.42	02/21/2021	—	—	—	—
<b>Total</b>	<b>101,110</b>	<b>76,780</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,580</b>	<b>855,207</b>
Ms. Turner	—	39,620	—	105.91	02/16/2025	7,000	673,092	4,816	429,924
	6,210	18,630	—	105.96	02/17/2024	—	—	4,650	415,106
	12,745	12,745	—	81.73	02/18/2023	—	—	—	—
	14,007	7,004	—	72.44	07/08/2022	—	—	—	—
<b>Total</b>	<b>32,962</b>	<b>77,999</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>7,000</b>	<b>673,092</b>	<b>9,466</b>	<b>845,030</b>
Mr. McConville	—	7,870	—	105.91	02/16/2025	—	—	1,195	106,678
	2,127	6,383	—	105.96	02/17/2024	—	—	1,275	113,819
	4,000	4,000	—	81.73	02/18/2023	—	—	—	—
	5,561	1,854	—	60.68	02/20/2022	—	—	—	—
	7,260	—	—	51.42	02/21/2021	—	—	—	—
	6,555	—	—	39.26	02/22/2020	—	—	—	—
<b>Total</b>	<b>25,503</b>	<b>20,107</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>2,470</b>	<b>220,497</b>

(1) Columns (b) through (f) represent information about stock options awarded to each NEO under the EICP. Stock option awards vest in 25% increments over four years and have a ten-year term. Information on the treatment of stock options upon retirement, death, disability, termination, or Change in Control can be found in Potential Payments upon Termination or Change in Control beginning on page 72.

- (2) Options listed in Column (b) are vested and may be exercised by the NEO at any time subject to the terms of the stock option.
- (3) Options listed in Column (c) were not vested as of December 31, 2015. The following table provides information with respect to the dates on which these options are scheduled to vest, subject to continued employment (or retirement, death or disability), prorating in the event of severance and possible acceleration in the event of a Change in Control:

Grant Date	Future Vesting Dates	Number of Options Vesting					
		Mr. Bilbrey	Ms. Little	Ms. Buck	Mr. O'Day	Ms. Turner	Mr. McConville
04/15/2015	04/15/2016	—	7,207	—	—	—	—
	04/15/2017	—	7,208	—	—	—	—
	04/15/2018	—	7,207	—	—	—	—
	04/15/2019	—	7,208	—	—	—	—
02/17/2015	02/17/2016	36,821	—	8,875	6,280	9,905	1,967
	02/17/2017	36,821	—	8,875	6,280	9,905	1,968
	02/17/2018	36,821	—	8,875	6,280	9,905	1,967
	02/17/2019	36,822	—	8,875	6,280	9,905	1,968
02/18/2014	02/18/2016	47,819	—	11,689	6,684	6,210	2,128
	02/18/2017	47,819	—	11,689	6,684	6,210	2,127
	02/18/2018	47,819	—	11,689	6,684	6,210	2,128
02/19/2013	02/19/2016	52,661	—	10,580	9,567	6,372	2,000
	02/19/2017	52,662	—	10,580	9,568	6,373	2,000
07/09/2012	07/09/2016	—	—	—	—	7,004	—
02/21/2012	02/21/2016	51,843	—	13,669	12,473	—	1,854
<b>Total per NEO</b>		<b>447,908</b>	<b>28,830</b>	<b>105,396</b>	<b>76,780</b>	<b>77,999</b>	<b>20,107</b>

- (4) Column (g) includes 16,543 unvested RSUs awarded to Ms. Little in 2015 and 7,000 unvested RSUs awarded to Ms. Turner in 2012. Column (h) sets forth the value of the RSUs reported in Column (g) using the \$89.27 closing price per share of our Common Stock on the NYSE on December 31, 2015. Column (h) also includes the value of dividend equivalents accrued through December 31, 2015, on the RSUs included in Column (g).
- (5) Based on progress to date against the performance metrics established for open PSU performance cycles, the first number in Column (i) for each NEO is the target number of PSUs potentially payable for the 2015-2017 performance cycle ending on December 31, 2017 and the second number in Column (i) for each NEO, other than Ms. Little, is the target number of PSUs potentially payable for the 2014-2016 performance cycle ending on December 31, 2016. The actual number of PSUs earned, if any, will be determined at the end of each performance cycle and may be fewer or more than the number reflected in Column (i). Column (j) sets forth the value of PSUs reported in Column (i) using the \$89.27 closing price per share of our Common Stock on the NYSE on December 31, 2015.

## 2015 Option Exercises and Stock Vested Table

The following table and explanatory footnotes provide information with regard to amounts paid to or received by our NEOs during 2015 as a result of the exercise of stock options or the vesting of stock awards:

Name	Option Awards <sup>(1)</sup>		Stock Awards <sup>(2)</sup>	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
(a)	(b)	(c)	(d)	(e)
Mr. Bilbrey	—	—	14,587	1,318,519
Ms. Little	—	—	—	—
Ms. Buck	—	—	2,943	266,018
Mr. O'Day	12,500	732,250	2,671	241,432
Ms. Turner	7,004	243,266	2,124	191,988
			7,000 <sup>(3)</sup>	675,710 <sup>(3)</sup>
Mr. McConville	6,388	440,160	674	60,923
			724 <sup>(4)</sup>	74,537 <sup>(4)</sup>

- (1) Column (b) represents the number of stock options exercised by each NEO during 2015, and Column (c) represents the market value at the time of exercise of the shares purchased less the exercise price paid.
- (2) Column (d) includes the number of PSUs earned from the 2013-2015 performance cycle that ended on December 31, 2015, as determined by the Compensation Committee, or, in the case of Mr. Bilbrey, by the independent members of our Board. The aggregate results of the 2013-2015 performance cycle exceeded the financial thresholds, but did not meet the financial targets, established at the start of the performance cycle; therefore, the number of PSUs included in Column (d) reflects payment at 42.04% of target. With the exception of Ms. Little, all of the NEOs received payment of the award in Common Stock in February 2016. In accordance with the terms of the PSU award agreement, each PSU represents one share of our Common Stock valued in Column (e) at \$90.39, the closing price of our Common Stock on the NYSE on February 16, 2016, the date the Compensation Committee approved the PSU payment.
- (3) For Ms. Turner, the second number in Column (d) reflects RSUs that were distributed in 2015 from a 2012 award and the second number in Column (e) sets forth the value of such RSUs at vesting on August 9, 2015 and cash credits equivalent to dividends accrued during the vesting period. Ms. Turner elected to defer 80% of this award and to receive immediate payment in shares of the Company's Common Stock for 20% of this award. As a result, on the vesting date of these RSUs, Ms. Turner received immediate payment of 1,400 RSUs and their respective dividends (less cash and shares withheld to meet tax obligations). Because the cash credits earned for the 5,600 shares deferred exceeded the tax liability associated with those shares, the 5,600 shares were credited to Ms. Turner's Deferred Compensation account and she received a cash payment for the remaining dividend value (less cash withheld to meet tax obligations).
- (4) For Mr. McConville, the second number in Column (d) reflects RSUs that were distributed in 2015 from 2011 and 2012 awards. The second number in Column (e) sets forth the value of 224 RSUs at vesting on February 23, 2015, 500 RSUs at vesting on June 8, 2015 and the cash credits equivalent to dividends accrued during the vesting period.

## 2015 Pension Benefits Table

Mr. Bilbrey and Ms. Buck are participants in our pension plan and are fully vested in benefits under that plan. Mr. Bilbrey and Ms. Buck are also eligible to participate in our non-qualified DB SERP. No benefit is payable under the DB SERP if the executive officer terminates employment prior to age 55 or if he or she does not have five years of service with the Company. As of December 31, 2015, Mr. Bilbrey had attained age 55 with five years of services and therefore was fully vested in his DB SERP benefit.

The combination of the pension and DB SERP plans was designed to provide a benefit upon retirement at or after reaching age 60 based on a joint and survivor annuity equal to 55% of final average compensation for an executive with 15 or more years of service (reduced pro rata for each year of service under 15). Effective January 1, 2007, the benefit payable under the DB SERP to an executive who was age 50 or over as of January 1, 2007, was reduced by 10%, and the benefit payable to an executive who had not attained age 50 as of January 1, 2007, was reduced by 20%. As a result, the benefit payable to Mr. Bilbrey was reduced by 10% and the benefit payable to Ms. Buck was reduced by 20%.

Under the terms of the DB SERP, final average compensation is calculated as the sum of (i) the average of the highest three calendar years of base salary paid over the last five years of employment with the Company and (ii) the average of the highest three OHIP awards, paid or deferred, for the last five years of employment with the Company. The benefit accrued under the DB SERP is payable upon retirement (subject to the provisions of Section 409A of the IRC) as a lump sum or a life annuity with 50% benefit continuation to the participant's surviving spouse, or payment may be deferred in accordance with the provisions of the Company's Deferred Compensation Plan. The lump sum is equal to the actuarial present value of the joint and survivor pension earned, reduced by the lump sum value of the benefits to be paid under the pension plan and the value of the executive's Social Security benefits. If the executive terminates employment after age 55 but before age 60, the benefit is reduced for early retirement at a rate of 5% per year for the period until the executive would have turned 60.

On November 16, 2015, the Company and Mr. Bilbrey entered into an amendment to his existing employment agreement, the effect of which was to increase, from five to ten years, the duration of the look-back period for selecting the highest three years of base salary and annual incentive payment used to calculate Mr. Bilbrey's final average compensation for determining his benefit under the DB SERP. The amendment also established the interest rate to be applied to the calculation of amounts payable to Mr. Bilbrey under the DB SERP as the rate equal to the Lump Sum Interest Rate (as defined in the DB SERP) as of October 31, 2015.

The following table and explanatory footnote provide information regarding the present value of benefits accrued under the pension plan and the DB SERP, as applicable, for each NEO as of December 31, 2015. The amounts shown for the DB SERP reflect the reduction for the present value of the benefits under the pension plan and Social Security benefits.

<b>Name</b>	<b>Plan Name</b>	<b>Number of Years Credited Service (#)</b>	<b>Present Value of Accumulated Benefit<sup>(1)</sup> (\$)</b>	<b>Payments During Last Fiscal Year (\$)</b>
<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>
Mr. Bilbrey	Pension Plan	12	165,970	—
	DB SERP	12	22,001,576	—
Ms. Little	—	—	—	—
Ms. Buck	Pension Plan	11	122,610	—
	DB SERP	11	4,594,215	—
Mr. O'Day	—	—	—	—
Ms. Turner	—	—	—	—
Mr. McConville	—	—	—	—

- (1) These amounts have been calculated using discount rate, mortality and other assumptions consistent with those used for financial reporting purposes as set forth in Note 9 to the Company's Consolidated Financial Statements included in our 2015 Annual Report on Form 10-K which accompanies this Proxy Statement. The actual payments would differ due to plan assumptions. The estimated vested DB SERP benefit as of December 31, 2015, for Mr. Bilbrey was \$22,132,432. The amounts are based on the final average compensation of each eligible executive officer under the terms of the DB SERP (as modified by Mr. Bilbrey's amended employment agreement) as of December 31, 2015, as shown below:

Name	Final Average Compensation (\$)
Mr. Bilbrey	3,247,087
Ms. Little	—
Ms. Buck	1,181,164
Mr. O'Day	—
Ms. Turner	—
Mr. McConville	—

## 2015 Non-Qualified Deferred Compensation Table

Our NEOs are eligible to participate in the Company's Deferred Compensation Plan. The Deferred Compensation Plan is a non-qualified, non-funded plan that permits participants to defer compensation that would otherwise be paid to them currently. The Deferred Compensation Plan is intended to secure the goodwill and loyalty of participants by enabling them to defer compensation when the participants deem it beneficial to do so and by providing a vehicle for the Company to make, on a non-qualified basis, contributions that could not be made on the participants' behalf to the 401(k) plan. The Company credits the Deferred Compensation Plan with a specified percentage of compensation for NEOs participating in the non-qualified DC SERP.

Our NEOs may elect to defer payments to be received from the DB SERP, DC SERP, OHIP, PSU and RSU awards, but not stock options or base salary. Amounts deferred are fully vested and are credited to the individual's account under the Deferred Compensation Plan. Participants elect to receive payment at termination of employment or some other future date. DB SERP payments designated for deferral into the Deferred Compensation Plan are not credited as earned but are credited in full upon the participant's retirement.

Payments are distributed in a lump sum or in annual installments for up to 15 years. All amounts are payable in a lump sum following a Change in Control (as such terms is defined in the EICP). All elections and payments under the Deferred Compensation Plan are subject to compliance with Section 409A of the IRC, which may limit elections and require a delay in payment of benefits in certain circumstances.

While deferred, amounts are credited with notional earnings as if they were invested by the participant in one or more investment options offered by the Deferred Compensation Plan. The investment options under the Deferred Compensation Plan consist of investment in a deferred common stock unit account that we value according to the performance of our Common Stock (for awards paid in stock) or in mutual funds or other investments available to participants in our 401(k) plan (for awards paid in cash). The participants' accounts under the Deferred Compensation Plan fluctuate daily, depending upon performance of the investment options elected.

Effective January 1, 2007, we began crediting the deferred compensation accounts of all employees, including the NEOs, with the amount of employer matching contributions that exceed the limits established by the IRS for contribution to the 401(k) plan. These amounts are credited in the first quarter of the year after they are earned. As shown in the footnotes to the 2015 Summary Compensation Table, these amounts are designated as "Supplemental 401(k) Match" and are included

as “All Other Compensation” in the year earned. These amounts also are included in Column (c) of the 2015 Non-Qualified Deferred Compensation Table in the year earned. With the exception of Ms. Little, all of the NEOs are fully vested in the Supplemental 401(k) Match credits presented and will be paid at a future date or at termination of employment, as elected by the executive subject to the provisions of Section 409A of the IRC. Ms. Little will vest in this benefit upon completion of two years of employment. If vested, she will receive payment for this benefit at termination of employment subject to the provisions of Section 409A of the IRC.

Effective January 1, 2007, we began crediting the deferred compensation accounts of all employees hired on or after January 1, 2007, including eligible NEOs, with the amount of Core Retirement Contributions that exceed the limits established by the IRS for contribution to the 401(k) plan. These amounts are credited in the first quarter of the year after they are earned. As shown in the footnotes to the 2015 Summary Compensation Table, these amounts are designated as “Supplemental Core Retirement Contribution” and are included as “All Other Compensation” in the year earned. These amounts also are included in Column (c) of the 2015 Non-Qualified Deferred Compensation Table in the year earned. Mmes. Little and Turner and Messrs. O’Day and McConville are eligible for a Supplemental CRC credit for 2015. Ms. Turner and Messrs. O’Day and McConville are fully vested in this benefit and will receive payment at termination of employment subject to the provisions of Section 409A of the IRC. Ms. Little will vest in this benefit upon completion of two years of employment. If vested, she will receive payment for this benefit at termination of employment subject to the provisions of Section 409A of the IRC.

Mmes. Little and Turner and Mr. O’Day are also eligible to participate in our DC SERP, a part of the Deferred Compensation Plan. The DC SERP provides annual allocations to the Deferred Compensation Plan equal to a percentage of compensation determined by the Compensation Committee in its sole discretion. In order to receive the annual DC SERP allocation, an executive must (i) defer into the 401(k) plan the maximum amount allowed by the Company or the IRS and (ii) be employed on the last day of the plan year, unless the executive terminates employment after age 55 and completion of five years of continuous employment preceding termination, dies or becomes disabled. After completing five years of service with the Company, an executive is vested in 10% increments based on his or her age. An executive age 46 with five years of service is 10% vested and an executive age 55 with five years of service is 100% vested. The annual DC SERP allocation for Mmes. Little and Turner and Mr. O’Day is equal to 12.5% of base salary and OHIP award for the calendar year, whether paid or deferred. Mr. O’Day is 100% vested in his DC SERP benefit, while Mmes. Little and Turner are 0% vested because they have not yet completed five years of continuous employment with the Company.



The following table and explanatory footnotes provide information relating to the activity in the Deferred Compensation Plan accounts of the NEOs during 2015 and the aggregate balance of the accounts as of December 31, 2015:

Name	Executive Contributions in Last Fiscal Year <sup>(1)</sup> (\$)	Registrant Contributions in Last Fiscal Year <sup>(2)</sup> (\$)	Aggregate Earnings in Last Fiscal Year <sup>(3)</sup> (\$)	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at Last Fiscal Year-End <sup>(4)</sup> (\$)
(a)	(b)	(c)	(d)	(e)	(f)
Mr. Bilbrey	—	87,882	(877,748)	—	7,992,157
Ms. Little	—	74,740	—	—	74,740
Ms. Buck	—	31,261	(947,688)	—	7,860,495
Mr. O'Day	—	138,700	(6,473)	—	1,331,058
Ms. Turner	1,320,018	159,859	(252,670)	—	2,736,865
Mr. McConville	—	4,541	(430)	—	59,424

- Column (b) reflects the value of PSU and RSU awards that otherwise would have been received by Ms. Turner during 2015 had they not been deferred under the Deferred Compensation Plan.
- For Mr. Bilbrey and Ms. Buck, Column (c) reflects the Supplemental 401(k) Match contributions earned for 2015. For Mmes. Little and Turner and Mr. O'Day, Column (c) reflects the DC SERP, the Supplemental 401(k) Match contributions and the Supplemental CRC earned for 2015. For Mr. McConville, Column (c) reflects the Supplemental CRC earned for 2015. These amounts are included in Column (i) of the 2015 Summary Compensation Table.
- Column (d) reflects the adjustment made to each NEO's account during 2015 to reflect the performance of the investment options chosen by the executive. Amounts reported in Column (d) were not required to be reported as compensation in the 2015 Summary Compensation Table.
- Column (f) reflects the aggregate balance credited to each NEO as of December 31, 2015, including the 2015 amounts reflected in Columns (b), (c) and (d). The following table indicates the portion of the Column (f) balance that reflects amounts disclosed in a Summary Compensation Table included in proxy statements for years prior to 2015:

Name	Amounts Reported in Previous Years <sup>(1)</sup> (\$)
Mr. Bilbrey	5,945,825
Ms. Little	—
Ms. Buck	2,956,339
Mr. O'Day	1,185,209
Ms. Turner	2,402,594
Mr. McConville	—

- This amount reflects the fair market value as of December 31, 2015, of vested PSU, RSU and OHIP awards as well as DC SERP, Supplemental Match and Supplemental CRC credits. The amounts disclosed in the Summary Compensation Table included in proxy statements for years prior to 2015 reflect the grant date value of such awards, rather than the fair market value as of December 31, 2015.

## Potential Payments upon Termination or Change in Control

We maintain plans covering our NEOs that will require us to provide incremental compensation in the event of termination of employment or a Change in Control (as such term is defined in the applicable governing document), provided certain conditions are met.

The following narrative takes each termination of employment situation – voluntary resignation, termination for Cause, death, disability, retirement, termination without Cause, and resignation for Good Reason – and a Change in Control of the Company, and describes the additional amounts, if any, that the Company would pay or provide to the NEOs, or their beneficiaries, as a result.

The narrative below and the amounts shown reflect certain assumptions we have made in accordance with SEC rules. We have assumed that the termination of employment or Change in Control occurred on December 31, 2015, and that the value of a share of our Common Stock on that day was \$89.27, the closing price on the NYSE on December 31, 2015.

In addition, in keeping with SEC rules, the following narrative and amounts do not include payments and benefits which are not enhanced by a qualifying termination of employment or Change in Control. These payments and benefits are referred to as “vested benefits” and include:

- Vested benefits accrued under the 401(k) and pension plans;
- Accrued vacation pay, health plan continuation and other similar amounts payable when employment terminates under programs generally applicable to the Company’s salaried employees;
- Vested Supplemental 401(k) Match and Supplemental CRC provided to the NEOs on the same basis as all other employees eligible for Supplemental 401(k) Match and Supplemental CRC;
- Vested benefits accrued under the DB SERP and account balances held under the Deferred Compensation Plan as previously described on pages 68 – 72; and
- Stock options which have vested and become exercisable prior to termination of employment or Change in Control.

### *Voluntary Resignation (other than a Resignation for Good Reason)*

We are not obligated to pay amounts over and above vested benefits to a NEO who voluntarily resigns. Vested stock options may not be exercised after the NEO’s resignation date unless the executive meets retirement eligibility requirements (separation after attainment of age 55 with at least five years of continuous service).

### *Termination for Cause*

If we terminate a NEO’s employment for Cause, we are not obligated to pay the executive any amounts over and above vested benefits. The NEO’s right to exercise vested stock options expires upon termination for Cause, and amounts otherwise payable under the DB SERP are subject to forfeiture at the Company’s discretion. In general, a termination will be for Cause if the executive has been convicted of a felony or has engaged in gross negligence or willful misconduct in the performance of duties, material dishonesty or a material violation of Company policies, including our Code of Ethical Business Conduct, or bad faith actions in the performance of duties not in the best interests of the Company.

### *Death or Disability*

If a NEO dies prior to meeting the vesting requirements under the DB SERP, no benefits are paid. As of December 31, 2015, Mr. Billbrey was fully vested in his DB SERP benefits and his estate would therefore be entitled to a payout of such benefits in the event of his death.

In the event of termination due to disability, long-term disability (“LTD”) benefits are generally payable until age 65, but may extend for longer if disability benefits begin after age 60, and are offset by other benefits such as Social Security. The maximum amount of the monthly LTD payments from all sources, assuming LTD began on December 31, 2015, is set forth in the table below:

Name	Long-Term Disability Benefit			
	Maximum Monthly Amount (\$)	Years and Months Until End of LTD Benefits (#)	Total of Payments (\$)	Lump Sum Benefit <sup>(1)</sup> (\$)
Mr. Bilbrey	35,000	5 years 7 months	2,345,000	1,337,724
Ms. Little	25,000	9 years 5 months	2,825,000	229,235
Ms. Buck	25,000	10 years 9 months	3,225,000	6,378,138
Mr. O’Day	25,000	1 year 9 months	525,000	201,173
Ms. Turner	25,000	6 years 10 months	2,050,000	619,136
Mr. McConville	25,000	4 years 0 months	1,200,000	9,090

- (1) For Mr. Bilbrey and Ms. Buck, amounts reflect additional DB SERP and pension plan benefits payable at age 65 that are attributable to vesting and benefit service credited during the disability period. For Mmes. Little and Turner and Mr. O’Day, amounts reflect two additional years of Supplemental CRC and DC SERP credit and vesting upon disability. For Mr. McConville, amount reflects two additional years of Supplemental CRC credit upon disability. In addition to the amounts shown, Ms. Little would become vested in her 401(k) Match, CRC, Supplemental 401(k) Match and Supplemental CRC.

### *Treatment of Stock Options upon Retirement, Death or Disability*

In the event of retirement, death or disability, vested stock options remain exercisable for a period of three or five years, not to exceed the option expiration date. The exercise period is based upon the terms and conditions of the individual grant. Retirement is defined as separation after attainment of age 55 with at least five years of continuous service.

Options that are not vested at the time of retirement, death or disability will generally vest in full (subject to the exception described in the following sentence) and the options will remain exercisable for three or five years following termination, depending on the terms and conditions of the grant. Options granted in the year of retirement are prorated based upon the number of full calendar months worked in that year.

The following table provides the number of unvested stock options as of December 31, 2015, that would have become vested and remained exercisable during the three-year or five-year periods following death or disability, or retirement if applicable, on December 31, 2015, and the value of those options based on the excess of the fair market value of our Common Stock on December 31, 2015, over the applicable option exercise price. As of December 31, 2015, Messrs. Bilbrey, O'Day and McConville were considered retirement eligible based on the provisions of all outstanding option awards. Because Mmes. Little, Buck and Turner were not considered retirement eligible as of December 31, 2015, they would forfeit 28,830 stock options, 105,396 stock options and 77,999 stock options, respectively, upon voluntary separation.

Name	Stock Options	
	Number <sup>(1)</sup> (#)	Value <sup>(2)</sup> (\$)
Mr. Bilbrey	447,908	2,276,327
Ms. Little	28,830	—
Ms. Buck	105,396	550,343
Mr. O'Day	76,780	500,881
Ms. Turner	77,999	213,975
Mr. McConville	20,107	83,166

(1) Represents the total number of unvested options as of December 31, 2015.

(2) Reflects the difference between \$89.27, the closing price for our Common Stock on the NYSE on December 31, 2015, and the exercise price for each option. Options for which the exercise price exceeds \$89.27 are not included in the calculations.

### *Treatment of RSUs upon Retirement, Death or Disability*

Upon retirement, any unvested RSUs are forfeited. Unvested RSUs will vest in full upon death or disability.

The following table provides the number of unvested RSUs that would have vested on December 31, 2015, if the executive's employment terminated that day due to death or disability:

Name	Restricted Stock Units	
	Number <sup>(1)</sup> (#)	Value <sup>(2)</sup> (\$)
Mr. Bilbrey	—	—
Ms. Little	16,543	1,504,934
Ms. Buck	—	—
Mr. O'Day	—	—
Ms. Turner	7,000	673,092
Mr. McConville	—	—

(1) Represents the total number of unvested RSUs as of December 31, 2015.

(2) Based on the closing price for our Common Stock on the NYSE on December 31, 2015 (\$89.27), plus accrued dividend equivalents.

### *Treatment of PSUs upon Retirement, Death or Disability*

In the event of retirement, death or disability, any unvested contingent PSUs are prorated based on the number of full or partial months worked in each of the open PSU cycles. Any remaining unvested contingent PSUs not prorated are forfeited. The following table provides the total number of contingent PSUs each NEO would be entitled to if the executive's employment ended on December 31, 2015 due to death or disability, or retirement if applicable. As of December 31, 2015, Messrs. Bilbrey, O'Day and McConville were considered retirement eligible based on the provisions of all open PSU cycles. Because Mmes. Little, Buck and Turner were not considered retirement eligible as of December 31, 2015, they would forfeit all of their contingent PSUs upon voluntary separation.

Name	Performance Stock Units	
	Number <sup>(1)</sup> (#)	Value <sup>(2)</sup> (\$)
Mr. Bilbrey	42,743	3,815,668
Ms. Little	1,689	150,777
Ms. Buck	9,767	871,900
Mr. O'Day	7,531	672,292
Ms. Turner	6,829	609,625
Mr. McConville	1,922	171,577

(1) For the 2013-2015 PSU cycle, amount reflects the total number of contingent PSUs calculated by multiplying the number of contingent target PSUs by 42.04%, the final performance score for that cycle. For the 2014-2016 and 2015-2017 PSU cycles, amount reflects the total number of contingent PSUs at target.

(2) Based on the closing price for our Common Stock on the NYSE on December 31, 2015 (\$89.27).

### *Termination without Cause; Resignation for Good Reason*

Under Mr. Bilbrey's employment agreement, the EBPP 3A and the EBPP 3, as applicable, we have agreed to pay severance benefits if we terminate a NEO's active employment without Cause or if the NEO resigns from active employment for Good Reason, in each case as defined in the applicable document. Severance benefits consist of a lump sum payment calculated as a multiple of base salary and target OHIP as well as continuation of health and welfare benefits for a set period of time, as shown in the table below. Additionally, all NEOs would be entitled to receive a pro rata payment of the OHIP award, if any, earned for the year in which termination occurs.

Plan	Benefit Entitlement	
	Severance Multiple	Health and Welfare Benefits
Mr. Bilbrey's employment agreement and participants in EBPP 3A on or before February 22, 2011	2 times	24 months
Participants in EBPP 3A after February 22, 2011	1.5 times	18 months
EBPP 3	1 times	12 months

If a NEO has not met retirement eligibility requirements and his or her employment is terminated for reasons other than for Cause, or if the NEO terminates for Good Reason, he or she will be eligible to exercise all vested stock options and a prorated portion of his or her unvested stock options held on the date of separation from service for a period of 120 days following separation. If the NEO is age 55 or

older with five or more years of continuous service and his or her employment is terminated for reasons other than for Cause, or if the NEO terminates for Good Reason, the NEO will be entitled to exercise any vested stock options until the earlier of three or five years (based on the provisions of the individual grant) from the date of termination or the expiration of the options. In addition, if a NEO's employment is terminated for reasons other than for Cause, or if the NEO terminates for Good Reason, the NEO will vest in a prorated portion of any unvested RSUs held on the date of separation from service.

The following table provides the incremental amounts that would have been payable to each NEO had his or her employment terminated on December 31, 2015, under circumstances entitling the NEO to severance benefits as described above:

<b>Name</b>	<b>Salary (\$)</b>	<b>One Hershey Incentive Program at Target (\$)</b>	<b>Value of Benefits Continuation<sup>(1)</sup> (\$)</b>	<b>Total (\$)</b>
Mr. Bilbrey	2,400,000	3,600,000	27,630	6,027,630
Ms. Little	900,000	675,000	24,661	1,599,661
Ms. Buck	1,305,600	1,109,760	36,461	2,451,821
Mr. O'Day	1,141,300	741,845	23,894	1,907,039
Ms. Turner	900,000	630,000	8,935	1,538,935
Mr. McConville	316,404	142,382	426	459,212

(1) Reflects projected medical, dental, vision and life insurance continuation premiums paid by the Company during the applicable time period following termination.

For information with respect to stock options and RSUs held by each NEO as of December 31, 2015, refer to the Outstanding Equity Awards at 2015 Fiscal-Year End Table beginning on page 66.

### *Change in Control*

The EBPP 3A and EBPP 3, as applicable, provide for the vesting and payment of the following benefits to each of the NEOs upon a Change in Control:

- An OHIP payment for the year in which the Change in Control occurs, calculated as the greater of target or the estimated payment based on actual performance through the date of the Change in Control;
- To the extent not vested, full vesting of benefits accrued under the DB SERP and the Deferred Compensation Plan; and
- To the extent not vested, full vesting of benefits under the 401(k) and pension plans.

Under our EICP, awards are continued as qualifying replacement awards after a Change in Control, and therefore, no accelerated vesting or payment will occur for such awards because of the Change in Control. In the event of termination of employment within two years following the Change in Control for any reason other than termination for Cause or resignation without Good Reason, the replacement awards will vest and become payable as described above.

The following table and explanatory footnotes provide information with respect to the incremental amounts that would have vested and become payable on December 31, 2015, if a Change in Control occurred on that date. All unvested awards would continue as qualifying replacement awards, and therefore are not included in the table below:

Name	One Hershey Incentive Program Related Payment <sup>(1)</sup> (\$)	PSU Related Payments (\$)	Vesting of Stock Options (\$)	Vesting of Restricted Stock Units (\$)	Retirement and Deferred Compensation Benefits <sup>(2)</sup> (\$)	Total <sup>(3)</sup> (\$)
Mr. Bilbrey	762,039	—	—	—	—	762,039
Ms. Little	66,003	—	—	—	94,260	160,263
Ms. Buck	151,739	—	—	—	6,766,961	6,918,700
Mr. O'Day	101,445	—	—	—	—	101,445
Ms. Turner	78,018	—	—	—	356,180	434,198
Mr. McConville	48,892	—	—	—	—	48,892

(1) Reflects the difference between the target amount and the actual amount earned based upon salary received in 2015.

(2) Reflects the full vesting value of DB SERP benefits and more favorable early retirement discount factors as provided under the EBPP 3A. Mr. Bilbrey is fully vested in his DB SERP benefit so no additional benefit is applicable. For Ms. Little, the amount includes the vesting of her DC SERP benefit, 401(k), Supplemental Match, CRC and Supplemental CRC. For Ms. Buck, the amount includes the vesting of her DB SERP benefit. Mr. O'Day is fully vested in his DC SERP benefit so no additional benefit is applicable. For Ms. Turner, the amount includes the vesting of her DC SERP benefit.

(3) For any given executive, the total payments made in the event of termination after a Change in Control would be reduced to the "safe harbor" limit under IRC Section 280G if such reduction would result in a greater after-tax benefit for the executive.

### *Termination without Cause or Resignation for Good Reason after Change in Control*

If a NEO's employment is terminated by the Company without Cause or by the NEO for Good Reason within two years after a Change in Control, we pay severance benefits under the EBPP 3A or EBPP 3, as applicable, to assist the NEO in transitioning to new employment. These severance benefits as of December 31, 2015, consist of:

- A lump sum cash payment equal to two (or, if less, the number of full and fractional years from the date of termination to the executive's 65<sup>th</sup> birthday, but not less than one) times:
  - The executive's base salary; and
  - The highest OHIP award payment paid or payable during the three years preceding the year of the Change in Control (but not less than the OHIP target award for the year of the termination);
- For replacement PSU awards, full vesting of PSUs for the performance cycle ending in the year of the Change in Control. The cash payment will be based upon the greater of target or actual performance through the date of the Change in Control, with each PSU valued at the highest closing price for our Common Stock during the 60 days prior to the Change in Control;
- For replacement PSU awards, full vesting of outstanding PSUs at target that are in the second year of the performance cycle and prorated vesting of outstanding PSUs at target that are in the first year of the performance cycle at the time of the Change in Control;
- For replacement stock options and RSU awards (including accrued cash credits equivalent to dividends that would have been earned had the executive held Common Stock instead of RSUs), full vesting of all unvested stock options and RSUs;

- Continuation of medical, dental, vision and life benefits for 24 months (or, if less, the number of months until the executive attains age 65, but not less than 12 months), or payment of the value of such benefits if continuation is not permitted under the terms of the applicable plan;
- For executives who do not participate in the pension plan, a lump sum equal to the CRC rate times the sum of their base salary and OHIP earnings times the number of years in their Severance Period (two, or, if less, the number of full and fractional years from the date of termination to the executive's 65<sup>th</sup> birthday, but not less than one). IRS limitations imposed on the 401(k) and pension plans will not apply for this purpose;
- Outplacement services up to \$35,000 and reimbursement for financial counseling and tax preparation services for two years;
- An enhanced matching contribution cash payment equal to the 401(k) matching contribution rate of 4.5% multiplied by the executive's base salary and last OHIP payment calculated as if such amounts were paid during the years in the executive's severance period. For this purpose, the IRS limitations imposed under the 401(k) Plan do not apply;
- For executives who participate in the DB SERP, an enhanced benefit reflecting an additional two years of credit; and
- For executives who participate in the DC SERP, an enhanced benefit reflecting a cash payment equal to the applicable percentage rate multiplied by his or her base salary and last OHIP payment calculated as if such amounts were paid during the years in the executive's severance period.

The following table provides the severance payments and all other amounts that would have vested and become payable if a Change in Control occurred and the executive's employment terminated on December 31, 2015:

Name	Lump Sum Cash Severance Payment (\$)	PSU Related Payments <sup>(1)</sup> (\$)	Vesting of Stock Options <sup>(2)</sup> (\$)	Vesting of RSUs (\$)	Value of Medical and Other Benefits Continuation (\$)	Value of Financial Planning and Outplacement <sup>(3)</sup> (\$)	Value of Enhanced DB SERP/ DC SERP and 401(k) Benefit <sup>(4)</sup> (\$)	Total <sup>(5)</sup> (\$)
Mr. Bilbrey	7,453,372	2,806,736	2,276,327	—	27,630	68,000	5,164,492	17,796,557
Ms. Little	2,100,000	154,439	—	1,504,934	33,188	68,000	420,000	4,280,561
Ms. Buck	2,622,428	1,214,381	550,343	—	36,461	68,000	1,929,560	6,421,173
Mr. O'Day	1,116,607	504,893	500,881	—	11,622	68,000	223,321	2,425,324
Ms. Turner	2,112,965	843,925	213,975	673,092	12,014	68,000	422,593	4,346,564
Mr. McConville	1,058,528	127,641	83,166	—	852	68,000	79,390	1,417,577

(1) Amounts reflect vesting of PSUs awarded, as follows:

- For the performance cycle which ended on December 31, 2015, the difference between target and actual performance as of December 31, 2015, and the difference between a value per PSU of \$91.42, the highest closing price for our Common Stock on the NYSE during the last 60 days of 2015, and a value per PSU of \$89.27, the closing price of our Common Stock on the NYSE on December 31, 2015;
- For the performance cycle ending December 31, 2016, at target performance, with a value per PSU of \$91.42, the highest closing price for our Common Stock on the NYSE during the last 60 days of 2015; and
- For the performance cycle ending December 31, 2017, one-third of the contingent target units awarded, at target performance, with a value per PSU of \$91.42, the highest closing price for our Common Stock on the NYSE during the last 60 days of 2015.

Because Messrs. Bilbrey, O'Day and McConville were retirement eligible as of December 31, 2015, as of that date they had already vested in a portion of the PSU awards for the performance cycles ending December 31, 2016 and December 31, 2017. Accordingly, with respect to these NEOs, the amount for the performance cycle ending December 31, 2016, reflects only (i) an incremental



payment of the portion of the PSU award that would vest upon termination following a Change in Control (*i.e.* 1/3 of the total award) and (ii) an incremental benefit equal to the difference between a value per PSU of \$91.42, the highest closing price of our Common Stock on the NYSE during the last 60 days of 2015, and a value per PSU of \$89.27, the closing price of our Common Stock on the NYSE on December 31, 2015, while the amount for the performance cycle ending December 31, 2017, reflects only an incremental benefit equal to the difference between a value per PSU of \$91.42 and a value per PSU of \$89.27.

- (2) Reflects the value of unvested options that would vest upon the executive's employment termination following a Change in Control based on the excess, if any, of the value of our Common Stock of \$89.27 on December 31, 2015, over the exercise price for the options. Information regarding unvested options as of December 31, 2015 can be found in the Outstanding Equity Awards at 2015 Fiscal-Year End Table beginning on page 66.
- (3) Value of maximum payment for financial planning and tax preparation continuation for two years following termination of employment plus outplacement services of \$35,000.
- (4) For Mr. Bilbrey and Ms. Buck, this value reflects the amounts of enhanced DB SERP, 401(k) Match and Supplemental 401(k) Match over a 24 month period. For Mmes. Little and Turner the value reflects the amounts of DC SERP, CRC, Supplemental CRC, 401(k) Match and Supplemental 401(k) Match that would have been paid had they remained employees for 24 months after their termination. For Mr. O'Day, the value reflects the amounts of DC SERP, CRC, Supplemental CRC, 401(k) Match and Supplemental 401(k) Match that would have been paid had he remained an employee for 12 months after his termination. For Mr. McConville, the value reflects the amounts of CRC, Supplemental CRC, 401(k) Match and Supplemental 401(k) Match that would have been paid had he remained an employee for 24 months after his termination.
- (5) For any given executive the total payments made in the event of termination after a Change in Control would be reduced to the "safe harbor" limit under IRC Section 280G if such reduction would result in a greater after-tax benefit for the executive.

## PROPOSAL NO. 3 – APPROVAL OF NAMED EXECUTIVE OFFICER COMPENSATION ON A NON-BINDING ADVISORY BASIS



The Board of Directors unanimously recommends that stockholders vote **FOR** approval of the Company's named executive officer compensation on a non-binding advisory basis

In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and related SEC rules, and as required under Section 14A of the Exchange Act, we are providing stockholders an opportunity to approve the compensation of our NEOs as disclosed in this Proxy Statement on a non-binding advisory basis. This proposal, commonly known as the “say-on-pay” vote, will be presented annually until the 2017 Annual Meeting of Stockholders, at which time stockholders will be asked to vote again on how frequently we should hold the “say-on-pay” vote.

Prior to submitting your vote, we encourage you to read our Compensation Discussion & Analysis beginning on page 42 and the accompanying executive compensation tables beginning on page 61 for details about our executive compensation program, including information about the 2015 compensation of our NEOs.

As discussed in more detail in the Compensation Discussion & Analysis, we believe our executive compensation program is competitive and governed by pay-for-performance principles. We emphasize compensation opportunities that reward results. Our stock ownership requirements and use of stock-based incentives reinforce the alignment of the interests of our executives with those of our long-term stockholders. In doing so, our executive compensation program supports our strategic objectives and mission.

Accordingly, we ask you to approve the following resolution at the Annual Meeting:

“RESOLVED, that the stockholders of The Hershey Company approve, on an advisory basis, the compensation paid to the Company's named executive officers, as disclosed in the Proxy Statement for the 2016 Annual Meeting of Stockholders pursuant to the SEC's compensation disclosure rules, including the Compensation Discussion & Analysis, the Executive Compensation Tables and the related narrative discussion.”

Because your vote is advisory, it will not be binding upon the Board. However, as noted in the Compensation Discussion & Analysis, the Compensation Committee and the Board will, as deemed appropriate, take into account the outcome of the vote when considering future decisions affecting executive compensation.

The affirmative vote of the holders of at least a majority of the shares of Common Stock and Class B Common Stock (voting together as a class) represented at the Annual Meeting, in person or by proxy, is required to approve this proposal.

## PROPOSAL NO. 4 – RE-APPROVAL OF THE MATERIAL TERMS OF THE PERFORMANCE CRITERIA UNDER THE HERSHEY COMPANY EQUITY AND INCENTIVE COMPENSATION PLAN



The Board of Directors unanimously recommends that stockholders vote **FOR** re-approval of the material terms of the performance criteria under the Company's Equity and Incentive Compensation Plan

We seek stockholder re-approval of the material terms of the performance criteria under The Hershey Company Equity and Incentive Compensation Plan (the "EICP") so that compensation payable under the EICP may continue to qualify as "performance-based compensation" under Section 162(m) of the Internal Revenue Code ("Section 162(m)").

Section 162(m) limits the deduction that a corporate may claim for compensation paid to its CEO and certain other NEOs ("Covered Employees"). Section 162(m) generally provides that amounts paid to a Covered Employee in excess of \$1 million are not deductible. However, the deduction limitation of Section 162(m) does not apply to "performance-based compensation." Compensation can qualify as "performance-based" under Section 162(m) only if a number of requirements are satisfied. One requirement is that the corporation's stockholders must approve the material terms of the performance criteria pursuant to which the compensation is payable. For this purpose, the material terms include: (1) the employees eligible to receive compensation; (2) the business criteria on which the performance targets may be based and; (3) the maximum amount that an employee may receive for achieving the performance goals. Section 162(m) also requires that the material terms of the performance criteria be submitted to stockholders on a recurring basis as set forth in the regulations.

The EICP is intended to permit the grant of certain awards that qualify as "performance-based compensation" under Section 162(m). Stockholders are being asked to re-approve the material terms of the EICP's performance criteria in accordance with the regulations so that these awards can continue to qualify as performance-based compensation that is deductible by the Company without regard to the limitation of Section 162(m).

A copy of the EICP, as most recently amended and restated, is attached to this Proxy Statement as Annex A. The EICP has not been amended since it was approved by stockholders at the 2011 Annual Meeting of Stockholders.

**No amendments or modifications to the EICP are being proposed for stockholder approval, and the approval of this proposal by stockholders will not result in any increase in the number of shares of our Common Stock currently available for issuance under the EICP.**

### Effect of Proposal

The sole effect of stockholder re-approval of the material terms of the performance criteria under the EICP is to facilitate our continued compliance with applicable legal requirements so that certain incentive awards granted to Covered Employees under the EICP may continue to qualify as tax deductible "performance-based compensation" under Section 162(m). However, even if this proposal is approved, there are additional requirements that must be satisfied for performance-based awards under the EICP to be fully deductible under Section 162(m). In addition, while re-approval of the performance criteria under the EICP is required for compensation to qualify as "performance-based compensation" under Section 162(m), it does not mean that all awards or other compensation under the EICP will qualify, or be intended to qualify, as performance-based compensation or otherwise be deductible.

## Summary of the EICP

The EICP promotes our success by providing a vehicle under which a variety of cash- or stock-based annual and long-term incentive and other awards can be granted to employees, non-employee directors and certain service providers upon whom the successful conduct of our business is dependent. These awards are intended to help us attract top talent, motivate the recipients to continue their efforts on behalf of the Company and remain in the service of the Company, and align their interests with the interests of our long-term stockholders. The EICP was last reviewed and approved by stockholders in 2011.

The following is a brief description of the material features of the EICP. This summary is qualified in its entirety by reference to the full text of the EICP, a copy of which is attached to this Proxy Statement as Annex A.

### *Eligibility*

Employees of the Company and its subsidiaries worldwide are eligible to be selected to receive one or more awards under the EICP. Individuals who provide services to the Company as consultants, or as contractors or through agencies per local custom or practice, also may be granted awards under the EICP. We cannot determine the actual number of individuals who will receive awards under the EICP because eligibility for participation in the EICP is at the discretion of the Compensation Committee. As of December 31, 2015, there were approximately 21,000 full- and part-time Hershey employees.

The EICP also provides for the grant of awards to our non-employee directors. There are currently 10 non-employee directors on our Board. The Board will determine and administer the awards to non-employee directors.

### *Shares Available Under the EICP*

As of March 7, 2016, of the 68,500,000 shares previously approved by the stockholders, there were remaining 8,340,149 shares of our Common Stock subject to issuance pursuant to outstanding awards under the EICP and 12,100,492 shares reserved for future awards.

If the aggregate number of shares issued under the EICP for any full-value awards made after February 22, 2011 (“full-value awards” are awards other than stock options and stock appreciate rights (“SARs”)) exceeds the full-value award pool of 6,918,266 shares, the aggregate number of shares available for issuance under the EICP will be reduced on a basis of 4.66 shares for each excess share issued. And, no more than 1,991,827 shares (or approximately 10% of the up to 19,918,266 shares authorized by stockholders in 2011 for issuance as future awards) may be issued with respect to full-value awards, other than performance awards, which at the date of grant are scheduled to fully vest prior to three years from the grant date.

To the extent that shares subject to an outstanding award under the EICP are not issued or are canceled by reason of the failure to earn the shares issuable under, or the forfeiture, termination, surrender, cancellation, or expiration of such award, then such shares shall, to the extent of such forfeiture or cancellation, again be available for awards under the EICP. If the shares were subject to a full-value award they will again be available for full-value awards. Shares shall not again be available if such shares are surrendered or withheld as payment of either the exercise price of an award or of withholding taxes in respect of an award. Awards settled solely in cash shall not reduce the number of shares of Common Stock available for awards. The exercise or settlement of an award of stock options or SARs reduces the shares available under the EICP by the gross number of stock options or SARs exercised or settled, not just the net amount of shares actually issued upon exercise or settlement of the award.

## *Forms of Awards*

The EICP provides for the granting of annual incentive awards, stock options, SARs, restricted stock units and performance stock units. The EICP also provides for the granting of restricted stock, performance stock and other stock-based and cash-based awards, including annual cash incentive awards and awards under deferred compensation plans.

- **Annual incentive awards.** Salaried employees globally are eligible to receive an annual cash incentive award under the EICP. Hourly employees in our manufacturing facilities also are eligible to receive an annual cash incentive award under the EICP through a Manufacturing Incentive Program or Performance Retention Program. The Compensation Committee determines the individual cash awards that executive officers are eligible to receive and the performance goals that all participants must achieve in order to earn the annual incentive, provided that during any calendar year no participant may receive an annual incentive program award in excess of \$10 million.
- **Stock options.** Stock options entitle the holder thereof to purchase a fixed number of shares of Common Stock at a set price during a specified period of time. The right to exercise the options is subject to a vesting schedule. The Compensation Committee determines the number of shares covered by each option, provided that during any calendar year no participant may be granted options for more than 500,000 shares (one million shares if made for recruitment in the participant's initial year of participation). The Compensation Committee sets the price of the shares of our Common Stock subject to each stock option, which cannot be less than 100% of the fair market value of the shares covered by the option on the date of grant. The exercise price of each option must be paid in full at the time of exercise. The Compensation Committee may permit payment through the tender of shares of our Common Stock or by any other means that the Compensation Committee determines to be consistent with the EICP's purpose. Any taxes required to be withheld must be satisfied by the participant at the time of exercise, either through a cash payment or through withholding of shares that would otherwise be issued at the time of exercise. Options become exercisable at the times and on the terms established by the Compensation Committee. Options expire at the times established by the Compensation Committee, which may not be more than 10 years after the date of grant.
- **Stock appreciate rights.** SARs are like stock options, except that no exercise price is required to be paid. Upon exercise of a SAR, the participant will receive payment equal to the increase in the fair market value of a share of our Common Stock on the date of exercise over the grant price (fair market value of a share on the grant date) times the number of shares with respect to which the SAR is exercised. The Compensation Committee determines the terms and conditions of each SAR, as well as the number of shares covered by each SAR, provided that during any calendar year no participant may be granted SARs for more than 500,000 shares (one million shares if made for recruitment in the participant's initial year of participation). SARs may be paid in cash or shares of our Common Stock (subject to required tax withholding), as determined by the Compensation Committee. SARs are exercisable at the times and on the terms established by the Compensation Committee.
- **Restricted stock awards and restricted stock units.** Restricted stock awards and restricted stock units are shares of our Common Stock or rights reflecting the value of shares of our Common Stock that vest in accordance with terms and conditions established by the Compensation Committee. The Compensation Committee determines the number of shares subject to a restricted stock or restricted stock unit award, provided that during any calendar year no participant may be granted more than 500,000 shares. In determining whether an award of restricted stock or restricted stock units should be made, and/or the vesting schedule for an award, the Compensation Committee may impose whatever conditions to vesting it determines to be appropriate, which may include a requirement that vesting will

occur only if certain performance goals are satisfied. We will issue a share of our Common Stock or pay cash equal to the fair market value of a share of Common Stock for each restricted stock unit that vests, as permitted by the Compensation Committee. Awards are subject to required tax withholding. We issue shares of our Common Stock at the time a restricted stock award is made, but the shares cannot be transferred or sold by the participant until they vest.

- **Performance stock awards and performance stock units.** Performance stock awards and performance stock units result in a payment to a participant only if the performance goals established by the Compensation Committee are satisfied. The initial value of each performance stock award and each performance stock unit is equal to the fair market value (on the date of grant) of a share of our Common Stock. The Compensation Committee will determine the applicable performance goals, which may be applied on a Company-wide or individual business unit basis, as deemed appropriate in light of the participant's specific responsibilities. Please refer to the discussion below about performance goals for more information. Depending upon the level of achievement of the performance goals, the number of performance stock shares or performance stock units earned at the end of the performance measurement period may be more or less than the initial value and will be zero if the minimum performance goals are not achieved. In addition to performance requirements, performance stock and performance stock units are subject to additional limits set forth in the EICP. During any calendar year, no participant may receive more than 500,000 shares of performance stock or performance stock units. We will issue a share of Common Stock or pay cash equal to the fair market value of a share of Common Stock for each performance stock unit earned (subject to required tax withholding), as determined by the Compensation Committee. We issue shares of Common Stock at the time a performance stock award is made, but the shares cannot be transferred or sold by the participant until they are earned.
- **Other stock-based and cash-based awards.** The EICP permits the Compensation Committee to grant other forms of stock-based or cash-based awards with such terms and conditions as the Compensation Committee determines. This provision gives us the flexibility to develop additional forms of awards that may not fit within the specific types of awards discussed above. Stock-based and cash-based awards are subject to additional limits set forth in the EICP. During any calendar year, no participant may receive a cash-based award with a value in excess of \$10 million or a stock-based award in excess of 500,000 shares. We will issue shares of our Common Stock or pay cash equal to the fair market value of the shares of our Common Stock subject to any award when such awards are vested or earned, subject to required tax withholding.

### *Performance Criteria*

The Compensation Committee may, in its discretion, make performance goals applicable to a participant with respect to an award. The Compensation Committee determines the performance goal, the length of the period over which performance against the goal is to be measured and the number of shares or cash to be paid based upon the extent to which the performance goal is achieved. Certain additional provisions apply to awards made to executive officers which are intended to meet the tax deductibility rules of Section 162(m). The EICP permits the Compensation Committee to reduce (but not increase) any award payment, notwithstanding the achievement of a performance goal.

The Compensation Committee may base a performance goal on one or more of the following criteria:

- Net earnings or net income (before or after taxes);
- Earnings per share (basic or diluted);
- Net sales or revenue growth;

- Net operating profit;
- Return measures (including, but not limited to, return on assets, capital, invested capital, equity, revenue, or sales);
- Cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on equity);
- Earnings before or after taxes, interest, depreciation, and/or amortization;
- Gross or operating margins;
- Productivity ratios;
- Share price (including, but not limited to, growth measures and total stockholder return);
- Expense targets;
- Margins;
- Operating efficiency;
- Market share;
- Customer satisfaction; and/or
- Balance sheet measures (including but not limited to, working capital amounts and levels of short- and long-term debt).

Performance goals may be particular to a participant or the division, line of business or other unit in which the participant works, or the Company generally, and may be absolute in their terms or measured against or in relationship to the performance of a peer group or other external or internal measure. A performance goal may include or exclude items to measure specific objectives, including, without limitation, extraordinary or other non-recurring items, acquisitions and divestitures, internal restructuring and reorganizations, accounting charges and effects of accounting changes.

### *Dividends and Dividend Equivalents*

Recipients of awards may be entitled to receive cash or stock dividends, or cash payments in amounts equivalent to cash or stock dividends declared with respect to shares of our Common Stock, and the Compensation Committee or the Board may provide that these amounts shall be deemed to have been reinvested in additional shares of our Common Stock or otherwise reinvested. The EICP contains an express prohibition on payment of dividends or dividend equivalents on any performance-based awards until those awards are earned and vested.

### *Administration*

The Compensation Committee administers the EICP. Subject to the terms of the EICP and except as described below with respect to awards granted to non-employee directors or our CEO, the Compensation Committee has sole discretion to determine the employees and service providers who are granted awards, the size and types of these awards, and the terms and conditions of these awards. The Compensation Committee may delegate to one or more officers or directors appointed by the Compensation Committee its authority to grant and administer awards, but only the Compensation Committee can make awards to our executive officers. The Compensation Committee has on an annual basis delegated, and intends to continue to delegate, to our CEO authority to grant a limited number of stock options and restricted stock unit awards for recruitment, retention, performance recognition and promotion situations. The CEO may not make any awards to our executive officers or take any actions affecting their awards.

The Board administers awards to the non-employee directors and the independent directors of the Board administer awards to the CEO.

## *U.S. Income Tax Considerations*

A recipient of a stock option or SAR will not have taxable income upon the grant of the option or SAR. For options and SARs, the participant will recognize ordinary taxable income on exercise equal to the increase of the fair market value of the shares over the exercise price on the date of exercise. In the United States, any gain or loss recognized upon any later disposition of the shares generally will be a capital gain or loss.

Unless the participant elects to be taxed at the time of receipt of an award of restricted stock or performance stock, the participant will not have taxable income until the restricted stock or performance stock vests. The taxable income will be the fair market value of the shares at the time of vesting. A recipient of restricted stock units, performance stock units, or deferred stock units or other stock-based awards and cash awards will not have taxable income until the award is paid. The participant will recognize taxable income equal to the fair market value of the shares or the amount of cash received by the participant. In addition, Section 409A of the Internal Revenue Code imposes certain restrictions on deferred compensation arrangements. Awards that are treated as deferred compensation under Section 409A are intended to meet the requirements of that section.

At the discretion of the Compensation Committee, the EICP allows a participant to satisfy tax withholding requirements under U.S. federal and state tax laws or applicable foreign tax laws in connection with the exercise or receipt of an award by electing to have shares of Common Stock withheld, or by delivering to us already-owned shares of our Common Stock, having a value equal to the amount required to be withheld. If shares of our Common Stock are withheld to satisfy a participant's tax withholding obligations with respect to an award, then the withheld shares will not be available again for issuance under the EICP.

We will be entitled to a tax deduction in connection with an award under the EICP only in an amount equal to the ordinary taxable income realized by the participant and at the time the participant recognizes the income.

As indicated above, we are able to make awards under the EICP that qualify for exemption from the deduction limitations under Section 162(m). While we generally seek to take advantage of favorable tax treatment for executive compensation where appropriate, we may in the future award compensation that does not comply with the Section 162(m) requirements for deductibility if we conclude that to be in our best interests under the circumstances.

The tax discussion above is based on U.S. income tax laws as currently in effect and is not intended to be a complete discussion of or to address the tax treatment under any foreign jurisdiction or any state or local laws.



### Equity Compensation Plan Information

The following table provides information about all of the Company's equity compensation plans as of December 31, 2015:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (#)	Weighted-average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (#)
	(a)	(b)	(c)
Equity compensation plans approved by security holders <sup>(1)</sup>			
Stock Options	6,842,563	\$75.48	
Performance Stock Units and Restricted Stock Units	495,207	N/A	
Subtotal	7,337,770		13,800,072
Equity compensation plans not approved by security holders			
Stock Options	N/A		N/A
<b>Total</b>	<b>7,337,770</b>	<b>\$75.48<sup>(2)</sup></b>	<b>13,800,072</b>

(1) Includes amounts earned or paid in cash or shares of Common Stock at the election of the director or deferred by the director under the Directors' Compensation Plan. Column (a) includes stock options, PSUs and RSUs granted under the EICP. Of the securities available for future issuances under the EICP in column (c), 7,760,847 were available for awards of stock options and 6,039,225 were available for full-value awards such as PSUs, performance stock, RSUs, restricted stock and other stock-based awards. Securities available for future issuance of full-value awards may also be used for stock option awards. As of December 31, 2015, 20,586 PSUs were excluded from the number of securities remaining available for issuance in column (c) because the measurement date had not yet occurred for accounting purposes. For more information, see Note 10 to the Consolidated Financial Statements contained in the 2015 Annual Report on Form 10-K that accompanies this Proxy Statement.

(2) Weighted-average exercise price of outstanding stock options only.

## PROPOSAL NO. 5 – STOCKHOLDER PROPOSAL ENTITLED “REPORT ON USE OF NANOMATERIALS”

As You Sow has advised the Company that it intends to present the following stockholder proposal at the Annual Meeting on behalf of stockholder Lutra Living Trust. In accordance with applicable proxy regulations, the proposed resolution and supporting statement, for which the Board and the Company accept no responsibility, are set forth below.



The Board of Directors unanimously recommends that stockholders vote **AGAINST** the stockholder proposal entitled “Report on Use of Nanomaterials”

### Stockholder Proposal

**Whereas:** Nanotechnology is the science of manipulating matter at the molecular scale to build structures, tools, or products. One nanometer is approximately one millionth the length of a grain of sand. While nanoparticles allow innovation, the scientific community has raised serious questions about their safety, especially when ingested.

Hershey’s Good and Plenty candies have been found in independent laboratory testing in 2014 to contain titanium dioxide nanoparticles.

Because of their small size, nanoparticles are more likely to enter cells, tissues, and organs where they may interfere with normal cellular function and cause damage and cell death. Peer-reviewed scientific research suggests that nanomaterials (including those larger than 100 nm) may not be safe for ingestion. There is no consensus on what size is safe, or what long-term effects these materials may have.

Several *in vivo* and *in vitro* studies on the effects of titanium dioxide nanoparticles have raised potential concerns including that such nanoparticles may cause inflammation, cell death, and/or DNA damage (including DNA strand breaks and chromosomal damage in bone marrow and peripheral blood). (See Trouiller 2009; Lai 2008; Gerloff 2009; Tassinari 2013; Gui 2013; Lucarelli 2004).

The National Research Council reported in 2012 that “*regulators, decision-makers, and consumers still lack the information needed to make informed public health and environmental policy and regulatory decisions*” about nanoparticles.

Similarly, the U.S. Food and Drug Administration has not enacted regulations to protect consumer health related to use of nanomaterials in food, but has issued guidance stating:

- Nanoparticles can have chemical, physical, and biological properties that differ from those of their larger counterparts; and
- “We are not aware of any food ingredient . . . intentionally engineered on the nanometer scale for which there are generally available safety data sufficient to serve as the foundation for a determination that the use of a food ingredient . . . is GRAS [Generally Recognized As Safe].”

Companies that use, intend to use, or simply allow the use of nanomaterials in their food and food packaging products may face significant financial, legal, or reputational risk. Proponents believe that the best way for Hershey’s to protect the public, and shareholder value, is to avoid using nanoparticles until and unless they have been subject to robust evaluation and demonstrated to be safe for human health and the environment.

**Resolved:** Shareholders request the Board publish, by October 2016, at reasonable cost and excluding proprietary information, a report on Hershey’s use of nanomaterials, including the products or packaging that currently contain nanoparticles, the purpose of such, and actions management is taking to reduce or eliminate risk associated with human health and environmental impacts, such as eliminating the use of nanomaterials until and unless they are proven safe through long-term testing.

## **Board Statement in Opposition to Stockholder Proposal**

The Board recommends that stockholders vote **AGAINST** the stockholder proposal.

We have a demonstrated commitment to conducting our business in an ethically and socially responsible manner, and we include the safety and quality of our products among our highest priorities. Each of our brands uses high quality ingredients and we have stringent food quality standards for all of our products that meet the requirements of the U.S. Food and Drug Administration (“FDA”). In addition, our Supplier Code of Conduct requires suppliers to comply with all laws, ordinances, rules, regulations and orders of public authorities pertaining to the business that supplies our system.

The science behind and research into nanotechnology as it relates to the food industry remains in its very early stages. The FDA has not issued final regulations regarding nanomaterials in food products and importantly, there remains no agreed upon method for analyzing a product for the presence of nanoparticles.

As part of our commitment to quality and safety, we regularly engage in discussions with regulatory agencies, suppliers and industry leaders on the topic of nanomaterials and have reviewed the use of nanotechnology in the food industry generally, as well as in our product portfolio. Specifically, we reviewed the ingredient of concern identified to us by As You Sow – titanium dioxide – which is commonly used as a food colorant. Our review indicated that when we use this ingredient in our products, such usage is within the FDA’s approved usage level, which allows for the use of titanium dioxide in food at a level of up to 1% of the weight of the food. International agencies such as the Joint FAO/WHO Expert Committee on Food Additives and the European Food Safety Authority have also evaluated titanium dioxide and support its use as a food colorant.

As we announced in 2015, we are in the process of reviewing the ingredients used in our products as part of a major initiative we call “Simple Ingredients.” Through this initiative, we are looking closely at every product in our portfolio and are striving to develop simpler recipes using ingredients with which consumers are familiar, including more natural colors and flavors. While we may not achieve simplicity with all of our products, we will continue to look for ways to transition our products to deliver no artificial flavors, no synthetic colors and no high fructose corn-syrup. For ingredients that are not as simple, we will continue to explain what they are and why we use them to provide the great flavors, aromas, textures and appearances that our consumers know and love.

For the reasons stated above, the Board feels strongly that the requested report would be an unnecessary diversion of the Company’s resources with no corresponding benefit to the Company or our stockholders, customers, or consumers. We will, nevertheless, continue to monitor developments with respect to the use of nanotechnologies to help ensure our products continue to meet recognized standards of safety and quality.

## **SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Exchange Act requires our directors and executive officers, as well as any person who is the beneficial owner of more than 10% of our outstanding Common Stock, to file reports with the SEC and NYSE showing their ownership and changes in ownership of the Company's securities. Copies of these reports also must be furnished to us. Based on an examination of these reports and on written representations provided to us, it is our opinion that all reports for 2015 were timely filed.

## **CERTAIN TRANSACTIONS AND RELATIONSHIPS**

Item 404 of SEC Regulation S-K requires that we disclose any transaction or series of similar transactions, or any currently proposed transaction(s), in which (i) the Company was or is to be a participant, (ii) the amount involved exceeds \$120,000 and (iii) any of the following persons had or will have a direct or indirect material interest:

- Our directors or nominees for director;
- Our executive officers;
- Persons owning more than 5% of any class of our outstanding voting securities; or
- The immediate family members of any of the persons identified in the preceding three bullets.

### **Policies and Procedures Regarding Transactions with Related Persons**

The Board has adopted a written Related Person Transaction Policy that governs the review, approval or ratification of related person transactions. The Related Person Transaction Policy may be viewed on the Investors section of our website at [www.thehersheycompany.com](http://www.thehersheycompany.com).

Under the Related Person Transaction Policy, each related person transaction, and any significant amendment or modification to a related person transaction, must be reviewed and approved or ratified by a committee of our Board composed solely of independent directors who have no interest in the transaction. We refer to each such committee as a Reviewing Committee. The Related Person Transaction Policy also permits the disinterested members of the full Board to act as a Reviewing Committee.

The Board has designated the Governance Committee as the Reviewing Committee primarily responsible for the administration of the Related Person Transaction Policy. In addition, the Board has designated special Reviewing Committees to oversee certain transactions involving the Company and Hershey Trust Company, Milton Hershey School, the Milton Hershey School Trust and companies owned by or affiliated with any of the foregoing. Finally, the Related Person Transaction Policy provides that the Compensation Committee will review and approve, or review and recommend to the Board for approval, any employment relationship or transaction involving an executive officer of the Company and any related compensation.

When reviewing, approving or ratifying a related person transaction, the Reviewing Committee will examine all material facts about the related person's interest in, or relationship to, the transaction, including the approximate dollar value of the transaction. If the related person transaction involves an outside director or nominee for director, the Reviewing Committee also may consider whether the transaction would compromise the director's status as an "independent director," "outside director" or "non-employee director" under the Board's Corporate Governance Guidelines, the NYSE Rules, the Internal Revenue Code or the Exchange Act.

## **Transactions with Hershey Trust Company, Milton Hershey School and the Milton Hershey School Trust**

During 2015, there were no transactions with the Company in which any executive officer, director or nominee for director, or any of their immediate family members, had a direct or indirect material interest that would need to be disclosed pursuant to Item 404 of SEC Regulation S-K, nor were any such transactions planned.

In any given year, we may engage in certain transactions with Hershey Trust Company, Milton Hershey School, the Milton Hershey School Trust and companies owned by or affiliated with any of the foregoing. These transactions are typically immaterial, ordinary-course transactions that do not constitute related person transactions. However, from time to time we may also engage in related person transactions with Hershey Trust Company, Milton Hershey School, the Milton Hershey School Trust and/or their subsidiaries and affiliates. Under the Board's Corporate Governance Guidelines, a special Reviewing Committee normally composed of the directors elected by the holders of the Common Stock voting separately as a class reviews and makes recommendations to the Board regarding these transactions. The Corporate Governance Guidelines also authorize the independent directors having no affiliation with Hershey Trust Company, Milton Hershey School, the Milton Hershey School Trust or their affiliates to designate a different special Reviewing Committee to review these transactions.

The Company was not a participant in any transactions in 2015, and does not currently contemplate being a participant in any transactions in 2016, involving Hershey Trust Company, as trustee for the Milton Hershey School Trust, or any other stockholder owning more than 5% of any class of the Company's outstanding voting securities that would need to be disclosed pursuant to Item 404 of SEC Regulation S-K.

During 2015, we engaged in transactions in the ordinary course of our business with Hershey Trust Company, Milton Hershey School and companies affiliated with Hershey Trust Company, Milton Hershey School and the Milton Hershey School Trust. These transactions involved the sale and purchase of goods and services as well as the leasing of real estate at market rates. The transactions were primarily with Hershey Entertainment & Resorts Company, a company that is owned by the Milton Hershey School Trust. All sales and purchases were made on terms and at prices we believe were generally available in the marketplace and were in amounts that were not material to us or to Hershey Entertainment & Resorts Company. Therefore, these transactions did not require approval under our Related Person Transaction Policy.

Although our transactions with Hershey Trust Company, Milton Hershey School and the companies affiliated with each of the foregoing and with the Milton Hershey School Trust (including Hershey Entertainment & Resorts Company) are either immaterial or otherwise not required to be disclosed under Item 404 of SEC Regulation S-K, because of our relationship with these entities, we have elected to disclose the aggregate amounts of our purchase and sale transactions with these entities for your information. In this regard:

- Our total sales to these entities in 2015 were approximately \$1.8 million; and
- Our total purchases from these entities in 2015 were approximately \$3.0 million.

We do not expect the types of transactions or the amount of payments to change materially in 2016.

The Company also leases to Hershey Entertainment & Resorts Company a portion of a building owned and occupied by the Company in Hershey, Pennsylvania. The leased area consists of approximately 22,500 square feet of storage space in the building that is not being utilized currently by the Company. The lease was first entered into on January 1, 2011, and had a term of one year. The lease permits

Hershey Entertainment & Resorts Company to renew the lease for subsequent one-year terms and, if space is available, to request an increase in the area occupied. Hershey Entertainment & Resorts Company has renewed the lease for additional one-year terms each year since 2012, and in 2013 elected to increase its total occupied area. The lease is on terms we believe are generally available in the marketplace and is not material to us or Hershey Entertainment & Resorts Company. Rent during 2015 was \$276,780 and for 2016 is expected to be \$288,900, which amounts include a pro rata allocation of utilities, insurance, maintenance and other operating costs.

## **COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION**

Messrs. Cavanaugh, Malcolm, Palmer and Shedlarz and Ms. Haben served as members of our Compensation Committee during 2015. None of the members of our Compensation Committee served as one of our officers or employees during 2015 or at any time in the past, and neither they nor any other director served as an executive officer of any entity for which any of our executive officers served as a director or member of its compensation committee.

None of the members of our Compensation Committee has a relationship with us that is required to be disclosed under Item 404 of SEC Regulation S-K.

## **OTHER MATTERS**

### **Householding of Proxy Materials**

The SEC has adopted rules that allow us to send in a single envelope our Notice of Internet Availability of Proxy Materials or a single copy of our proxy solicitation and other required annual meeting materials to two or more stockholders sharing the same address. We may do this only if the stockholders at that address share the same last name or if we reasonably believe that the stockholders are members of the same family. If we are sending a Notice of Internet Availability of Proxy Materials, the envelope must contain a separate notice for each stockholder at the shared address. Each Notice of Internet Availability of Proxy Materials must contain a unique control number that each stockholder will use to gain access to our proxy materials and vote online. If we are mailing a paper copy of our proxy materials, the rules require us to send each stockholder at the shared address a separate proxy card.

We believe this rule is beneficial both to our stockholders and to the Company. Our printing and postage costs are lowered anytime we eliminate duplicate mailings to the same household. However, stockholders at a shared address may revoke their consent to the householding program and receive their Notice of Internet Availability of Proxy Materials in a separate envelope, or, if they have elected to receive a full copy of our proxy materials in the mail, receive a separate copy of these materials. If you have elected to receive paper copies of our proxy materials and want to receive a separate copy of these materials for our 2016 Annual Meeting, please call our Investor Relations Department, toll free, at (800) 539-0261. If you consented to the householding program and wish to revoke your consent for future years, simply call, toll free, (866) 540-7095, or write to Broadridge, Householding Department, 51 Mercedes Way, Edgewood, New York 11717.

### **Information Regarding the 2017 Annual Meeting of Stockholders**

The 2017 Annual Meeting of Stockholders is expected to be held on May 3, 2017. To be eligible for inclusion in the proxy materials for the 2017 Annual Meeting of Stockholders, a stockholder proposal

must be received by our Corporate Secretary by no later than November 23, 2016, and must comply in all respects with applicable rules of the SEC. Stockholder proposals should be addressed to The Hershey Company, c/o Corporate Secretary, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

A stockholder may present a proposal not included in our proxy materials from the floor of the 2017 Annual Meeting of Stockholders only if our Corporate Secretary receives notice of the proposal, along with additional information required by our by-laws, between January 4, 2017 and February 3, 2017. Notice should be addressed to The Hershey Company, c/o Corporate Secretary, 100 Crystal A Drive, Hershey, Pennsylvania 17033-0810.

The notice must contain the following additional information:

- The stockholder's name and address;
- The stockholder's shareholdings;
- A brief description of the proposal;
- A brief description of any financial or other interest the stockholder has in the proposal; and
- Any additional information that the SEC would require if the proposal were presented in a proxy statement.

A stockholder may nominate a director from the floor of the 2017 Annual Meeting of Stockholders only if our Corporate Secretary receives notice of the nomination, along with additional information required by our by-laws, between January 4, 2017 and February 3, 2017. The notice must contain the following additional information:

- The stockholder's name and address;
- A representation that the stockholder is a holder of record of any class of our equity securities;
- A representation that the stockholder intends to make the nomination in person or by proxy at the meeting;
- A description of any arrangement the stockholder has with the individual the stockholder plans to nominate and the reason for making the nomination;
- The nominee's name, address and biographical information;
- The written consent of the nominee to serve as a director if elected; and
- Any additional information regarding the nominee that the SEC would require if the nomination were included in a proxy statement regardless of whether the nomination may be included in such proxy statement.

Any stockholder holding 25% or more of the votes entitled to be cast at the 2017 Annual Meeting of Stockholders is not required to comply with these pre-notification requirements.

By order of the Board of Directors,



Leslie M. Turner  
Senior Vice President,  
General Counsel and Secretary

March 24, 2016

**THE HERSHEY COMPANY****EQUITY AND INCENTIVE COMPENSATION PLAN**

(As amended and restated February 22, 2011)

**1. Establishment and Purpose.** The Hershey Company (the “Company”) hereby amends and restates The Hershey Company Equity and Incentive Compensation Plan (the “Plan”). The purpose of the Plan is to provide to employees, non-employee directors and certain service providers to the Company or its subsidiaries (as defined below), upon whose efforts the Company is dependent for the successful conduct of its business, further incentive to continue and increase their efforts and to remain in the service of the Company and its subsidiaries.

The Plan was originally adopted by the Board of Directors and approved by the stockholders during 2007 as an amendment, restatement and continuation of the Key Employee Incentive Plan (“KEIP”), including the Annual Incentive Program (“AIP”) and the Long-Term Incentive Program (“LTIP”) portions of the KEIP, with certain modifications, and to be the vehicle for any future awards under the Broad Based Stock Option Plan, Directors’ Compensation Plan and Broad Based Annual Incentive Plan.

This amendment and restatement of the Plan was adopted by the Board of Directors on February 22, 2011, subject to approval of the stockholders at the 2011 Annual Meeting of Stockholders. This Plan shall be effective on the date of such stockholder approval (the “Effective Date”).

As used herein, (i) the term “Subsidiary Company” or “Subsidiary” shall mean any present or future corporation or entity which is or would be a “subsidiary” of the Company as defined in Section 424 of the Internal Revenue Code of 1986 (the “Code”) or any successor provision, and (ii) the term “Company” defined above shall refer collectively to The Hershey Company and its Subsidiary Companies unless the context indicates otherwise.

**2. Stock Subject to the Plan.**

(a) The aggregate number of shares of the Company’s common stock, \$1.00 par value per share (the “Common Stock”), that may be issued under the Plan pursuant to awards granted wholly or partly in Common Stock (including rights or options which may be exercised for or settled in Common Stock) is (i) 16,500,000, plus the remaining 3,418,266 shares previously authorized by the stockholders for issuance as full-value awards (as defined below) under the Plan, but which as of February 22, 2011 have not been issued or are not subject to an outstanding award, together with (ii) 21,392,336 shares previously authorized by the stockholders for issuance under the Plan that may be issued pursuant to awards outstanding under the Plan as of February 22, 2011. In the event that the number of shares issued under the Plan with respect to awards made after February 22, 2011 that are not stock options or stock appreciation rights (such other awards being “full-value awards”), exceeds 6,918,266 (the “Full-Value Award Pool”), then the aggregate number of shares available for issuance under this Plan shall be reduced on the basis of 4.66 shares for each excess share issued. No more than 1,991,827 shares of Common Stock may be issued with respect to full-value awards, other than performance-based awards, which at the date of grant are scheduled to fully vest prior to three years from the date of grant (although such awards may provide scheduled vesting earlier with respect to some of such shares).



(b) The shares of Common Stock issued under this Plan may be either authorized but unissued shares, treasury shares held by the Company or any direct or indirect subsidiary thereof, or shares acquired by the Company through open market purchases or otherwise.

(c) The number of shares of Common Stock underlying any awards outstanding on or after February 22, 2011 that are forfeited or terminated, surrendered, expire unexercised, or are settled in cash in lieu of Common Stock, shall not be considered issued or transferred under the Plan and shall immediately become available for issuance pursuant to awards hereunder. To the extent such shares were subject to a full-value award, those shares shall become available for issuance as part of the Full-Value Award Pool. Shares withheld by the Company to satisfy tax withholding obligations and all shares covered by stock appreciation rights and stock options, to the extent exercised and settled in Common Stock, shall be considered issued or transferred pursuant to the Plan. The Committee may from time to time adopt and observe such procedures concerning the counting of shares in accordance with the Plan limitations as it may deem appropriate.

**3. Administration.** The Plan shall be administered by the Compensation and Executive Organization Committee (the “Committee”), or any successor committee, appointed by and consisting solely of members of the Board of Directors (the “Board”) of the Company. To the extent provided by resolution of the Board, the Committee may authorize the Chief Executive Officer of the Company, acting to the extent necessary as a committee of the Board, and other senior officers of the Company to designate officers and employees to be recipients of awards, to determine the terms, conditions, form and amount of any such awards, and to take such other actions which the Committee is authorized to take under this Plan, provided that the Committee may not delegate to any person the authority to grant awards to, or take other action with respect to, participants who at the time of such awards or action are subject to Section 16 of the Securities Exchange Act of 1934, as amended (“Exchange Act”) or are “covered employees” as defined in Section 162(m) of the Code. Notwithstanding the foregoing, awards relating to the non-employee directors shall be administered by the full Board of Directors, who shall have all of the authority and discretion otherwise granted to the Committee with respect to the administration of the Plan, and with respect to such awards, reference herein to “Committee” shall mean reference to the Board, and to the extent required by the Company’s governing documents or the Board, awards to the Company’s Chief Executive Officer shall be administered by the independent directors on the Company’s Board, and with respect to such awards references to “Committee” shall mean reference to such independent directors.

Subject to the terms and conditions of the Plan, the Committee shall have authority: (i) to determine the terms, conditions, form and amount of awards, distributions or payments granted or made to each participant, including conditions upon and provisions for vesting, exercise and acceleration of any awards, distributions or payments, which terms and conditions shall be set forth in an agreement or other writing, and any amendment or modification thereof (which agreement or other writing may be framed as a subplan, program, notification, statement, resolutions or other document) evidencing such award (any such agreement or writing being an “award agreement”); (ii) to construe and interpret the terms and intent of the Plan and any award agreement; (iii) to define the terms used in the Plan; (iv) to prescribe, amend and rescind rules and regulations relating to the Plan; (v) to select individuals to participate in the Plan; (vi) upon the request of a participant in the Plan, to approve and determine the duration of leaves of absence which may be granted to the participant without constituting a termination of his or her employment for purposes of the Plan; (vii) to adopt such procedures, agreements, arrangements, subplans and terms as are necessary or appropriate to permit participation in the Plan by employees who are foreign nationals or employed outside the United States; and (viii) to make all other determinations necessary or advisable for the administration and operation of the Plan. The Committee shall have the right to impose varying terms and conditions with respect to each grant or award. All determinations and interpretations made by the Committee shall be final, binding and conclusive on all participants and on their legal representatives and beneficiaries.

**4. Fair Market Value.** As used in the Plan (unless a different method of calculation is required by applicable law, and except as otherwise specifically provided in any Plan provision or provided by the Committee with respect to an award), “Fair Market Value” on or as of the applicable date shall mean (i) the closing price of the Common Stock as reported in the New York Stock Exchange Composite Transactions Report (or any other consolidated transactions reporting system which subsequently may replace such Composite Transactions Report) for the New York Stock Exchange on such date (or, unless otherwise provided in the award with respect to awards made prior to April 17, 2007, the trading day immediately preceding such date), or if there are no sales on such date, on the next preceding day on which there were sales, or (ii) in the event that the Common Stock is no longer listed for trading on the New York Stock Exchange, an amount determined in accordance with standards adopted by the Committee.

**5. Eligibility and Participation.** Employees, non-employee directors and individuals who provide services to the Company or any of its Subsidiary Companies as consultants, contractors or agency employees, shall be eligible for selection to participate in the Plan. An individual who receives an award under the Plan is referred to herein as a participant. A participant may receive more than one award from time to time, and may be granted any combination of awards as the Committee shall determine.

**6. Annual Incentive Program.** The Committee may from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, establish contingent target awards for those eligible individuals it selects to participate in the AIP. Each such contingent target award shall be evidenced by an award agreement, and shall be determined based upon such factors as are deemed appropriate by the Committee, subject to the following:

(a) The amounts earned by and paid to AIP participants with respect to the contingent target awards (“AIP Awards”) will be based primarily upon achievement of Performance Goals (as defined in Paragraph 9 below) over a one-year performance cycle as approved by the Committee.

(b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing AIP Awards; to select from among those eligible the individuals to receive AIP Awards; to designate the amounts to be earned under the AIP Award in relation to levels of achievement of Performance Goals; to adopt such financial and nonfinancial performance or other criteria for the payment of AIP Awards as it may determine from time to time; to establish such other measures as may be necessary to achieve the objectives of the Plan; and to review and certify the achievement of Performance Goals. The financial or nonfinancial Performance Goals established by the Committee may be based upon one or more Performance Factors (as defined in Paragraph 9 below).

(c) Any AIP Award the Committee intends to be performance-based compensation within the meaning of Section 162(m) of the Code, shall be based on one or more Performance Factors and otherwise established, earned and paid in conformity with the provisions of Paragraph 9 applicable to Performance Awards.

(d) The maximum amount any participant can receive as an AIP Award for any calendar year shall not exceed \$10,000,000.

(e) AIP Awards as earned under the terms of the Plan shall be paid in cash, Common Stock or in a combination thereof as the Committee in its sole discretion shall determine, and may be equal to, exceed or be less than the contingent target awards, subject nevertheless to the maximum award limit set forth in subparagraph (d) above.

(f) The disposition of AIP Awards held by a participant at the time of (i) termination of service shall be determined in accordance with Paragraph 8 below, and (ii) a Change in Control shall be determined in accordance with Paragraph 15 below.

**7. Long-Term Incentive Program.** Awards under the LTIP may be one or more of the following:

I. Performance Stock Units and Performance Stock

The Committee may, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant Performance Stock Units and/or shares of Performance Stock to reflect the value of contingent target awards established for each eligible individual selected for participation. Each grant of Performance Stock Units or Performance Stock shall be evidenced by an award agreement, subject to the following:

- (a) Each Performance Stock Unit shall be equivalent to a share of Common Stock and each share of Performance Stock shall be a share of Common Stock. The amount actually earned by and paid to holders of Performance Stock Units and/or Performance Stock (“PSU/PS Awards”) will be based upon achievement of Performance Goals over performance cycles established by the Committee. Such performance cycles each shall cover such period of time as the Committee from time to time shall determine.
- (b) The Committee, within the limits of the Plan, shall have full authority and discretion to determine the time or times of establishing contingent target awards and the awarding of Performance Stock Units and/or Performance Stock; to select the eligible individuals to receive PSU/PS Awards; to designate levels of awards to be earned in relation to levels of achievement of Performance Goals; to adopt such financial and nonfinancial performance or other criteria for the payment of PSU/PS Awards as it may determine from time to time; to make awards; to establish such other measures as may be necessary to the objectives of the Plan; and to review and certify the achievement of Performance Goals. The Performance Goals established by the Committee may be based on one or more of the Performance Factors.
- (c) Payments of PSU/PS Awards shall be made in shares of Common Stock, provided payments of Performance Stock Unit awards may be made in Common Stock, cash, or a combination thereof, as the Committee in its sole discretion shall determine; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share. Dividends or dividend equivalents, if any, credited with respect to PSU/PS Awards shall not be payable prior to the payment, if any, of the PSU/PS Award.
- (d) PSU/PS Awards earned under the terms of the Plan may be equal to, exceed or be less than the contingent target award.
- (e) All unearned or unvested PSU/PS Awards shall be forfeited to the Company.
- (f) The maximum aggregate number of shares of Common Stock covered by awards of Performance Stock Units and shares of Performance Stock that a participant may receive with respect to any calendar year shall be 500,000 shares.
- (g) The disposition of PSU/PS Awards held by a participant at the time of (i) termination of service shall be determined in accordance with Paragraph 8 below, and (ii) a Change in Control shall be determined in accordance with Paragraph 15 below.

## II. Stock Options

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant an award of nonqualified Options to purchase shares of Common Stock of the Company to individuals eligible to participate in the Plan. Each Option award shall be evidenced by an award agreement on such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

- (a) The exercise price per share with respect to each Option shall be determined by the Committee in its sole discretion, but shall not be less than 100% of the Fair Market Value of the Common Stock as of the date of the grant of the Option.
- (b) Options granted under the Plan shall be exercisable, in such installments and for such periods, as shall be provided by the Committee at the time of granting, but in no event shall any Option granted extend for a period in excess of ten (10) years from the date of grant.
- (c) The maximum number of shares of Common Stock covered by Options granted to a participant for any calendar year shall not exceed 500,000; 1,000,000 in the participant's initial calendar year of participation.
- (d) Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which grantees of Options must be employed, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; and (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time.
- (e) Exercise of an Option shall be made by written notice (including electronic notice) in the form and manner determined by the Committee.
- (f) The purchase price upon exercise of any Option shall be paid in full by making payment (i) in cash; (ii) in whole or in part by the delivery of a certificate or certificates of shares of Common Stock of the Company, valued at the then Fair Market Value; or (iii) by a combination of (i) and (ii).
- (g) Notwithstanding subparagraph (f) above, any optionee may make payment of the Option price through a simultaneous exercise of his or her Option and sale of the shares thereby acquired pursuant to a brokerage arrangement compliant with such terms and conditions as the Committee may determine.
- (h) The disposition of outstanding Options held by a participant at the time of (i) termination of service shall be determined in accordance with Paragraph 8 below, and (ii) a Change in Control shall be determined in accordance with Paragraph 15 below.

### III. Stock Appreciation Rights

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant an award of SARs to individuals eligible to participate in the Plan. SARs shall be evidenced by an award agreement, and shall be subject to such terms and conditions consistent with the Plan as the Committee shall impose from time to time, including the following:

- (a) SARs may, but need not, relate to Options granted under the Plan, as the Committee shall determine from time to time. In no event shall any SARs granted extend for a period in excess of ten (10) years from the date of grant.
- (b) Exercise of an SAR shall be made by written notice (including electronic notice) in the form and manner determined by the Committee.
- (c) A holder of SARs shall be entitled to receive upon exercise the excess of the Fair Market Value of a share of Common Stock at the time of exercise over the Fair Market Value of a share at the time the SARs were granted, multiplied by the number of shares with respect to which the SARs being exercised relate.
- (d) In the sole discretion of the Committee, the amount payable to the holder upon exercise of SARs may be paid either in Common Stock or in cash or in a combination thereof; provided, however, that no fractional shares shall be issued and any such fraction will be eliminated by rounding downward to the nearest whole share.
- (e) In the sole discretion of the Committee, SARs related to specific Options may be exercisable only upon surrender of all or a portion of the related Option, or may be exercisable, in whole or in part, only at such times and to the extent that the related Option is exercisable, and the number of shares purchasable pursuant to the related Option may be reduced to the extent of the number of shares with respect to which the SARs are exercised.
- (f) The maximum number of SARs granted to a participant during any calendar year shall not exceed 500,000; 1,000,000 in the participant's initial year of participation.
- (g) The disposition of outstanding SARs held by a participant at the time of (i) termination of service shall be determined in accordance with Paragraph 8 below, and (ii) a Change in Control shall be determined in accordance with Paragraph 15 below.

### IV. Restricted Stock Units and Restricted Stock

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant an award of Restricted Stock Units and/or shares of Restricted Stock to individuals eligible to participate in the Plan. Each grant of Restricted Stock Units and/or shares of Restricted Stock shall be evidenced by an award agreement. The grant of Restricted Stock Units and/or Restricted Stock (an "RSU/RS Award") shall state the number of Restricted Stock Units or shares of Common Stock covered by the grant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the following:

- (a) Each Restricted Stock Unit shall be equivalent in value to a share of Common Stock, and each share of Restricted Stock shall be a share of Common Stock.
- (b) Vesting of each RSU/RS Award grant shall require the holder to remain in the service of the Company or a Subsidiary Company for a prescribed period (a "Restriction Period"). The Committee shall determine the Restriction Period or Periods which shall

apply to the shares of Common Stock covered by each RSU/RS Award grant. The Committee may also, in its sole discretion, establish other terms and conditions for the vesting of an RSU/RS Award, including conditioning vesting on the achievement of one or more Performance Goals.

- (c) Upon expiration of the Restriction Period or Periods applicable to each RSU/RS Award grant, the holder shall, upon such expiration, without payment, be entitled to receive payment in an amount equal to the aggregate Fair Market Value of the shares of Common Stock covered by such award of Restricted Stock Units or retain the shares of Restricted Stock. Such payment with respect to Restricted Stock Units may be made in cash, in shares of Common Stock equal to the number of Restricted Stock Units with respect to which such payment is made, or in any combination thereof, as the Committee in its sole discretion shall determine; the participant shall retain the shares of Restricted Stock, free of all restrictions. Further upon such expiration, except as otherwise provided in the award agreement, the holder shall be entitled to receive a cash payment in an amount equal to each cash dividend the Company would have paid to such holder during the term of those Restricted Stock Units as if the holder had been the owner of record of the shares of Common Stock covered by such Restricted Stock Units on the record date for the payment of such dividend. Cash dividends paid on shares of Restricted Stock shall be paid to the participant as provided in the award agreement.
- (d) The maximum aggregate number of shares of Common Stock covered by an award of Restricted Stock Units or shares of Restricted Stock that a participant may receive with respect to any calendar year shall be 500,000 shares of Common Stock, or equal to the value of 500,000 shares.
- (e) The disposition of RSU/RS Awards held by a participant at the time of (i) termination of service shall be determined in accordance with Paragraph 8 below, and (ii) a Change in Control shall be determined in accordance with Paragraph 15 below.

#### V. Other Cash-Based Awards and Stock-Based Awards

The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant other Cash-Based Awards and/or Stock-Based Awards to individuals eligible to receive awards under the Plan. Each grant of a Cash-Based Award or Stock-Based Award shall be evidenced by an award agreement, subject to the following:

- (a) Each Cash-Based Award shall have a value as may be determined by the Committee. For each Cash-Based Award, the Committee may establish Performance Goals in its discretion. If the Committee exercises its discretion to establish such Performance Goals, the number and/or value of Cash-Based Awards that will be paid out to the participant will be determined, in the manner determined by the Committee, by the extent to which the Performance Goals are met.
- (b) Payment of earned Cash-Based Awards shall be as determined by the Committee and evidenced in the award agreement. The Committee, in its sole discretion, may provide the payment of earned Cash-Based Awards in the form of cash, in shares of Common Stock, or in a combination thereof, that have an aggregate Fair Market Value equal to the value of the earned Cash-Based Awards (the applicable date regarding which aggregate Fair Market Value shall be determined by the Committee). Such shares may be granted subject to any restrictions deemed appropriate by the Committee.

- (c) The Committee may grant Stock-Based Awards, which are equity-based or equity-related awards not otherwise described by the terms of this Plan (including the grant or offer for sale of unrestricted shares of Common Stock), in such amounts and subject to such terms and conditions including, but not limited to being subject to Performance Goals, or in satisfaction of such obligations, as the Committee shall determine. Stock-Based Awards may entail the transfer of shares to participants, or payment in cash or otherwise of amounts based on the value of shares and may include, without limitation, awards designed to comply with or take advantage of the applicable local laws of jurisdictions other than the United States.
- (d) Each award agreement shall set forth the extent to which the participant shall have the right to receive Cash-Based Awards and Stock-Based Awards following termination of the participant's service with the Company and Company Subsidiaries. Such provisions shall be determined in the sole discretion of the Committee, shall be included in the applicable award agreement, need not be uniform among all awards of Cash-Based Awards and Stock-Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.
- (e) The maximum aggregate amount awarded to any one participant in any calendar year with respect to Cash-Based Awards may not exceed \$10,000,000 and with respect to Stock-Based Awards, may not exceed 500,000 shares.
- (f) The disposition of any outstanding Cash-Based Award or Stock-Based Award held by a participant at the time of (i) termination of service shall be determined in accordance with Paragraph 8 below and (ii) a Change in Control shall be determined in accordance with Paragraph 15 below.

**8. Termination of Service.** Except as otherwise provided in an award agreement or determined by the Committee, upon termination of service with the Company of any participant, such participant's rights with respect to awards shall be as follows:

(a) In the event that the service of a participant is terminated by the Company for any reason, except as and to the extent provided otherwise in this Paragraph 8 below or by the Committee in an award agreement, and except as provided in Paragraph 15 after the occurrence of a Potential Change in Control or Change in Control, the participant's rights and interests in outstanding awards under the Plan shall immediately terminate upon termination of service.

(b) If a participant terminates service with the Company as the result of his or her becoming totally disabled or if a participant should die or retire (as defined by the Committee with respect to an award) while in the service of the Company or any of its Subsidiary Companies, then the participant or, as the case may be, the person or persons to whom the participant's interest under the Plan shall pass in accordance with an effective beneficiary designation, by will, or by the laws of descent and distribution (such person or persons, as applicable, the "Estate"), shall have the following rights:

- (i) With respect to awards made prior to the Effective Date:
  - (A) the grantee of a contingent AIP Award or the Estate shall be entitled to receive payment of an AIP Award as, and to the extent, determined by the Committee;
  - (B) if the holder of a PSU/PS Award shall have performed services for at least two-thirds of the related performance cycle prior to the date of termination or death, then, except as otherwise provided in the award

agreement evidencing the PSU/PS Award, and subject to any further adjustments the Committee may make in its absolute discretion, the participant or the Estate shall be entitled to receive payment of a PSU/PS Award upon the expiration of the related performance cycle, provided that such payment shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of the beginning of each such performance cycle and the date of termination or death, and the denominator of which shall be the number of full and partial calendar months from the date of the beginning of the performance cycle to the end of the said performance cycle;

- (C) except as otherwise provided in the terms and conditions of the award agreement, the holder or the Estate shall be entitled to exercise (provided any vesting requirement has been satisfied as of the date of exercise) any Option or SAR for a period of five (5) years from such date of death, total disability or retirement, or for such longer period as the Committee may determine in the case of financial hardship or other unusual circumstances (subject to the maximum exercise period for Options and SARs specified in Paragraph 7II(b) and 7III(a) hereof, respectively);
  - (D) except as otherwise provided in the award agreement for an RSU/RS Award, (1) upon death or termination due to total disability the holder or the Estate shall be entitled to receive payment in respect of the RSU/RS Award, provided that such award shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of grant of such RSU/RS Award and the date of death or termination, and the denominator of which shall be the number of full and partial calendar months from the date of the grant to the end of the Restriction Period, and (2) upon retirement, the participant's rights with respect to an RSU/RS Award shall immediately terminate; and
  - (E) the grantee of a Cash-Based Award or Stock-Based Award or the Estate shall be entitled to receive payment of such award as, and to the extent, provided in the applicable award agreement.
- (ii) With respect to awards made on or after the Effective Date:
- (A) the grantee of a contingent AIP Award or the Estate shall be entitled to receive payment of an AIP Award as, and to the extent, determined by the Committee;
  - (B) except as otherwise provided in the award agreement evidencing the PSU/PS Award, and subject to any further adjustments the Committee may make in its absolute discretion, (1) the participant in the case of retirement, shall be entitled to receive payment of a PSU/PS Award upon the expiration of the applicable performance cycle based upon the amount, if any, of the PSU/PS Award earned from actual performance during the performance cycle, or (2) the participant or Estate in the case of termination of service due to total disability or death, shall be entitled to receive payment of a PSU/PS Award based on the amount, if any, of



the PSU/PS Award estimated to be earned as of the expiration of the applicable performance cycle as determined from the Company's financial statement accruals through the completed fiscal quarter immediately preceding the date of termination, payable following such termination; provided in each case that such payment shall be adjusted by multiplying the amount thereof by a fraction, the numerator of which shall be the number of full and partial calendar months between the date of the beginning of each such performance cycle and the date of termination or death, and the denominator of which shall be the number of full and partial calendar months from the date of the beginning of the performance cycle to the end of the said performance cycle;

- (C) except as otherwise provided in the terms and conditions of the award agreement, Options or SARs held shall become fully vested and exercisable upon such termination or death and the holder or the Estate shall be entitled to exercise such Option or SAR for a period of three (3) years from such date of death, total disability or retirement, or for such longer period as the Committee may determine in the case of financial hardship or other unusual circumstances (subject to the maximum exercise period for Options and SARs specified in Paragraph 7II(b) and 7III(a) hereof, respectively); provided that any Option or SAR granted in the calendar year in which such termination as a result of retirement occurs shall not vest in full but shall instead vest based on a fraction, the numerator of which shall be the number of full and partial months in the period between the date of grant and the date of termination, and the denominator of which shall be the number of full and partial months from the date of grant through the end of the calendar year, and the unvested portion of the Options and SARs shall immediately terminate.
- (D) except as otherwise provided in the award agreement for an RSU/RS Award, (1) upon death or termination due to total disability the holder or the Estate shall be entitled to receive payment in respect of each RSU/RS Award held and (2) upon retirement, the participant's rights with respect to an RSU/RS Award shall immediately terminate; and
- (E) the grantee of a Cash-Based Award or Stock-Based Award or the Estate shall be entitled to receive payment of such award as, and to the extent, provided in the applicable award agreement.

(c) In the event of resignation by the participant, the participant's rights and interests in outstanding awards under the Plan shall immediately terminate upon such resignation; provided, however, that the Committee shall have the absolute discretion to review the reasons and circumstances of the resignation and to determine whether, alternatively, and to what extent, if any, the participant may continue to hold any rights or interests under the Plan.

(d) For purposes of this Plan, references to a participant's "service" and termination thereof shall mean, in the case of (i) an employee, the participant's employment with the Company or Subsidiary Company, (ii) a non-employee director, the director's service as a director of the Company or Company Subsidiary, or (iii) a contractor, consultant or agency employee, the participant's service to the Company or Subsidiary Company in such capacity. A transfer of a participant without an

intervening period from the Company to a Subsidiary Company or vice versa, or from one Subsidiary Company to another, shall not be deemed a termination of service. Unless otherwise provided by the Committee, a transfer of a participant from the Company or a Subsidiary Company to contractor, consultant or agency employee shall be deemed a termination of service.

(e) The Committee shall be authorized to make all determinations and calculations required by this Paragraph 8, including any determinations necessary to establish the reason for terminations of employment for purposes of the Plan, which determinations and calculations shall be conclusive and binding on any affected participants and Estates.

**9. Performance Factors; Additional Requirements.** Without limiting the type or number of awards that may be made under this Plan, an award may be a performance-based award. A performance-based award intended to comply as “performance-based” compensation under Section 162(m) of the Code is referred to as a “Performance Award.” A Performance Award shall, except as may otherwise be permitted under Section 162(m) of the Code, be paid, vested or otherwise deliverable solely on account of the attainment of one or more pre-established, objective performance goals (“Performance Goals”) established by the Committee prior to the earlier to occur of (x) 90 days after the commencement of the period of service to which the Performance Goal relates and (y) the elapse of 25% of the period of service (as established in good faith at the time the Performance Goal is established), and in any event while the outcome is substantially uncertain. A Performance Goal is objective if a third party having knowledge of the relevant facts could determine whether the goal is met. A Performance Goal may be based on one or more of the following measures: net earnings or net income (before or after taxes), earnings per share (basic or diluted), net sales or revenue growth, net operating profit, return measures (including, but not limited to, return on assets, capital, invested capital, equity, revenue, or sales), cash flow (including, but not limited to, operating cash flow, free cash flow, and cash flow return on equity), earnings before or after taxes, interest, depreciation, and/or amortization, gross or operating margins, productivity ratios, share price (including, but not limited to, growth measures and total shareholder return), expense targets, margins, operating efficiency, market share, customer satisfaction, and/or balance sheet measures (including but not limited to, working capital amounts and levels of short- and long-term debt) (collectively, the “Performance Factors”). Performance Factors may be particular to a participant or the division, line of business or other unit, or the Company generally, or may be absolute in their terms or measured against or in relationship to the performance of a peer group or other external or internal measure. A Performance Goal may, but need not, be based upon a change or an increase or positive result under a particular Performance Factor and could include, for example, maintaining the status quo, limiting economic losses, or a relative comparison of performance to the performance of a peer group or other external or internal measure (measured, in each case, by reference to specific Performance Factors). A Performance Goal may include or exclude items to measure specific objectives, including, without limitation, extraordinary or other non-recurring items, acquisitions and divestitures, internal restructuring and reorganizations, accounting charges and effects of accounting changes. In interpreting Plan provisions applicable to Performance Awards to participants who are “covered employees” under Section 162(m) of the Code, it is the intent of the Plan to conform with the standards of Section 162(m) of the Code and applicable Treasury Regulations, and the Committee in establishing such goals and interpreting the Plan shall be guided by such provisions. Prior to the payment of any compensation based on the achievement of Performance Goals to any such “covered employee,” the Committee must certify in writing that applicable Performance Goals and any of the material terms thereof were, in fact, satisfied. Subject to the foregoing provisions, the terms, conditions and limitations applicable to any Performance Awards made pursuant to this Plan shall be determined by the Committee.

The Committee has the authority to provide for accelerated vesting of any performance-based award based on the achievement of Performance Goals or such other factors as the Committee shall determine, including a Change in Control.

Awards that are intended to qualify as Performance Awards may not be adjusted upward. The Committee shall retain the discretion to adjust Performance Awards downward, either on a formula or discretionary basis or any combination, as the Committee determines. In the event that applicable tax and/or securities laws change to permit Committee discretion to alter the governing Performance Goals and Performance Factors without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval.

The Committee may grant or administer performance-based awards that are not intended to or do not qualify as Performance Awards meeting the requirements of Section 162(m) of the Code and may base vesting, payment or delivery of such awards on performance criteria (which shall be the Performance Goals with respect to such awards) which may be other than those set forth in this Paragraph 9.

No awards granted pursuant to the Plan shall be exercisable or realized in whole or in part, and the Company shall not be obligated to sell, distribute or issue any shares subject to any such award, if such exercise and sale would, in the opinion of counsel for the Company, violate the Securities Act of 1933, as amended (or other federal, state or foreign statutes having similar requirements). Each award shall be subject to the further requirement that, if at any time the Board of Directors shall determine in its discretion that the listing or qualification of the shares relating or subject to such award under any securities exchange requirements or under any applicable law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such award or the distribution or issue of shares thereunder, such award may not be exercised in whole or in part unless such listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Board of Directors.

Awards may be subject to restrictions as to resale or other disposition and to such other provisions as may be appropriate to comply with federal, state or foreign securities laws and stock exchange requirements, and the exercise of any award or entitlement to payment thereunder may be contingent upon receipt from the holder (or any other person permitted by this Plan to exercise any award or receive any distribution hereunder) of a representation that at the time of such exercise it is his or her then present intention to acquire the shares being distributed for investment and not for resale.

**10. Non-Employee Directors.** The Board may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant awards to non-employee directors of the Company. Such awards shall be evidenced by an award agreement.

**11. Nontransferability.** Unless otherwise approved by the Committee or provided in an award agreement, awards granted under the Plan shall be nonassignable and shall not be transferable by the participant other than by will or the laws of descent and distribution, and shall be exercisable, during the participant's lifetime, only by the participant or the participant's guardian or legal representative.

**12. Disclaimer of Rights.** No provision in the Plan or any awards granted pursuant to the Plan shall be construed to confer upon the participant any right to be employed by or continue in the service of the Company or by any Subsidiary Company, to receive additional awards, or to interfere in any way with the right and authority of the Company or any Subsidiary Company either to increase or decrease the compensation of the participant at any time, or to terminate any relationship between the participant and the Company or any of its Subsidiary Companies.

Participants under the Plan shall have none of the rights of a stockholder of the Company with respect to shares subject to any award hereunder unless and until such shares have been issued to them.

**13. Stock Adjustments.** In the event that the shares of Common Stock, as presently constituted, shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another company (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, or a dividend on the shares of Common Stock of rights or warrants to purchase securities of the Company shall be made, then there shall be substituted for or added to each share available under and subject to the Plan as provided in Paragraph 2 hereof, and to the limitations set forth in Paragraph 7, and each share theretofore appropriated or thereafter subject or which may become subject to awards under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be. Outstanding awards also shall be appropriately amended as to price and other terms as may be necessary to reflect the foregoing events. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or of any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any awards theretofore granted or which may be granted under the Plan, such adjustments shall be made in accordance with such determination.

No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share or unit.

**14. Tax Withholding.** The Company shall have the power and the right to deduct or withhold, or require a participant to remit to the Company, the minimum statutory amount to satisfy federal, state, and local taxes, domestic or foreign, required by law or regulation to be withheld with respect to any taxable event arising as a result of this Plan.

With respect to withholding required upon any taxable event arising from the issuance or delivery of shares of Common Stock with respect to an award granted hereunder, participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold shares of Common Stock having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory withholding tax that could be imposed on the transaction or such other amount as may be authorized by the Committee. All such elections shall be made in accordance with procedures and shall be subject to any restrictions or limitations that the Committee, in its sole discretion, deems appropriate.

**15. Change in Control.** Notwithstanding any other provisions of this Plan to the contrary and except as may be provided in an applicable award agreement, the provisions of this Paragraph 15 shall apply in the event of a Change in Control (as defined below) or Potential Change in Control (as defined below).

(a) Except in the case of awards made on or after the Effective Date for which another award meeting the requirements of subparagraph (b) of this Paragraph 15 (a "Replacement Award") is provided to the participant to replace such outstanding award (the "Replaced Award"), upon a Change in Control:

- (i) Each outstanding Option held by a participant shall become fully vested and exercisable notwithstanding any vesting schedule or installment schedule relating to the exercisability of such Option contained in the applicable Option agreement or otherwise established at the time of grant of the Option.

- (ii) Each outstanding SAR held by a participant shall become fully vested and exercisable notwithstanding any vesting schedule or installment schedule relating to the exercisability of such SAR contained in the applicable SAR agreement or otherwise established at the time of grant of the SAR.
  - (iii) The Restriction Period shall expire and all restrictions on any RSU/RS Awards held by a participant shall lapse.
  - (iv) The disposition of any PSU/PS Award, Cash-Based Award or Stock-Based Award held by a participant shall be determined as provided in the applicable award agreement or as the Committee shall determine.
- (b) An award shall meet the conditions of this subparagraph (b) of Paragraph 15 (and hence qualify as a Replacement Award) if:
- (i) it has a value at least equal to the value of the Replaced Award;
  - (ii) it relates to publicly traded equity securities of the Company or its successor in the Change in Control or another entity that is affiliated with the Company or its successor following the Change in Control; and
  - (iii) its other terms and conditions (A) include the provisions of subparagraph (c) of this Paragraph 15 and (B) are not less favorable to the participant than the terms and conditions of the Replaced Award (including the provisions that would apply in the event of a subsequent Change in Control and the provisions of subparagraph (c) of this Paragraph 15).

Without limiting the generality of the foregoing, the Replacement Award may take the form of a continuation of the Replaced Award if the requirements of the preceding sentence are satisfied. The determination of whether the conditions of this subparagraph (b) of Paragraph 15 are satisfied shall be made by the Committee, as constituted immediately before the Change in Control, in its sole discretion.

(c) In the event the termination of service of the participant occurs in connection with or during the period of two (2) years after a Change in Control and such termination of service is by the Company without Cause (as defined below), by participant for Good Reason (as defined below), or due to the participant's death or disability, then upon such termination of service each Replacement Award held by the participant shall become fully vested, exercisable or the disposition thereof shall be determined in accordance with the provisions of subparagraphs (i) through (iv) of subparagraph (a) of this Paragraph 15, it being intended that such vesting, exercisability and other disposition of the Replacement Awards shall be the same as would have applied upon the Change in Control to the Replaced Awards under subparagraph (a) of this Paragraph 15, in the absence of the Replacement Award.

- (d) For purposes of this Plan, a "Change in Control" means:
  - (i) Individuals who, on February 22, 2011, constitute the Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to February 22, 2011, whose election or nomination for election was approved by a vote of at least two-thirds of the Incumbent Directors then on the Board (either by specific vote or by approval of the proxy statement of the Company in which such person is named as nominee for director, without written objection to such nomination)

shall be an Incumbent Director; provided, however, that no individual initially elected or nominated as a director of the Company as a result of an actual or threatened election contest or opposition solicitation (as described in Rule 14a-12(c) under the Exchange Act) (“Election Contest”) or other actual or threatened solicitation of proxies or consents by or on behalf of any person (as such term is defined in Section 3(a)(9) of the Exchange Act and as used in Section 13(d)(3) and 14(d)(2) of the Exchange Act) (“Person”) other than the Board (“Proxy Contest”), including by reason of any agreement intended to avoid or settle any Election Contest or Proxy Contest, shall be deemed an Incumbent Director; and provided further, however, that a director who has been approved by the Hershey Trust while it beneficially owns more than 50% of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the “Outstanding Company Voting Power”) shall be deemed to be an Incumbent Director; or

- (ii) The acquisition or holding by any Person of beneficial ownership (within the meaning of Section 13(d) under the Exchange Act and the rules and regulations promulgated thereunder) of shares of the Common Stock and/or the Class B Common Stock of the Company representing 25% (30% with respect to awards made on or after the Effective Date) or more of either (A) the total number of then outstanding shares of both Common Stock and Class B Common Stock of the Company (the “Outstanding Company Stock”) or (B) the Outstanding Company Voting Power; provided that, at the time of such acquisition or holding of beneficial ownership of any such shares, the Hershey Trust does not beneficially own more than 50% of the Outstanding Company Voting Power; and provided, further, that any such acquisition or holding of beneficial ownership of shares of either Common Stock or Class B Common Stock of the Company by any of the following entities shall not by itself constitute such a Change in Control hereunder: (1) the Hershey Trust; (2) any trust established by the Company or by any Subsidiary Company for the benefit of the Company and/or its employees or those of a Subsidiary Company or by any Subsidiary Company for the benefit of the Company and/or its employees or those of a Subsidiary Company; (3) any employee benefit plan (or related trust) sponsored or maintained by the Company or any Subsidiary Company; (4) the Company or any Subsidiary Company or (5) any underwriter temporarily holding securities pursuant to an offering of such securities; or
- (iii) The approval by the stockholders of the Company of any merger, reorganization, recapitalization, consolidation or other form of business combination (a “Business Combination”) if, following consummation of such Business Combination, the Hershey Trust does not beneficially own more than 50% of the total voting power of all outstanding voting securities of (A) the surviving entity or entities (the “Surviving Company”) or (B) if applicable, the ultimate parent company that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Surviving Company; provided, however, that with respect to any award made on or after the Effective Date, no Change in Control shall be deemed to occur under this clause (iii) prior to consummation of the Business Combination; or
- (iv) The approval by the stockholders of the Company of (A) any sale or other disposition of all or substantially all of the assets of the Company, other than to

a company (the “Acquiring Company”) if, following consummation of such sale or other disposition, the Hershey Trust beneficially owns more than 50% of the total voting power of all outstanding voting securities eligible to elect directors of (1) the Acquiring Company or (2) if applicable, the ultimate parent Company that directly or indirectly has beneficial ownership of more than 50% of the combined voting power of the then outstanding voting securities eligible to elect directors of the Acquiring Company, or (B) a liquidation or dissolution of the Company; provided, however, that with respect to any award made on or after the Effective Date, no Change in Control shall be deemed to occur under clause (iv) (A) prior to consummation of such sale or other disposition.

For purposes of this Plan, “Hershey Trust” means either or both of (a) Hershey Trust Company, a Pennsylvania corporation, as Trustee for the Milton Hershey School, or any successor to Hershey Trust Company as such trustee, and (b) Milton Hershey School, a Pennsylvania not-for-profit corporation.

- (e) For purposes of this Plan, a “Potential Change in Control” means:
  - (i) The Hershey Trust by action of any of the Board of Directors of Hershey Trust Company; the Board of Managers of Milton Hershey School; the Investment Committee of the Hershey Trust; and/or any of the officers of Hershey Trust Company or Milton Hershey School (acting with authority) undertakes consideration of any action the taking of which would lead to a Change in Control as defined herein, including, but not limited to consideration of (A) an offer made to the Hershey Trust to purchase any number of its shares in the Company such that if the Hershey Trust accepted such offer and sold such number of shares in the Company the Hershey Trust would no longer have more than 50% of the Outstanding Company Voting Power, (B) an offering by the Hershey Trust of any number of its shares in the Company for sale such that if such sale were consummated the Hershey Trust would no longer have more than 50% of the Outstanding Company Voting Power or (C) entering into any agreement or understanding with a person or entity that would lead to a Change in Control; or
  - (ii) The Board approves a transaction described in subsection (ii), (iii) or (iv) of the definition of a Change in Control contained in subparagraph (d) of Paragraph 15 hereof.

(f) In the event that a transaction which would constitute a Change in Control if approved by the stockholders of the Company is to be submitted to such stockholders for their approval, each participant who holds an Option or SAR granted prior to the Effective Date at the time scheduled for the taking of such vote, whether or not then exercisable, shall have the right to receive a notice at least ten (10) business days prior to the date on which such vote is to be taken. Such notice shall set forth the date on which such vote of stockholders is to be taken, a description of the transaction being proposed to stockholders for such approval, a description of the provisions of this Paragraph 15 and the impact thereof on such participant in the event that such stockholder approval is obtained. Such notice shall also set forth the manner in which and price at which all Options or SARs then held by each such participant could be exercised upon the obtaining of such stockholder approval.

(g) Upon the occurrence of a Potential Change in Control (as defined in subparagraph (e) of this Paragraph 15) or a Change in Control and for a period of two (2) years thereafter, the following special provision and notice requirement shall be applicable in the event of the

termination of the service of any participant holding an Option or SAR granted prior to the Effective Date: (i) in no event may a notice of termination of service be issued to such a participant unless at least ten (10) business days prior to the effective date of such termination, the participant is provided with a written notice of intent to terminate the participant's service which sets forth in reasonable detail the reason for such intent to terminate, the date on which such termination is to be effective, and a description of the participant's rights under this Plan and under the applicable award agreements, including the fact that no such Option or SAR may be exercised after such termination has become effective and the manner, extent and price at which such Options and SARs then held by such participant may be exercised; and (ii) such notice of intent to terminate a participant's employment shall not be considered a "termination of service" for purposes of the first sentence of Paragraph 8(a). This subparagraph (g) is intended only to provide for a requirement of notice to terminate upon the occurrence of the events set forth herein and shall not be construed to create an obligation of continued service in any manner or to otherwise affect or limit the Company's ability to terminate the service of any participant holding an Option or SAR under the Plan.

(h) Upon the occurrence of a Change in Control and for a period of two (2) years thereafter, in the event of the termination of a participant's service by the Company for any reason other than for Cause (as defined below) or by the participant for Good Reason (as defined below), such participant shall have one (1) year (or, if a longer period is applicable under Paragraph 8 hereof, for such longer period) from the date of termination of service to exercise any Option or SAR held by the participant as of the date of the Change in Control (including any Replacement Award relating to any such Option or SAR) or until the date of expiration of the Option or SAR or Replacement Award, if earlier. In addition, all restrictions and limitations on the exercise of such Option or SAR (or Replacement Award) or the sale of shares of Common Stock received pursuant to exercise of an Option or SAR (or Replacement Award) relating to minimum stockholding requirements shall immediately terminate upon the occurrence of a Change in Control.

(i) For purposes of this Plan, "Cause" means, with respect to a participant who is covered under the Company's Severance Benefits Plan for Salaried Employees, Employee Benefits Protection Plan (Group 2), Executive Benefits Protection Plan (Group 3), or Executive Benefits Protection Plan (Group 3A) or any similar or successor plan, or an employment or similar agreement with the Company or any Subsidiary, "cause" as defined in the plan or agreement applicable to such participant, and with respect to all other participants, means (A) the willful and continued failure of the participant to substantially perform the participant's duties with the Company (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the participant by the participant's supervisor which specifically identifies the manner in which the participant's supervisor believes that the participant has not substantially performed the participant's duties; (B) the willful engaging by the participant in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company; (C) the participant having been convicted of, or having entered into a plea of nolo contendere to, a crime that constitutes a felony; or (D) the willful material breach by the participant of the Company's Code of Ethical Business Conduct or any successor or similar code of conduct, or other material policies applicable to the participant, including policies prohibiting disclosure or misuse of confidential information. For purposes of the preceding clauses (A) and (B), no act or failure to act, on the part of the participant, shall be considered "willful" unless it is done, or omitted to be done, by the participant in bad faith or without reasonable belief that the participant's action or omission was in the best interests of the Company. Any act, or failure to act, based upon the instructions or with the approval of a senior officer of the Company or the participant's superior or based upon the advice of counsel for the Company shall be conclusively presumed to be done, or omitted to be done, by the participant in good faith and in the best interests of the Company.

(j) For purposes of this Plan, "Good Reason" means, with respect to a participant who is covered under the Company's Severance Benefits Plan for Salaried Employees, Employee



Benefits Protection Plan (Group 2), Executive Benefits Protection Plan (Group 3), or Executive Benefits Protection Plan (Group 3A), or any similar or successor plan, or an employment or similar agreement with the Company or any Subsidiary, “good reason” (or other words of similar import) as defined in the plan or agreement applicable to such participant, and with respect to all other participants, means “good reason” as defined in the Company’s Severance Benefits Plan for Salaried Employees as in effect immediately prior to the Change in Control as if such plan applied to such participant.

## **16. General Provisions.**

(a) The Committee may specify in an award agreement that the participant’s rights, payments, and benefits with respect to an award shall be subject to reduction, cancellation, forfeiture, or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an award. Such events may include, but shall not be limited to, termination of employment for Cause, termination of the participant’s provision of services to the Company and/or its Subsidiaries, violation of material policies, breach of noncompetition, confidentiality, or other restrictive covenants that may apply to the participant, or other conduct by the participant that is detrimental to the business or reputation of the Company and/or its Subsidiaries.

(b) If the Company is required to prepare an accounting restatement due to the material noncompliance of the Company, as a result of misconduct, with any financial reporting requirement under the securities laws, if the participant knowingly or grossly negligently engaged in the misconduct, or knowingly or grossly negligently failed to prevent the misconduct, or if the participant is one of the individuals subject to automatic forfeiture under Section 304 of the Sarbanes-Oxley Act of 2002 (and not otherwise exempted), the participant shall reimburse the Company the amount of any payment in settlement of an award earned or accrued during the twelve-month period following the first public issuance or filing with the United States Securities and Exchange Commission (whichever first occurred) of the financial document not in compliance with such financial reporting requirement. Rights, payments and benefits under any award shall be subject to repayment to or recoupment (clawback) by the Company in accordance with such policies and procedures as the Committee or Board may adopt from time to time, including, but not limited to, policies and procedures to implement applicable laws, rules and regulations, or as may otherwise be required by law.

(c) Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine, the plural shall include the singular, and the singular shall include the plural.

(d) In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

(e) The granting of awards and the issuance of shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(f) Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and/or its Subsidiaries operate or have employees, directors or service providers, the Committee, in its sole discretion, shall have the power and authority to:

- (i) determine which Subsidiaries shall be covered by the Plan;
- (ii) determine which individuals outside the United States are eligible to participate in the Plan;

- (iii) modify the terms and conditions of any award granted to participants outside the United States to comply with applicable foreign laws;
- (iv) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable; and/or
- (v) take any action, before or after an award is made, that it deems advisable to obtain approval or comply with any necessary local government regulatory exemptions or approvals.

Notwithstanding the above, the Committee may not take any actions hereunder, and no awards shall be granted, that would violate applicable law.

(g) To the extent that the Plan provides for issuance of certificates to reflect the transfer of shares of Common Stock, the transfer of such shares may be effected on a noncertificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange.

(h) The Plan and each award agreement shall be governed by the laws of the Commonwealth of Pennsylvania, excluding any conflicts or choice of law rule or principle that might otherwise refer construction or interpretation of the Plan to the substantive law of another jurisdiction. Unless otherwise provided in the award agreement, participants are deemed to submit to the exclusive jurisdiction and venue of the federal or state courts of Pennsylvania to resolve any and all issues that may arise out of or relate to the Plan or any related award agreement.

(i) This Plan is intended to comply and shall be administered in a manner that is intended to comply with Code Section 409A and shall be construed and interpreted in accordance with such intent. To the extent that an award or the payment, settlement or deferral thereof is subject to Code Section 409A, the award shall be granted, paid, settled or deferred in a manner that will comply with Section 409A, including regulations or other guidance issued with respect thereto (collectively, "Section 409A"), except as otherwise determined by the Committee. Any provision of this Plan that would cause the grant of an award or the payment, settlement or deferral thereof to fail to satisfy Section 409A shall be amended to comply with Section 409A on a timely basis, which may be made on a retroactive basis, in accordance with regulations and other guidance issued under Section 409A. In the case of amounts not intended to be deferrals of compensation subject to Section 409A, such as, but not limited to, amounts payable under an AIP Award, payment or settlement of amounts under such awards shall occur not later than March 15 of the year following the year in which the participant has a legally-binding right to payment or settlement. In the case of amounts intended to be deferrals of compensation subject to Section 409A the initial deferral election shall be made and become irrevocable not later than December 31 of the year immediately preceding the year in which the participant first performs services related to such compensation, provided that the timing of such initial deferral election may be later as provided in Section 409A with respect to initial participation in the Plan and for "performance-based compensation" as defined under Section 409A. If an amount payable under an award as a result of the separation from service (other than due to death) occurring while the participant is a "specified employee" constitutes a deferral of compensation subject to Section 409A, then payment of such amount shall not occur until six (6) months and a day after the date of participant's "separation from service" except as permitted under Section 409A. The Committee, in its sole discretion, may permit a participant to defer receipt of the payment of cash or the delivery of shares that would otherwise be delivered to a participant under the Plan in accordance with any plan or program providing for deferral of compensation which is applicable to the participant (a "Deferred Compensation Plan"). Any such deferral elections shall be subject to the provisions of the Deferred Compensation Plan and such rules and procedures as shall be determined by the Committee in its sole discretion. Notwithstanding the foregoing, any deferral shall be made in accordance with the provisions of Section 409A of the Code and the applicable guidance issued by the Secretary of the Treasury thereunder.

(j) Subject to the provisions of the Plan and any award agreement, the recipient of an award (including without limitation, any deferred award) may, if so determined by the Committee, be entitled to receive, currently or on a deferred basis, cash or stock dividends, or cash payments in amounts equivalent to cash or stock dividends on shares (“dividend equivalents”) with respect to the number of shares covered by the award, as determined by the Committee and the Committee may provide that such amounts (if any) shall be deemed to have been reinvested in additional shares or otherwise reinvested; provided, however, that in no event shall dividend or dividend equivalents credited with respect to any performance-based award be paid to the participant prior to payment, if any, of such performance-based award.

(k) Options and SARs may not be repriced without the approval of the Company’s stockholders. For this purpose, “reprice” means that the Company has: (i) lowered or reduced the exercise price of outstanding Options and/or outstanding SARs after they have been granted, (ii) canceled an Option and/or an SAR when the applicable Exercise Price exceeds the Fair Market Value of the underlying shares in exchange for cash or another award, or (iii) taken any other action with respect to an Option and/or an SAR that would be treated as a repricing under the rules and regulations of the principal securities market on which the shares are traded. An adjustment pursuant to Paragraph 13 shall not be treated as a repricing.

(l) Each participant may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively and who may include a trustee under a will or living trust) to whom an award under the Plan is to be paid, assigned or transferred in case of the participant’s death before participant receives all amounts payable under such award. Each designation will revoke all prior designations by the same participant, shall be in a form prescribed by the Committee, and will be effective only when filed by the participant in writing or electronically with the Committee during the participant’s lifetime. In the absence of any such designation or if all designated beneficiaries predecease the participant, benefits remaining unpaid at the participant’s death shall pass in accordance with the participant’s will, or by the laws of descent and distribution, as applicable.

**17. Effective Date and Termination of Plan.** The Plan as amended and restated herein shall become effective upon approval by the stockholders at the 2011 Annual Meeting of Stockholders. Awards and amounts outstanding under the Plan and the predecessor Broad Based Stock Option Plan, Broad Based Annual Incentive Plan or the Directors’ Compensation Plan shall remain in effect and shall not be modified by this amended and restated Plan.

The Board of Directors at any time may terminate the Plan, but such termination shall not alter or impair any of the rights or obligations under any awards theretofore granted under the Plan unless the affected participant shall so consent.

**18. Application of Funds.** The proceeds received by the Company from the sale of shares hereunder will be used for general corporate purposes.

**19. Amendment.** The Board of Directors at any time and from time to time, may alter or amend the Plan, subject to any requirement of stockholder approval imposed by applicable law, rule or regulation; provided that any such amendment shall not adversely alter or impair any of the rights or obligations under any award theretofore granted under the Plan unless the affected participant shall so consent. Notwithstanding the foregoing, the Plan may not be terminated or amended in a manner adverse to the interests of any participant (without the consent of the participant) either: (a) at the time a Potential Change in Control occurs and continuing for a period of one (1) year following the cessation of a Potential Change in Control, or (b) for a two-year period beginning as of the date of a Change in Control (the “Coverage Period”). Upon the expiration of the Coverage Period, Paragraph 15 of the Plan may not be amended in any manner that would adversely affect any participant without the consent of the participant.

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2015  
OR  
 **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-183

**THE HERSHEY COMPANY**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

23-0691590  
(I.R.S. Employer Identification No.)

100 Crystal A Drive, Hershey, PA  
(Address of principal executive offices)

17033  
(Zip Code)

Registrant's telephone number, including area code: (717) 534-4200

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, one dollar par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Title of class
Class B Common Stock, one dollar par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  
Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

As of July 2, 2015 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting and non-voting common equity held by non-affiliates was \$13,110,173,681. Class B Common Stock is not listed for public trading on any exchange or market system. However, Class B shares are convertible into shares of Common Stock at any time on a share-for-share basis. Determination of aggregate market value assumes all outstanding shares of Class B Common Stock were converted to Common Stock as of July 2, 2015. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on July 2, 2015 (\$90.04 per share).

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

Common Stock, one dollar par value—155,899,924 shares, as of February 5, 2016.

Class B Common Stock, one dollar par value—60,619,777 shares, as of February 5, 2016.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated by reference into Part III of this report.

## PART I

### Item 1. BUSINESS

The Hershey Company was incorporated under the laws of the State of Delaware on October 24, 1927 as a successor to a business founded in 1894 by Milton S. Hershey. In this report, the terms “Hershey,” “Company,” “we,” “us” or “our” mean The Hershey Company and its wholly-owned subsidiaries and entities in which it has a controlling financial interest, unless the context indicates otherwise.

We are the largest producer of quality chocolate in North America and a global leader in chocolate and non-chocolate confectionery. We market, sell and distribute our products under more than 80 brand names in approximately 70 countries worldwide.

#### Reportable Segments

Our organizational structure is designed to ensure continued focus on North America, coupled with an emphasis on accelerating growth in our focus international markets, as we continue to transform into a more global company. Our business is organized around geographic regions, which enables us to build processes for repeatable success in our global markets. The Presidents of our geographic regions, along with the Senior Vice President responsible for our Global Retail and Licensing business, are accountable for delivering our annual financial plans and report into our CEO, who serves as our Chief Operating Decision Maker (“CODM”), so we have defined our operating segments on a geographic basis. Our North America business currently generates over 87% of our consolidated revenue and none of our other geographic regions is individually significant. Therefore, we currently define our reportable segments as follows:

- **North America** - This segment is responsible for our traditional chocolate and sugar confectionery market position, as well as our grocery and growing snacks market positions, in the United States and Canada. This includes developing and growing our business in chocolate and non-chocolate confectionery, refreshment, pantry, food service and other snacking product lines.
- **International and Other** - This segment includes all other countries where we currently manufacture, import, market, sell or distribute chocolate and non-chocolate confectionery and other products. Currently, this includes our operations in China and other Asia markets, Latin America, Europe, Africa and the Middle East, along with exports to these regions. While a less significant component, this segment also includes our global retail operations, including Hershey’s Chocolate World stores in Hershey, Pennsylvania, New York City, Chicago, Las Vegas, Shanghai, Niagara Falls (Ontario), Dubai and Singapore, as well as operations associated with licensing the use of certain trademarks and products to third parties around the world.

Financial and other information regarding our reportable segments is provided in our Management’s Discussion and Analysis and Note 11 to the Consolidated Financial Statements.

#### Business Acquisitions and Divestitures

In March 2015, we completed the acquisition of all of the outstanding shares of KRAVE Pure Foods, Inc. (“Krave”), manufacturer of KRAVE jerky, a leading all-natural snack brand of premium jerky products. The transaction was undertaken to enable us to tap into the rapidly growing meat snacks category and further expand into the broader snacks space.

In September 2015, we acquired the non-controlling 49% interest in Hershey do Brasil, giving us 100% ownership of this business.

In September 2014, we completed the acquisition of 80% of the outstanding shares of Shanghai Golden Monkey Food Joint Stock Co., Ltd. (“SGM”), a confectionery company based in Shanghai, China, whose product line is primarily sold through traditional trade channels. The acquisition was undertaken in order to leverage these traditional trade channels, which complement our traditional China chocolate business which is primarily distributed through Tier 1 or hypermarket channels. As discussed throughout 2015, SGM’s declining performance levels and the results of our assessment of the quality of SGM’s accounts receivables and existing distributor networks indicated the need to test the goodwill arising from the SGM acquisition for impairment and ultimately resulted in the recording of a \$280.8

million impairment charge as of the end of the third quarter 2015. We are directing our efforts currently on developing an integration plan that is focused on the optimal structure for top-line growth. In the fourth quarter of 2015, we entered into an agreement redefining the terms of acquisition for the remaining 20% of SGM, which remained subject to regulatory approval as of year-end. We completed the purchase of the remaining 20% on February 3, 2016.

In 2014, we also acquired all of the outstanding shares of The Allan Candy Company Limited (“Allan”) headquartered in Ontario, Canada and a controlling interest in Lotte Shanghai Food Company, a joint venture established in 2007 in China for the purpose of manufacturing and selling product to the joint venture partners. These acquisitions provide us with additional manufacturing and distribution capacity to serve primarily the North America and Asia markets, respectively.

In March 2015, we completed the sale of Mauna Loa Macadamia Nut Corporation (“Mauna Loa”).

## **Products**

Our principal confectionery offerings include chocolate and non-chocolate confectionery products; gum and mint refreshment products; pantry items, such as baking ingredients, toppings and beverages; and snack items such as spreads, meat snacks, bars and snack bites and mixes.

- Within our North America markets, our product portfolio includes a wide variety of chocolate offerings marketed and sold under the renowned brands of *Hershey's*, *Reese's*, and *Kisses*, along with other popular chocolate and non-chocolate confectionery brands such as *Jolly Rancher*, *Almond Joy*, *Brookside*, *Cadbury*, *Good & Plenty*, *Heath*, *Kit Kat*, *Lancaster*, *Payday*, *Rolo*, *Twizzlers*, *Whoppers* and *York*. We also offer premium chocolate products, primarily in the U.S., through the *Scharffen Berger* and *Dagoba* brands. Our gum and mint products include *Ice Breakers* mints and chewing gum, *Breathsavers* mints, and *Bubble Yum* bubble gum. Our pantry and snack items that are principally sold in North America include baking products and toppings and sundae syrups sold under the *Hershey's*, *Reese's* and *Heath* brands, as well as *Hershey's* and *Reese's* chocolate spreads and snack bites and mixes, *Krave* meat jerky products and *Brookside* fruit and nut bars.
- Within our International and Other markets, we manufacture, market and sell many of these same brands, as well as other brands that are marketed regionally, such as *Golden Monkey* confectionery and snack products in China, *Pelon Pelo Rico* confectionery products in Mexico, *IO-IO* snack products in Brazil, and *Nutrine* and *Maha Lacto* confectionery products and *Jumpin* and *Sofit* beverage products in India.

## **Principal Customers and Marketing Strategy**

Our customers are mainly wholesale distributors, chain grocery stores, mass merchandisers, chain drug stores, vending companies, wholesale clubs, convenience stores, dollar stores, concessionaires and department stores. The majority of our customers, with the exception of wholesale distributors, resell our products to end-consumers in retail outlets in North America and other locations worldwide.

In 2015, approximately 26% of our consolidated net sales were made to McLane Company, Inc., one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers and the primary distributor of our products to Wal-Mart Stores, Inc.

The foundation of our marketing strategy is our strong brand equities, product innovation and the consistently superior quality of our products. We devote considerable resources to the identification, development, testing, manufacturing and marketing of new products. We utilize a variety of promotional programs directed towards our customers, as well as advertising and promotional programs for consumers of our products, to stimulate sales of certain products at various times throughout the year.

In conjunction with our sales and marketing efforts, our efficient product distribution network helps us maintain sales growth and provide superior customer service by facilitating the shipment of our products from our manufacturing plants to strategically located distribution centers. We primarily use common carriers to deliver our products from these distribution points to our customers.

## **Raw Materials and Pricing**

Cocoa products, including cocoa liquor, cocoa butter and cocoa powder processed from cocoa beans, are the most significant raw materials we use to produce our chocolate products. These cocoa products are purchased directly from third-party suppliers, who source cocoa beans that are grown principally in Far Eastern, West African, Central and South American regions. West Africa accounts for approximately 70% of the world's supply of cocoa beans.

Adverse weather, crop disease, political unrest and other problems in cocoa-producing countries have caused price fluctuations in the past, but have never resulted in the total loss of a particular producing country's cocoa crop and/or exports. In the event that a significant disruption occurs in any given country, we believe cocoa from other producing countries and from current physical cocoa stocks in consuming countries would provide a significant supply buffer.

We also use substantial quantities of sugar, Class II fluid dairy milk, peanuts, almonds and energy in our production process. Most of these inputs for our domestic and Canadian operations are purchased from suppliers in the United States. For our international operations, inputs not locally available may be imported from other countries.

We change prices and weights of our products when necessary to accommodate changes in input costs, the competitive environment and profit objectives, while at the same time maintaining consumer value. Price increases and weight changes help to offset increases in our input costs, including raw and packaging materials, fuel, utilities, transportation costs and employee benefits. When we implement price increases, there is usually a time lag between the effective date of the list price increases and the impact of the price increases on net sales, in part because we typically honor previous commitments to planned consumer and customer promotions and merchandising events subsequent to the effective date of the price increases. In addition, promotional allowances may be increased subsequent to the effective date, delaying or partially offsetting the impact of price increases on net sales.

## **Competition**

Many of our brands enjoy wide consumer acceptance and are among the leading brands sold in the marketplace in North America and certain markets in Latin America. We sell our brands in highly competitive markets with many other global multinational, national, regional and local firms. Some of our competitors are large companies with significant resources and substantial international operations. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing and promotional activity, the ability to identify and satisfy consumer preferences, as well as convenience and service.

## **Seasonality and Backlog**

Our sales are typically higher during the third and fourth quarters of the year, representing seasonal and holiday-related sales patterns. We manufacture primarily for stock and typically fill customer orders within a few days of receipt. Therefore, the backlog of any unfilled orders is not material to our total annual sales.

## **Trademarks, Service Marks and License Agreements**

We own various registered and unregistered trademarks and service marks. The trademarks covering our key product brands are of material importance to our business. We follow a practice of seeking trademark protection in the U.S. and other key international markets where our products are sold. We also grant trademark licenses to third parties to produce and sell pantry items, flavored milks and various other products primarily under the *Hershey's* and *Reese's* brand names.

Furthermore, we have rights under license agreements with several companies to manufacture and/or sell and distribute certain products. Our rights under these agreements are extendible on a long-term basis at our option. Our most significant licensing agreements are as follows:

<b>Company</b>	<b>Brand</b>	<b>Location</b>	<b>Requirements</b>
Kraft Foods Ireland Intellectual Property Limited	<i>York Peter Paul Almond Joy Peter Paul Mounds</i>	Worldwide	None
Cadbury UK Limited	<i>Cadbury Caramello</i>	United States	Minimum sales requirement exceeded in 2015
Société des Produits Nestlé SA	<i>Kit Kat Rolo</i>	United States	Minimum unit volume sales exceeded in 2015
Huhtamäki Oy affiliate	<i>Good &amp; Plenty Heath Jolly Rancher Milk Duds Payday Whoppers</i>	Worldwide	None

### **Research and Development**

We engage in a variety of research and development activities in a number of countries, including the United States, Mexico, Brazil, India and China. We develop new products, improve the quality of existing products, improve and modernize production processes, and develop and implement new technologies to enhance the quality and value of both current and proposed product lines. Information concerning our research and development expense is contained in Note 1 to the Consolidated Financial Statements.

### **Food Quality and Safety Regulation**

The manufacture and sale of consumer food products is highly regulated. In the United States, our activities are subject to regulation by various government agencies, including the Food and Drug Administration, the Department of Agriculture, the Federal Trade Commission, the Department of Commerce and the Environmental Protection Agency, as well as various state and local agencies. Similar agencies also regulate our businesses outside of the United States.

We believe our Product Excellence Program provides us with an effective product quality and safety program. This program is integral to our global supply chain platform and is intended to ensure that all products we purchase, manufacture and distribute are safe, are of high quality and comply with applicable laws and regulations.

Through our Product Excellence Program, we evaluate the supply chain including ingredients, packaging, processes, products, distribution and the environment to determine where product quality and safety controls are necessary. We identify risks and establish controls intended to ensure product quality and safety. Various government agencies and third-party firms as well as our quality assurance staff conduct audits of all facilities that manufacture our products to assure effectiveness and compliance with our program and applicable laws and regulations.

### **Environmental Considerations**

We make routine operating and capital expenditures to comply with environmental laws and regulations. These annual expenditures are not material with respect to our results of operations, capital expenditures or competitive position.



## **Employees**

As of December 31, 2015, we employed approximately 19,060 full-time and 1,650 part-time employees worldwide. Collective bargaining agreements covered approximately 5,930 employees. During 2016, agreements will be negotiated for certain employees at four facilities outside of the United States, comprising approximately 73% of total employees under collective bargaining agreements. We believe that our employee relations are generally good.

## **Financial Information by Geographic Area**

Our principal operations and markets are located in the United States. The percentage of total consolidated net sales for our businesses outside of the United States was 17.2% for 2015, 19.2% for 2014 and 18.4% for 2013. The percentage of total long-lived assets outside of the United States was 31.8% as of December 31, 2015 and 31.3% as of December 31, 2014.

## **Corporate Social Responsibility**

Our founder, Milton S. Hershey, established an enduring model of responsible citizenship while creating a successful business. Driving sustainable business practices, making a difference in our communities, and operating with the highest integrity are vital parts of our heritage. We continue this legacy today by providing high quality products while conducting our business in a socially responsible and environmentally sustainable manner. Each year we publish a full corporate social responsibility (“CSR”) report which provides an update on the progress we have made in advancing our CSR priorities such as food safety, responsible sourcing of ingredients, corporate transparency, our new focus on improving basic nutrition to help children learn and grow and our continued investment in the communities where we live and work.

In 2015, Hershey efforts were again recognized for its environmental, social, and governance performance by being named to both the Dow Jones Sustainability World Index and the North America Index. The company was also honored as one of *Corporate Responsibility* magazine’s 100 Best Corporate Citizens, and as a 2015 World’s Most Ethical Company<sup>®</sup> by the Ethisphere Institute. To learn more about our goals, progress and initiatives, you can access our full CSR report at [www.thehersheycompany.com/social-responsibility.aspx](http://www.thehersheycompany.com/social-responsibility.aspx).

## **Available Information**

The Company's website address is [www.thehersheycompany.com](http://www.thehersheycompany.com). We file or furnish annual, quarterly and current reports, proxy statements and other information with the United States Securities and Exchange Commission (“SEC”). You may obtain a copy of any of these reports, free of charge, from the Investors section of our website as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The SEC maintains an Internet site that also contains these reports at: [www.sec.gov](http://www.sec.gov). In addition, copies of the Company's annual report will be made available, free of charge, on written request to the Company.

We have a Code of Ethical Business Conduct that applies to our Board of Directors (“Board”) and all Company officers and employees, including, without limitation, our Chief Executive Officer and “senior financial officers” (including the Chief Financial Officer, Chief Accounting Officer and persons performing similar functions). You can obtain a copy of our Code of Ethical Business Conduct, as well as our Corporate Governance Guidelines and charters for each of the Board’s standing committees, from the Investors section of our website. If we change or waive any portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers or senior financial officers, we will post that information on our website.

## Item 1A. **RISK FACTORS**

### **Cautionary Note Regarding Forward-Looking Statements**

This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, which are subject to risks and uncertainties. Other than statements of historical fact, information regarding activities, events and developments that we expect or anticipate will or may occur in the future, including, but not limited to, information relating to our future growth and profitability targets and strategies designed to increase total shareholder value, are forward-looking statements based on management’s estimates, assumptions and projections. Forward-looking statements also include, but are not limited to, statements regarding our future economic and financial condition and results of operations, the plans and objectives of management and our assumptions regarding our performance and such plans and objectives. Many of the forward-looking statements contained in this document may be identified by the use of words such as “intend,” “believe,” “expect,” “anticipate,” “should,” “planned,” “projected,” “estimated” and “potential,” among others. Forward-looking statements contained in this Annual Report on Form 10-K are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described below. All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors. The forward-looking statements that we make in this Annual Report on Form 10-K are based on management’s current views and assumptions regarding future events and speak only as of their dates. We assume no obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

#### ***Issues or concerns related to the quality and safety of our products, ingredients or packaging could cause a product recall and/or result in harm to the Company’s reputation, negatively impacting our operating results.***

In order to sell our iconic, branded products, we need to maintain a good reputation with our customers and consumers. Issues related to the quality and safety of our products, ingredients or packaging could jeopardize our Company’s image and reputation. Negative publicity related to these types of concerns, or related to product contamination or product tampering, whether valid or not, could decrease demand for our products or cause production and delivery disruptions. We may need to recall products if any of our products become unfit for consumption. In addition, we could potentially be subject to litigation or government actions, which could result in payments of fines or damages. Costs associated with these potential actions could negatively affect our operating results.

#### ***Increases in raw material and energy costs along with the availability of adequate supplies of raw materials could affect future financial results.***

We use many different commodities for our business, including cocoa products, sugar, dairy products, peanuts, almonds, corn sweeteners, natural gas and fuel oil.

Commodities are subject to price volatility and changes in supply caused by numerous factors, including:

- Commodity market fluctuations;
- Currency exchange rates;
- Imbalances between supply and demand;
- The effect of weather on crop yield;
- Speculative influences;
- Trade agreements among producing and consuming nations;
- Supplier compliance with commitments;
- Political unrest in producing countries; and
- Changes in governmental agricultural programs and energy policies.

Although we use forward contracts and commodity futures and options contracts where possible to hedge commodity prices, commodity price increases ultimately result in corresponding increases in our raw material and energy costs. If

we are unable to offset cost increases for major raw materials and energy, there could be a negative impact on our financial condition and results of operations.

***Price increases may not be sufficient to offset cost increases and maintain profitability or may result in sales volume declines associated with pricing elasticity.***

We may be able to pass some or all raw material, energy and other input cost increases to customers by increasing the selling prices of our products or decreasing the size of our products; however, higher product prices or decreased product sizes may also result in a reduction in sales volume and/or consumption. If we are not able to increase our selling prices or reduce product sizes sufficiently, or in a timely manner, to offset increased raw material, energy or other input costs, including packaging, direct labor, overhead and employee benefits, or if our sales volume decreases significantly, there could be a negative impact on our financial condition and results of operations.

***Market demand for new and existing products could decline.***

We operate in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Our continued success is impacted by many factors, including the following:

- Effective retail execution;
- Appropriate advertising campaigns and marketing programs;
- Our ability to secure adequate shelf space at retail locations;
- Our ability to drive innovation and maintain a strong pipeline of new products in the confectionery and broader snacking categories;
- Changes in product category consumption;
- Our response to consumer demographics and trends, including trends relating to store trips and the impact of the growing e-commerce channel; and
- Consumer health concerns, including obesity and the consumption of certain ingredients.

There continues to be competitive product and pricing pressures in the markets where we operate, as well as challenges in maintaining profit margins. We must maintain mutually beneficial relationships with our key customers, including retailers and distributors, to compete effectively. Our largest customer, McLane Company, Inc., accounted for approximately 26% of our total net sales in 2015. McLane Company, Inc. is one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers, including Wal-Mart Stores, Inc.

***Increased marketplace competition could hurt our business.***

The global confectionery packaged goods industry is intensely competitive and consolidation in this industry continues. Some of our competitors are large companies that have significant resources and substantial international operations. We continue to experience increased levels of in-store activity for other snack items, which pressured confectionery category growth. In order to protect our existing market share or capture increased market share in this highly competitive retail environment, we may be required to increase expenditures for promotions and advertising, and must continue to introduce and establish new products. Due to inherent risks in the marketplace associated with advertising and new product introductions, including uncertainties about trade and consumer acceptance, increased expenditures may not prove successful in maintaining or enhancing our market share and could result in lower sales and profits. In addition, we may incur increased credit and other business risks because we operate in a highly competitive retail environment.

***Disruption to our manufacturing operations or supply chain could impair our ability to produce or deliver finished products, resulting in a negative impact on our operating results.***

Approximately two-thirds of our manufacturing capacity is located in the United States. Disruption to our global manufacturing operations or our supply chain could result from, among other factors, the following:

- Natural disaster;
- Pandemic outbreak of disease;
- Weather;
- Fire or explosion;
- Terrorism or other acts of violence;
- Labor strikes or other labor activities;
- Unavailability of raw or packaging materials; and
- Operational and/or financial instability of key suppliers, and other vendors or service providers.

We believe that we take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place to manage disruptive events if they were to occur, including our global supply chain strategies and our principle-based global labor relations strategy. If we are unable, or find that it is not financially feasible, to effectively plan for or mitigate the potential impacts of such disruptive events on our manufacturing operations or supply chain, our financial condition and results of operations could be negatively impacted if such events were to occur.

***Our financial results may be adversely impacted by the failure to successfully execute or integrate acquisitions, divestitures and joint ventures.***

From time to time, we may evaluate potential acquisitions, divestitures or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable buyers, sellers or business partners; perform effective assessments prior to contract execution; negotiate contract terms; and, if applicable, obtain government approval. These activities may present certain financial, managerial, staffing and talent, and operational risks, including diversion of management's attention from existing core businesses; difficulties integrating or separating businesses from existing operations; and challenges presented by acquisitions or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions, divestitures or joint ventures are not successfully implemented or completed, there could be a negative impact on our financial condition, results of operations and cash flows.

During 2015, we faced a number of challenges in connection with the ongoing integration of SGM. Since its acquisition in 2014, the SGM business has performed below expectations, with net sales and earnings well below pre-acquisition levels. In addition, issues with the quality of SGM's accounts receivables and existing distributor networks have affected our ability to fully realize many of the acquisition benefits that we believe will help accelerate our growth in China and enhance our ability to serve Chinese consumers. As a result of SGM's poor performance and these other contributing factors, in the second and third quarters of 2015 we recorded a goodwill write-down of approximately \$266 million, representing all of the goodwill relating to the SGM reporting unit. While we believe we have appropriate strategies in place that will allow us to accelerate the SGM integration in 2016, additional challenges that impede further integration could jeopardize our growth strategy in China and could have a negative impact on the results of operations and cash flows of our International and Other reportable segment.

***Changes in governmental laws and regulations could increase our costs and liabilities or impact demand for our products.***

Changes in laws and regulations and the manner in which they are interpreted or applied may alter our business environment. These negative impacts could result from changes in food and drug laws, laws related to advertising and marketing practices, accounting standards, taxation requirements, competition laws, employment laws and environmental laws, among others. It is possible that we could become subject to additional liabilities in the future resulting from changes in laws and regulations that could result in an adverse effect on our financial condition and results of operations.

***Political, economic and/or financial market conditions could negatively impact our financial results.***

Our operations are impacted by consumer spending levels and impulse purchases which are affected by general macroeconomic conditions, consumer confidence, employment levels, the availability of consumer credit and interest rates on that credit, consumer debt levels, energy costs and other factors. Volatility in food and energy costs, sustained

global recessions, rising unemployment and declines in personal spending could adversely impact our revenues, profitability and financial condition.

Changes in financial market conditions may make it difficult to access credit markets on commercially acceptable terms, which may reduce liquidity or increase borrowing costs for our Company, our customers and our suppliers. A significant reduction in liquidity could increase counterparty risk associated with certain suppliers and service providers, resulting in disruption to our supply chain and/or higher costs, and could impact our customers, resulting in a reduction in our revenue, or a possible increase in bad debt expense.

***Our expanding international operations may not achieve projected growth objectives, which could adversely impact our overall business and results of operations.***

In 2015, we derived approximately 17% of our net sales from customers located outside of the United States, versus 19% in 2014 and 18% in 2013. Additionally, approximately 32% of our total long-lived assets were located outside of the United States as of December 31, 2015. As part of our global growth strategy, we have made investments outside of the United States, particularly China and Asia, Mexico and Brazil. As a result, we are subject to risks and uncertainties relating to international sales and operations, including:

- Unforeseen global economic and environmental changes resulting in business interruption, supply constraints, inflation, deflation or decreased demand;
- Inability to establish, develop and achieve market acceptance of our global brands in international markets;
- Difficulties and costs associated with compliance and enforcement of remedies under a wide variety of complex laws, treaties and regulations;
- Unexpected changes in regulatory environments;
- Political and economic instability, including the possibility of civil unrest, terrorism, mass violence or armed conflict;
- Nationalization of our properties by foreign governments;
- Tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;
- Potentially negative consequences from changes in tax laws;
- The imposition of tariffs, quotas, trade barriers, other trade protection measures and import or export licensing requirements;
- Increased costs, disruptions in shipping or reduced availability of freight transportation;
- The impact of currency exchange rate fluctuations between the U.S. dollar and foreign currencies;
- Failure to gain sufficient profitable scale in certain international markets resulting in an inability to cover manufacturing fixed costs or resulting in losses from impairment or sale of assets; and
- Failure to recruit, retain and build a talented and engaged global workforce.

If we are not able to achieve our projected international growth objectives and mitigate the numerous risks and uncertainties associated with our international operations, there could be a negative impact on our financial condition and results of operations.

***Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations.***

Information technology is critically important to our business operations. We use information technology to manage all business processes including manufacturing, financial, logistics, sales, marketing and administrative functions. These processes collect, interpret and distribute business data and communicate internally and externally with employees, suppliers, customers and others.

We invest in industry standard security technology to protect the Company's data and business processes against risk of data security breach and cyber attack. Our data security management program includes identity, trust, vulnerability and threat management business processes as well as adoption of standard data protection policies. We measure our data security effectiveness through industry accepted methods and remediate significant findings. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification standards.

We maintain and routinely test backup systems and disaster recovery, along with external network security penetration testing by an independent third party as part of our business continuity preparedness. We also have processes in place to prevent disruptions resulting from the implementation of new software and systems of the latest technology.

While we believe that our security technology and processes provide adequate measures of protection against security breaches and in reducing cybersecurity risks, disruptions in or failures of information technology systems are possible and could have a negative impact on our operations or business reputation. Failure of our systems, including failures due to cyber attacks that would prevent the ability of systems to function as intended, could cause transaction errors, loss of customers and sales, and could have negative consequences to our Company, our employees, and those with whom we do business.

***We might not be able to hire, engage and retain the talented global workforce we need to drive our growth strategies.***

Our people continue to be our most important asset, and our future success depends upon our ability to identify, hire, develop, engage and retain talented personnel across the globe. Competition for global talent is intense, and we might not be able to identify and hire the personnel we need to continue to evolve and grow our business. In particular, if we are unable to hire the right individuals to fill the new senior management positions created as a result of the productivity initiative we announced in June 2015, our business performance may be impacted.

Activities related to identifying, recruiting, hiring and integrating qualified individuals require significant time and attention. We may also need to invest significant amounts of cash and equity to attract talented new employees, and we may never realize returns on these investments.

In addition to hiring new employees, we must continue to focus on retaining and engaging the talented individuals we need to sustain our core business and lead our developing businesses into new markets, channels and categories. This may require significant investments in training, coaching and other career development and retention activities. If we are not able to effectively retain and grow our talent, our ability to achieve our strategic objectives will be adversely affected, which may impact our financial condition and results of operations.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

Our principal properties include the following:

Country	Location	Type	Status (Own/Lease)
United States	Hershey, Pennsylvania (2 principal plants)	Manufacturing—confectionery products and pantry items	Own
	Lancaster, Pennsylvania	Manufacturing—confectionery products	Own
	Robinson, Illinois	Manufacturing—confectionery products, and pantry items	Own
	Stuarts Draft, Virginia	Manufacturing—confectionery products and pantry items	Own
	Edwardsville, Illinois	Distribution	Own
	Palmyra, Pennsylvania	Distribution	Own
	Ogden, Utah	Distribution	Own
Canada	Brantford, Ontario	Distribution	Own <sup>(1)</sup>
Mexico	Monterrey, Mexico	Manufacturing—confectionery products	Own
China	Shanghai, China	Manufacturing—confectionery products	Own
Malaysia	Johor, Malaysia	Manufacturing—confectionery products	Own <sup>(2)</sup>

(1) We have an agreement with the Ferrero Group for the use of a warehouse and distribution facility of which the Company has been deemed to be the owner for accounting purposes.

(2) Construction of the the Malaysia plant will be finalized in early 2016, with initial production and distribution expected to commence in mid-2016.

In addition to the locations indicated above, we also own or lease several other properties and buildings worldwide which we use for manufacturing, sales, distribution and administrative functions. Our facilities are well maintained and generally have adequate capacity to accommodate seasonal demands, changing product mixes and certain additional growth. We continually improve our facilities to incorporate the latest technologies. The largest facilities are located in Hershey and Lancaster, Pennsylvania; Monterrey, Mexico; and Stuarts Draft, Virginia. The U.S., Canada and Mexico facilities in the table above primarily support our North America segment, while the China and Malaysia facilities primarily serve our International and Other segment. As discussed in Note 11 to the Consolidated Financial Statements, we do not manage our assets on a segment basis given the integration of certain manufacturing, warehousing, distribution and other activities in support of our global operations.

**Item 3. LEGAL PROCEEDINGS**

The Company is subject to certain legal proceedings and claims arising out of the ordinary course of our business, which cover a wide range of matters including antitrust and trade regulation, product liability, advertising, contracts, environmental issues, patent and trademark matters, labor and employment matters and tax. See Note 13 to the Consolidated Financial Statements for information on certain legal proceedings for which there are contingencies.

**Item 4. MINE SAFETY DISCLOSURES**

Not applicable.

**SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT**

The executive officers of the Company, their positions and, as of February 5, 2016, their ages are set forth below.

<b>Name</b>	<b>Age</b>	<b>Positions Held During the Last Five Years</b>
John P. Bilbrey	59	Chairman of the Board, President and Chief Executive Officer (April 2015); President and Chief Executive Officer (June 2011); Executive Vice President, Chief Operating Officer (November 2010); Senior Vice President, President Hershey North America (December 2007)
Michele G. Buck	54	President, North America (May 2013); Senior Vice President, Chief Growth Officer (September 2011); Senior Vice President, Global Chief Marketing Officer (December 2007)
Javier H. Idrovo	48	Chief Accounting Officer (August 2015); Senior Vice President, Finance and Planning (September 2011); Senior Vice President, Strategy and Business Development (November 2008)
Patricia A. Little <sup>(1)</sup>	55	Senior Vice President, Chief Financial Officer (March 2015)
Terence L. O'Day	66	Senior Vice President, Chief Supply Chain Officer (May 2013); Senior Vice President, Global Operations (December 2008)
Leslie M. Turner <sup>(2)</sup>	58	Senior Vice President, General Counsel and Secretary (July 2012)
Kevin R. Walling <sup>(3)</sup>	50	Senior Vice President, Chief Human Resources Officer (November 2011); Senior Vice President, Chief People Officer (June 2011)
D. Michael Wege	53	Senior Vice President, Chief Administrative Officer (July 2015); Senior Vice President, Chief Growth and Marketing Officer (May 2013); Senior Vice President, Chief Commercial Officer (September 2011); Senior Vice President, Chocolate Strategic Business Unit (December 2010); Vice President, U.S. Chocolate (April 2008)
Waheed Zaman <sup>(4)</sup>	55	Senior Vice President, Chief Knowledge, Strategy and Technology Officer (July 2015); Senior Vice President, Chief Corporate Strategy and Administrative Officer (August 2013); Senior Vice President, Chief Administrative Officer (April 2013)

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There are no family relationships among any of the above-named officers of our Company.

- (1) Ms. Little was elected Senior Vice President, Chief Financial Officer effective March 16, 2015. Prior to joining our company she was Executive Vice President and Chief Financial Officer of Kelly Services, Inc. (July 2008).
- (2) Ms. Turner was elected Senior Vice President, General Counsel and Secretary effective July 9, 2012. Prior to joining our Company she was Chief Legal Officer of Coca-Cola North America (June 2008).
- (3) Mr. Walling was elected Senior Vice President, Chief People Officer effective June 1, 2011. Prior to joining our Company he was Vice President and Chief Human Resource Officer of Kennametal Inc. (November 2005).
- (4) Mr. Zaman was elected Senior Vice President, Chief Corporate Strategy and Administrative Officer effective August 6, 2013. Prior to joining our Company he was President and Chief Executive Officer of W&A Consulting (May 2012); Senior Vice President, Special Assignments of Chiquita Brands International (February 2012); Senior Vice President, Global Product Supply of Chiquita Brands International (October 2007).

Our Executive Officers are generally elected each year at the organization meeting of the Board in April.



## PART II

### Item 5. **MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." The Class B Common Stock ("Class B Stock") is not publicly traded.

The closing price of our Common Stock on December 31, 2015, was \$89.27. There were 30,262 stockholders of record of our Common Stock and 6 stockholders of record of our Class B Stock as of December 31, 2015.

We paid \$476.1 million in cash dividends on our Common Stock and Class B Stock in 2015 and \$440.4 million in 2014. The annual dividend rate on our Common Stock in 2015 was \$2.236 per share.

Information regarding dividends paid and the quarterly high and low market prices for our Common Stock and dividends paid for our Class B Stock for the two most recent fiscal years is disclosed in Note 16 to the Consolidated Financial Statements.

On January 28, 2016, our Board declared a quarterly dividend of \$0.583 per share of Common Stock payable on March 15, 2016, to stockholders of record as of February 25, 2016. It is the Company's 342nd consecutive quarterly Common Stock dividend. A quarterly dividend of \$0.53 per share of Class B Stock also was declared.

#### **Unregistered Sales of Equity Securities and Use of Proceeds**

None.

#### **Issuer Purchases of Equity Securities**

The following table shows the purchases of shares of Common Stock made by or on behalf of Hershey, or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Hershey, for each fiscal month in the three months ended December 31, 2015:

<b>Period</b>	<b>Total Number of Shares Purchased (1)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2)</b>
				(in thousands of dollars)
October 5 through November 1	—	\$ —	—	\$ 20,249
November 2 through November 29	135,000	\$ 87.75	—	\$ 20,249
November 30 through December 31	38,000	\$ 86.76	—	\$ 20,249
Total	<u>173,000</u>	\$ 87.53	<u>—</u>	

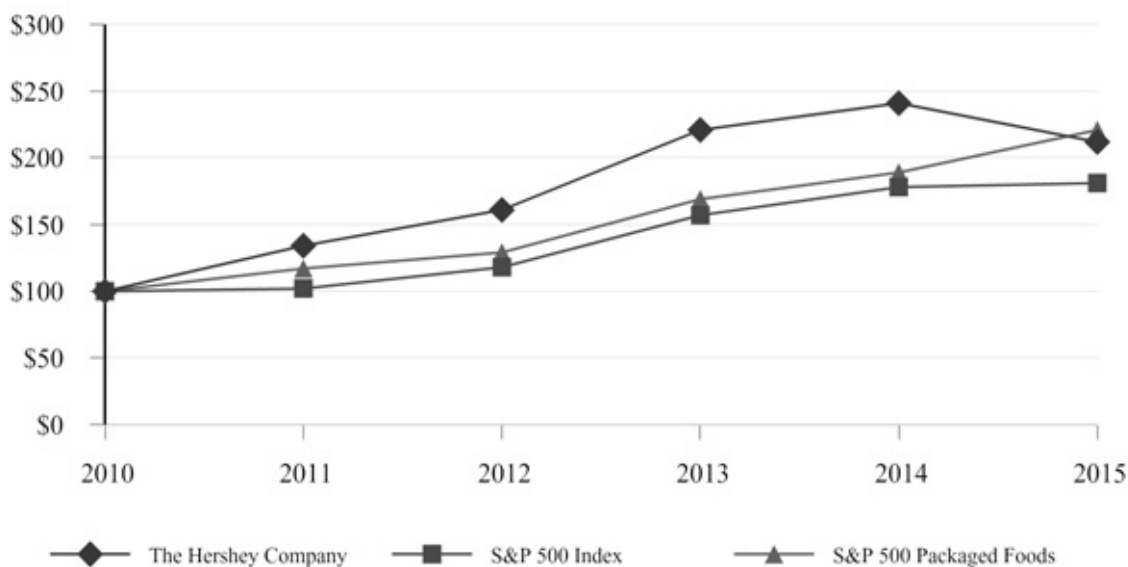
- (1) All of the shares of Common Stock purchased during the three months ended December 31, 2015 were purchased in open market transactions. We purchased 173,000 shares of Common Stock during the three months ended December 31, 2015 in connection with our practice of buying back shares sufficient to offset those issued under incentive compensation plans.
- (2) In February 2014, our Board of Directors approved a \$250 million share repurchase authorization. This program was completed in the first quarter of 2015. In February 2015, our Board of Directors approved an additional \$250 million share repurchase authorization. As of December 31, 2015, approximately \$20 million remained available for repurchases of our Common Stock under this program. In January 2016, our Board of Directors approved an additional \$500 million share repurchase authorization (excluded from the table above), to

commence after the existing 2015 authorization is completed. Neither the 2015 or 2016 share repurchase authorizations has an expiration date.

### Stockholder Return Performance Graph

The following graph compares our cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Standard & Poor's 500 Index and the Standard & Poor's Packaged Foods Index.

**Comparison of 5 Year Cumulative Total Return\***  
Among The Hershey Company, the S&P 500 Index,  
and the S&P Packaged Foods Index



\*\$100 invested on December 31, 2010 in stock or index, including reinvestment of dividends.

Company/Index	December 31,					
	2010	2011	2012	2013	2014	2015
The Hershey Company	\$ 100	\$ 134	\$ 161	\$ 221	\$ 241	\$ 212
S&P 500 Index	\$ 100	\$ 102	\$ 118	\$ 157	\$ 178	\$ 181
S&P 500 Packaged Foods Index	\$ 100	\$ 117	\$ 129	\$ 169	\$ 189	\$ 221

*The stock price performance included in this graph is not necessarily indicative of future stock price performance.*

**Item 6. SELECTED FINANCIAL DATA**

**FIVE-YEAR CONSOLIDATED FINANCIAL SUMMARY**

(All dollar and share amounts in thousands except market price and per share statistics)

	2015	2014	2013	2012	2011
<b>Summary of Operations</b>					
Net Sales	\$ 7,386,626	\$ 7,421,768	\$ 7,146,079	\$ 6,644,252	\$ 6,080,788
Cost of Sales	\$ 4,003,951	4,085,602	3,865,231	3,784,370	3,548,896
Selling, Marketing and Administrative	\$ 1,969,308	1,900,970	1,922,508	1,703,796	1,477,750
Goodwill and Other Intangible Asset Impairment Charges	\$ 280,802	15,900	—	7,457	—
Business Realignment Charges	\$ 94,806	29,721	18,665	37,481	(886)
Interest Expense, Net	\$ 105,773	83,532	88,356	95,569	92,183
Provision for Income Taxes	\$ 388,896	459,131	430,849	354,648	333,883
Net Income	\$ 512,951	846,912	820,470	660,931	628,962
<b>Net Income Per Share:</b>					
—Basic—Common Stock	\$ 2.40	3.91	3.76	3.01	2.85
—Diluted—Common Stock	\$ 2.32	3.77	3.61	2.89	2.74
—Basic—Class B Stock	\$ 2.19	3.54	3.39	2.73	2.58
—Diluted—Class B Stock	\$ 2.19	3.52	3.37	2.71	2.56
<b>Weighted-Average Shares Outstanding:</b>					
—Basic—Common Stock	158,471	161,935	163,549	164,406	165,929
—Basic—Class B Stock	60,620	60,620	60,627	60,630	60,645
—Diluted	220,651	224,837	227,203	228,337	229,919
Dividends Paid on Common Stock	\$ 352,953	328,752	294,979	255,596	228,269
Per Share	\$ 2.24	2.04	1.81	1.56	1.38
Dividends Paid on Class B Stock	\$ 123,179	111,662	98,822	85,610	75,814
Per Share	\$ 2.032	1.842	1.63	1.41	1.25
Depreciation	\$ 197,054	176,312	166,544	174,788	188,491
Amortization	\$ 47,874	35,220	34,489	35,249	27,272
Advertising	\$ 561,644	570,223	582,354	480,016	414,171
<b>Year-End Position and Statistics</b>					
Capital Additions	\$ 329,707	345,947	323,551	258,727	323,961
Total Assets <sup>(1)</sup>	\$ 5,344,371	5,622,870	5,349,724	4,747,614	4,398,625
Short-term Debt and Current Portion of Long-term Debt	\$ 863,436	635,501	166,875	375,898	139,673
Long-term Portion of Debt <sup>(1)</sup>	\$ 1,557,091	1,542,317	1,787,378	1,523,742	1,740,031
Stockholders' Equity	\$ 1,047,462	1,519,530	1,616,052	1,048,373	880,943
Full-time Employees	19,060	20,800	12,600	12,100	11,800
<b>Stockholders' Data</b>					
Outstanding Shares of Common Stock and Class B Stock at Year-end	216,777	221,045	223,895	223,786	225,206
Market Price of Common Stock at Year-end	\$ 89.27	103.93	97.23	72.22	61.78
Price Range During Year (high)	\$ 110.78	108.07	100.90	74.64	62.26
Price Range During Year (low)	\$ 83.58	88.15	73.51	59.49	46.24

(1) The Company adopted ASU 2015-03 as of December 31, 2015, requiring classification of debt issuance costs as a reduction of the carrying value of the debt. Total asset and long-term debt balances presented herein for periods prior to 2015 have been restated to conform to this presentation.

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

This Management's Discussion and Analysis ("MD&A") is intended to provide an understanding of Hershey's financial condition, results of operations and cash flows by focusing on changes in certain key measures from year to year. The MD&A should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed elsewhere in this Annual Report on Form 10-K, particularly in Item 1A. "Risk Factors."

The MD&A is organized in the following sections:

- Overview and Outlook
- Non-GAAP Information
- Consolidated Results of Operations
- Segment Results
- Financial Condition
- Critical Accounting Policies and Estimates

### **OVERVIEW AND OUTLOOK**

We are the largest producer of quality chocolate in North America and a global leader in chocolate and non-chocolate confectionery. We market, sell and distribute our products under more than 80 brand names in approximately 70 countries worldwide. We report our operations through two segments: North America and International and Other.

We continued to make progress against our strategic initiatives in 2015, including margin expansion in our North America segment which fuels our earnings per share and enables us to make investments in other parts of the business, a demonstrated commitment to transparency and simple ingredients to satisfy evolving consumer preferences, additional investments in our snacks business, and a continued focus on insights and knowledge to identify and respond to changing consumer and retail trends and practices.

Our 2015 financial performance was impacted by a continued slow-down in U.S. retail take-away, an increase in competitive activity and poor performance in China. For the full year 2015, our U.S. CMG retail takeaway increased 2.4%, which was largely in line with the category growth rate but continues to be down from long-term historical average of 3-4%. We believe the category is being impacted by changing consumer shopping habits like channel shifting and e-commerce, increased competitive activity and higher levels of merchandising and display, and a proliferation of broader snacking options in the marketplace, which appears to be adversely impacting purchases of non-seasonal candy products.

Our Shanghai Golden Monkey ("SGM") business has performed below expectations since its initial acquisition in 2014, with net sales and earnings levels well below pre-acquisition levels. In addition, as part of our ongoing integration process, we assessed the quality of SGM's accounts receivable and existing distributor networks. Based on the declining performance levels and the results of our integration assessments, we performed an interim goodwill impairment test as of July 5, 2015, which resulted in a preliminary \$249.8 million non-cash goodwill impairment charge, representing a write-down of all of the goodwill related to the SGM reporting unit as of July 5, 2015. During the third quarter, we updated our estimates of the acquisition-date fair values of the net assets acquired, which increased the value of acquired goodwill by \$16.6 million. We also finalized the impairment test of the goodwill relating to the SGM reporting unit, which resulted in a write-off of this additional goodwill, for a total impairment of \$266.4 million. In the fourth quarter of 2015, we reached an agreement with the selling SGM shareholders to reduce the originally-agreed purchase price for the remaining 20% of SGM, and we completed the purchase on February 3, 2016. We are directing our efforts currently on developing an integration plan that is focused on the optimal structure for top-line growth.

Macroeconomic challenges and changing consumer shopping behavior adversely impacted our China chocolate business during 2015. The China chocolate category performance continues to be below the historical compound annual growth rate of 11-12% as marketplace trends continue to slow across all channels. As a result of the declining

performance in our China chocolate business, during the third quarter we also wrote-off \$14.4 million of goodwill that resulted from the SGM acquisition and was assigned to our existing China chocolate business, as this reporting unit was expected to benefit from acquisition synergies relating to the sale of Golden Monkey-branded product through its Tier 1 and hypermarket distributor networks. In light of the declining results in our China business and challenges impacting the overall retail landscape in Asia, we will continue to assess the impact of potential excess capacity on the carrying value of our long-lived assets in the Asia region.

In June, we announced a new productivity initiative intended to simplify the organizational structure to enhance our ability to rapidly anticipate and respond to the changing demands of the global consumer. In 2015, we incurred charges totaling \$105.8 million, representing employee severance and related separation benefits, pension settlement charges, and incremental third-party costs related to the design and implementation of the new organizational structure. Excluding pension settlement charges, we currently estimate total pre-tax charges and costs for the program to be approximately \$120 million, the majority of which are cash. The remaining costs for this program are expected to be incurred within the first three quarters of 2016.

Giving consideration to the aforementioned impacts, our 2015 net sales decreased 0.5%, to \$7,386.6 million in 2015 from \$7,421.8 million in 2014, while our net income and earnings per share-diluted declined by 39.4% and 38.5%, respectively. Excluding a 1.6% impact from unfavorable foreign exchange rates, our net sales increased 1.1%. On a non-GAAP basis, our net income increased by 1.5%, driven by positive U.S. gross margin expansion, while our non-GAAP EPS also benefited from recent share buybacks, increasing a total of 3.5%.

Entering 2016, we expect changing shopping habits in the U.S. and volatile international markets to remain a headwind. Despite these issues, we will continue to invest in our core brands in the U.S. and key international markets and build on the strategies we have established as they will benefit the company over the long term. We also plan to make incremental investments in our existing snacks platform to drive additional growth. These initiatives should enable us to achieve net sales and earnings growth. We expect to achieve long-term net sales growth of 3-5%, excluding the impact of foreign currency exchange rates, and, given the scale advantages of our North America business and a balanced approach to international investments, we expect to generate long-term non-GAAP earnings per share-diluted growth of 6-8%.

For 2016, we expect net sales growth of approximately 3%, excluding the impact of foreign currency exchange rates which is estimated to be approximately 1.0% unfavorable. North America net sales are expected to be driven by confectionery and snacks growth, including *Krave* meat snacks distribution gains. We have many exciting new products that will bring variety, news and excitement to the category, including *Reese's* Snack Mix and *Hershey's* Snack Bites canisters, *Cadbury* chocolates in a stand-up pouch targeting the mass premium market and the introduction of Allan Candy sugar confectionery peg bag items and some other yet to be announced new candy and snacking products. We expect gross margin to approximate the 2015 level and are focused on managing non-essential selling, marketing and administrative as we continue to leverage existing resources. Additionally, implementation of the business productivity initiative announced in June is on track, and we will continue to invest in advertising and related consumer marketing, including a greater shift to digital and mobile communication. As a result, we expect 2016 full-year reported earnings per share-diluted to improve significantly, on the basis of lower unusual charges, and adjusted earnings per share-diluted to increase approximately 6%, as reflected in the reconciliation of reported to adjusted projections for 2016 that follows.

Our 2016 outlook reflects information currently available to us; however, it is subject to risks and uncertainties, particularly pertaining to the macroeconomic uncertainties and evolving consumer dynamics in China. While further volatility could evolve in that market, we do not expect it to have a material impact on our consolidated cash flows or financial position.

## **NON-GAAP INFORMATION**

The comparability of certain of our financial measures is impacted by business realignment charges, including the 2015 productivity initiative; asset impairment charges; costs relating to business and asset acquisitions and disposals; loss on early extinguishment of debt; and non-service related components of our pension expense (income).

To provide additional information to investors to facilitate the comparison of past and present performance, we use non-GAAP financial measures within MD&A that exclude the financial impact of these activities. These non-GAAP financial measures are used by management in evaluating results of operations internally and in assessing the impact of known trends and uncertainties on our business, but they are not intended to replace the presentation of financial results in accordance with GAAP. A reconciliation of the non-GAAP financial measures referenced in MD&A to their nearest comparable GAAP financial measures as presented in the Consolidated Statements of Income is provided below.

## Reconciliation of Certain Non-GAAP Financial Measures

In thousands except per share data	For the years ended December 31,		
	2015	2014	2013
Reported gross profit	\$ 3,382,675	\$ 3,336,166	\$ 3,280,848
Other business realignment charges	8,801	1,622	402
Acquisition and integration costs	7,308	—	310
NSRPE(I)	2,516	(2,685)	5,374
Non-GAAP gross profit	<u>\$ 3,401,300</u>	<u>\$ 3,335,103</u>	<u>\$ 3,286,934</u>
Reported operating profit	\$ 1,037,759	\$ 1,392,261	\$ 1,338,051
2015 productivity initiative	105,753	—	—
Other business realignment charges	12,555	12,034	19,085
Acquisition and integration costs	20,899	12,360	4,072
NSRPE(I)	18,079	(1,834)	10,885
Goodwill / intangible asset impairment	280,802	15,900	—
Loss on Mauna Loa divestiture	2,667	22,256	—
Non-GAAP operating profit	<u>\$ 1,478,514</u>	<u>\$ 1,452,977</u>	<u>\$ 1,372,093</u>
Reported interest expense, net	\$ 105,773	\$ 83,532	\$ 88,356
Acquisition and integration costs (benefits)	1,562	(1,603)	—
Loss on early extinguishment of debt	28,326	—	—
Non-GAAP interest expense, net	<u>\$ 75,885</u>	<u>\$ 85,135</u>	<u>\$ 88,356</u>
Reported other (income) expense, net	\$ 30,139	\$ 2,686	\$ (1,624)
Acquisition and integration costs	—	2,513	—
Gain on sale of trademark	(9,950)	—	—
Non-GAAP other (income) expense, net	<u>\$ 40,089</u>	<u>\$ 173</u>	<u>\$ (1,624)</u>
Reported provision for income taxes	\$ 388,896	\$ 459,131	\$ 430,849
2015 productivity initiative	35,423	—	—
Other business realignment charges	3,605	3,697	7,259
Acquisition and integration costs	8,264	3,021	(1,295)
NSRPE(I)	6,955	(544)	4,228
Goodwill / intangible asset impairment	—	1,565	—
Loss on early extinguishment of debt	10,736	—	—
Loss on Mauna Loa divestiture	2,620	4,896	—
Gain on sale of trademark	(3,652)	—	—
Non-GAAP provision for income taxes	<u>\$ 452,847</u>	<u>\$ 471,766</u>	<u>\$ 441,041</u>
Reported net income	\$ 512,951	\$ 846,912	\$ 820,470
2015 productivity initiative	70,330	—	—
Other business realignment charges	8,950	8,337	11,826
Acquisition and integration costs	14,196	10,249	5,367
NSRPE(I)	11,124	(1,290)	6,657
Goodwill / intangible asset impairment	280,802	14,335	—
Loss on early extinguishment of debt	17,591	—	—
Loss on Mauna Loa divestiture	47	17,360	—
Gain on sale of trademark	(6,298)	—	—
Non-GAAP net income	<u>\$ 909,693</u>	<u>\$ 895,903</u>	<u>\$ 844,320</u>
Reported EPS - Diluted	\$ 2.32	\$ 3.77	\$ 3.61
2015 productivity initiative	0.32	—	—
Other business realignment charges	0.04	0.03	0.05
Acquisition and integration costs	0.05	0.05	0.03
NSRPE(I)	0.05	(0.01)	0.03
Goodwill / intangible asset impairment	1.28	0.06	—
Loss on early extinguishment of debt	0.09	—	—
Loss on Mauna Loa divestiture	—	0.08	—
Gain on sale of trademark	(0.03)	—	—
Non-GAAP EPS - Diluted	<u>\$ 4.12</u>	<u>\$ 3.98</u>	<u>\$ 3.72</u>

In the assessment of our results, we review and discuss the following financial metrics that are derived from the reported and non-GAAP financial measures presented above:

	<b>For the years ended December 31,</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
As reported gross margin	45.8%	45.0%	45.9%
Non-GAAP gross margin (1)	46.0%	44.9%	46.0%
As reported operating profit margin	14.0%	18.8%	18.7%
Non-GAAP operating profit margin (2)	20.0%	19.6%	19.2%
As reported effective tax rate	43.1%	35.2%	34.4%
Non-GAAP effective tax rate (3)	33.2%	34.5%	34.3%

- (1) Calculated as non-GAAP gross profit as a percentage of net sales for each period presented.
- (2) Calculated as non-GAAP operating profit as a percentage of net sales for each period presented.
- (3) Calculated as non-GAAP provision for income taxes as a percentage of non-GAAP income before taxes (calculated as non-GAAP operating profit minus non-GAAP interest expense, net plus or minus non-GAAP other (income) expense, net.

Details of the activities impacting comparability that are presented as reconciling items to derive the non-GAAP financial measures in the tables above are as follows:

#### 2015 productivity initiative

In June 2015, we announced a new productivity initiative, which is intended to move decision making closer to the customer and the consumer, to enable a more enterprise-wide approach to innovation, to more swiftly advance our knowledge agenda, and to provide for a more efficient cost structure, while ensuring that we effectively allocate resources to future growth areas. The project is intended to simplify the organizational structure to enhance the Company's ability to rapidly anticipate and respond to the changing demands of the global consumer. We recorded pre-tax charges related to this program of \$105.7 million for the year ended December 31, 2015. See Note 8 to the Consolidated Financial Statements for more information.

#### Other business realignment activities

We periodically undertake restructuring and cost reduction activities as part of ongoing efforts to enhance long-term profitability. For the year ended December 31, 2015, we recorded pre-tax charges of \$12.6 million relating to programs commenced in 2014 to rationalize certain non-U.S. manufacturing and distribution activities and to establish our own sales and distribution teams in Brazil in connection with our purchase of the non-controlling interest from our joint venture partner. For the years ended December 31, 2014 and 2013, we incurred pre-tax charges of \$12.0 million and \$19.1 million, respectively, primarily relating to the demolition of the Company's former manufacturing facility, representing the final phase of the Project Next Century Program. This program was substantially complete as of December 31, 2014.

#### Acquisition and integration costs

For the year ended December 31, 2015, we incurred costs related to integration of the 2014 acquisitions of SGM and Allan Candy and the 2015 acquisition of Krave totaling \$22.5 million as we incorporate these businesses into our operating practices and information systems. This includes charges incurred to write-down approximately \$6.4 million of expired or near-expiration work-in-process inventory at SGM, in connection with the implementation of our global quality standards and practices. In addition, integration costs for the year were benefited by a \$6.8 million reduction in the fair value of contingent consideration paid to the Krave shareholders. For the years ended December 31, 2014 and 2013, we incurred pre-tax acquisition and integration costs of \$13.3 million and charges of \$4.1 million, respectively. The 2014 and 2013 charges were largely related to SGM acquisition and integration costs. The 2014 charges were also offset by a \$4.6 million gain relating to the acquisition of a controlling interest in Lotte Shanghai Food Company.



#### Non-service related pension expense (income)

Non-service-related pension expense (income) includes interest costs, the expected return on pension plan assets, the amortization of actuarial gains and losses, and certain curtailment and settlement losses or credits. The non-service-related pension expense (income) can fluctuate from year-to-year as a result of changes in market interest rates and market returns on pension plan assets. We believe that the service cost component of our total pension benefit costs closely reflects the operating costs of our business and provides for a better comparison of our operating results from year-to-year. Therefore, we exclude the non-service-related pension expense (income) from our internal performance measures. Our most significant defined benefit pension plans were closed to most new participants in 2007, resulting in ongoing service costs that are stable and predictable. We recorded pre-tax non-service related pension expense (income) of \$18.1 million, \$(1.8) million and \$10.9 million for the years ended December 31, 2015, 2014 and 2013, respectively. The 2015 expense adjustment includes approximately \$9.6 million in settlement charges relating to lump-sum distributions to participants that did not separate in connection with the 2015 productivity initiative; settlement charges relating to individuals separating in connection with the 2015 Productivity Initiative are included within the “2015 Productivity Initiative” costs noted above.

#### Goodwill and other intangible asset impairment

As discussed in Note 2 to the Consolidated Financial Statements, in the second and third quarters of 2015, we recorded a total \$280.8 million non-cash goodwill impairment charge, representing a write-down of all of the goodwill resulting from the SGM acquisition, including \$14.4 million relating to the portion of goodwill that had been allocated to our China chocolate reporting unit, based on synergies to be realized by this business. For the year ended December 31, 2014, we recorded non-cash goodwill and other intangible asset impairment charges totaling \$15.9 million associated with our business in India.

#### Loss on early extinguishment of debt

In 2015, we recorded within interest expense a pre-tax loss on early extinguishment of debt of \$28.3 million relating to a cash tender offer. See Note 4 to the Consolidated Financial Statements for further information.

#### Loss on Mauna Loa divestiture

In December 2014, we entered into an agreement to sell Mauna Loa, at which time the entity was recorded as held for sale and we recorded an estimated loss of \$22.3 million to reflect the disposal entity at its fair value, less an estimate of the selling costs. The transaction closed in the first quarter of 2015, resulting in the recording of an additional loss on sale of \$2.7 million, based on updates to the selling expenses and tax benefits.

#### Gain on sale of trademark

In 2015, we recorded a \$9.9 million gain relating to the sale of a non-core trademark.

## 2016 Outlook

The following table provides a reconciliation of projected 2016 earnings per share-diluted, prepared in accordance with GAAP, to projected non-GAAP earnings per share-diluted for 2016, prepared on a non-GAAP basis, with adjustments consistent to those discussed previously. The reconciliation of 2015 and 2014 earnings per share-diluted, prepared in accordance with GAAP, to 2015 and 2015 non-GAAP earnings per share-diluted is provided below for comparison.

	<b>2016 (Projected)</b>	<b>2015</b>	<b>2014</b>
Reported EPS – Diluted	\$4.18 - \$4.23	\$2.32	\$3.77
Business realignment charges			
2015 Productivity Initiative	0.07 - 0.08	0.32	—
Other international programs	—	0.04	0.03
Acquisition and integration costs	0.02 - 0.03	0.05	0.05
Non-service related pension expense (income)	0.06 - 0.07	0.05	(0.01)
Goodwill / intangible asset impairment	—	1.28	0.06
Loss on early extinguishment of debt	—	0.09	—
Loss on sale of Mauna Loa	—	—	0.08
Gain on sale of trademark	—	(0.03)	—
Adjusted EPS – Diluted	<u>\$4.36 - \$4.38</u>	<u>\$4.12</u>	<u>\$3.98</u>

Our 2016 projected earnings per share-diluted, as presented above, does not include the impact of mark-to-market gains and losses on our commodity derivative contracts that will be reflected within corporate unallocated expenses in our segment results until the related inventory is sold, pursuant to our revised accounting policy for commodity derivatives as discussed in Note 5 to the Consolidated Financial Statements.

## CONSOLIDATED RESULTS OF OPERATIONS

For the years ended December 31,	2015	2014	2013	Percent Change	
				2015 vs 2014	2014 vs 2013
<b>In millions of dollars except per share amounts</b>					
Net Sales	\$ 7,386.6	\$ 7,421.8	\$ 7,146.1	(0.5)%	3.9 %
Cost of Sales	4,003.9	4,085.6	3,865.2	(2.0)%	5.7 %
Gross Profit	3,382.7	3,336.2	3,280.9	1.4 %	1.7 %
<i>Gross Margin</i>	<i>45.8%</i>	<i>45.0%</i>	<i>45.9%</i>		
SM&A Expense	1,969.3	1,898.4	1,924.1	3.7 %	(1.3)%
<i>SM&amp;A Expense as a percent of net sales</i>	<i>26.7%</i>	<i>25.6%</i>	<i>26.9%</i>		
Goodwill and Other Intangible Asset Impairment Charges	280.8	15.9	—	NM	NM
Business Realignment Charges	94.8	29.7	18.7	219.0 %	59.2 %
Operating Profit	1,037.8	1,392.2	1,338.1	(25.5)%	4.1 %
<i>Operating Profit Margin</i>	<i>14.0%</i>	<i>18.8%</i>	<i>18.7%</i>		
Interest Expense, Net	105.8	83.5	88.4	26.6 %	(5.5)%
Other (Income) Expense, Net	30.1	2.7	(1.6)	NM	265.4 %
Provision for Income Taxes	388.9	459.1	430.8	(15.3)%	6.6 %
<i>Effective Income Tax Rate</i>	<i>43.1%</i>	<i>35.2%</i>	<i>34.4%</i>		
Net Income	\$ 513.0	\$ 846.9	\$ 820.5	(39.4)%	3.2 %
Net Income Per Share—Diluted	\$ 2.32	\$ 3.77	\$ 3.61	(38.5)%	4.4 %

Note: Percentage changes may not compute directly as shown due to rounding of amounts presented above.

NM = not meaningful.

### Net Sales

#### 2015 compared with 2014

Net sales decreased 0.5% in 2015 compared with 2014, reflecting volume declines of 3.4% and the unfavorable impact from foreign currency exchange rates of 1.6%, substantially offset by favorable net price realization of 3.5% as well as a 1.0% benefit from net acquisitions and divestitures. The favorable net price realization, primarily in the U.S., was attributed to the price increase announced in mid-2014. The volume declines were attributed to volume elasticity relating to the pricing action in the U.S. as well as lower everyday product sales given the challenging shopper environment in North America, coupled with lower sales in China. Excluding foreign currency, our net sales increased 1.1% in 2015.

#### 2014 compared with 2013

Net sales increased 3.9% in 2014 compared with 2013, reflecting volume growth of 4.4% and favorable net price realization of 0.2%, offset in part by an unfavorable impact from foreign currency exchange rates which reduced net sales by approximately 0.7%. The volume growth was driven by incremental sales of new products in our North America and International and Other segments, coupled with almost 1% of growth from the recent SGM acquisition. The pricing benefit from the 2014 mid-year price increase was largely offset by higher trade promotions and lower core volumes associated with near-term volume elasticity related to the price increase.

#### Key U.S. Marketplace Metrics

For the 52 weeks ended December 31,	2015	2014	2013
Hershey's Consumer Takeaway Increase	2.4%	2.7%	6.3%
Hershey's Market Share (Decrease) Increase	(0.1)	0.3	1.1

Consumer takeaway and the change in market share are provided for measured channels of distribution accounting for approximately 90% of our U.S. confectionery retail business. These channels of distribution primarily include food, drug, mass merchandisers, and convenience store channels, plus Wal-Mart Stores, Inc., partial dollar, club and military channels.

These metrics are based on measured market scanned purchases as reported by Nielsen and provide a means to assess our retail takeaway and market position relative to the overall category. In 2015, the category and Hershey growth rates continue to be impacted by changing consumer shopping habits and increased levels of distribution and in-store activity of items such as salty, bakery and meat snacks, by both mainstream and newer contemporary niche manufacturers, which has been driving broader snacking category growth in 2014 and 2015. Despite these market dynamics, for the full year 2015, our U.S. CMG retail takeaway increased 2.4%, which was in line with category growth. Our market share decreased by 10 basis points; however, we maintained an industry leading 31.3% U.S. market share.

## **Cost of Sales and Gross Margin**

### *2015 compared with 2014*

Cost of sales decreased 2.0% in 2015 compared with 2014. Supply chain productivity and volume declines reduced cost of sales by approximately 6.6%. These declines were substantially offset by higher supply chain and commodity costs, and unfavorable sales mix, which together increased total cost of sales by approximately 4.1%. In addition, cost of sales was impacted by acquisition and integration costs of \$7.3 million, business realignment charges of \$8.8 million and non-service related pension expense of \$2.5 million, which collectively increased cost of sales by approximately 0.5%. In comparison, cost of sales benefited by \$1.1 million in 2014, primarily due to non-service related pension income.

Gross margin increased by 80 basis points in 2015 compared with 2014. Favorable net price realization as well as supply chain productivity and other cost savings initiatives collectively improved gross margin by 330 basis points. However, these benefits were substantially offset by higher supply chain and commodity costs as well as unfavorable sales mix, which collectively reduced gross margin by approximately 250 basis points. On a non-GAAP basis, excluding the business realignment and acquisition and integration charges, 2015 gross margin increased by 110 basis points.

### *2014 compared with 2013*

Cost of sales increased 5.7% in 2014 compared with 2013. Higher costs associated with sales volume increases, higher commodity and other incremental supply chain costs and unfavorable sales mix increased total cost of sales by approximately 7.8%. The higher commodity costs were largely driven by higher dairy ingredient costs, which cannot be effectively hedged, while the unfavorable sales mix resulted from a greater proportion of seasonal sales volumes, which are typically at lower margins than non-seasonal products. These cost increases were offset in part by supply chain productivity improvements and lower pension costs, which together reduced cost of sales by approximately 2.1%.

Gross margin decreased by 90 basis points in 2014 compared with 2013. Supply chain productivity and other cost savings initiatives, favorable net price realization, and operating leverage from the higher sales volumes collectively improved gross margin by 150 basis points. The impact of lower pension expenses in 2014 in comparison with 2013 benefited 2014 gross margin by 20 basis points. However, these benefits were more than offset by higher commodity and other input costs and unfavorable sales mix which together reduced gross profit margin by approximately 260 basis points.

## **Selling, Marketing and Administrative**

### *2015 compared with 2014*

Selling, marketing and administrative (“SM&A”) expenses increased \$70.9 million or 3.7% in 2015. Advertising and related consumer marketing expense increased 1.0% during this period. Excluding these advertising and related consumer marketing costs, selling and administrative expenses for 2015 increased by 6.7% as compared to 2014, driven by incremental increases from acquired businesses. Excluding the impact of acquisition costs, SM&A expenses for 2015 declined as a result of our continued focus on non-essential spending. SM&A expenses in 2015 were also

impacted by charges of \$13.6 million attributed to the 2015 productivity initiative, acquisition and integration costs of \$13.6 million, non-service related pension expense of \$15.6 million and other business realignment charges of \$3.7 million. In 2014, SM&A expenses included acquisition and integration costs of \$12.4 million, other business realignment charges of \$2.9 million and non-service related pension expense of \$0.9 million.

#### *2014 compared with 2013*

SM&A expenses decreased \$25.7 million or 1.3% in 2014. This includes a 3.1% reduction in advertising and related consumer marketing expenses due to the timing of new product launches, a reduction in media production costs and a decision to shift resources to other more productive areas. Excluding advertising and related consumer marketing expenses, selling and administrative expenses were relatively flat compared to 2013 due to lower incentive compensation costs and discretionary cost containment efforts, offset in part by higher employee-related costs, including additional headcount in our China business and additional focused selling resources, as well as transaction costs associated with the acquisition of SGM. Selling and administrative expenses in 2014 also benefited from the \$5.6 million in foreign currency gains realized on forward contracts related to the manufacturing facility under construction in Johor, Malaysia.

#### **Goodwill and Other Intangible Asset Impairment Charges**

As discussed in the Overview and Outlook section as well as Note 2 to the Consolidated Financial Statements, the SGM business performed below expectations throughout 2015, with net sales and earnings levels well below pre-acquisition levels. As of result of this declining performance, in the second quarter we recorded an estimated goodwill impairment charge of \$249.8 million relating to the SGM reporting unit. During the third quarter, we updated our estimates of the acquisition-date fair values of the net assets acquired, which increased the value of acquired goodwill by \$16.6 million. We also finalized the impairment test of the goodwill relating to the SGM reporting unit, which resulted in an additional \$16.6 million write-off of this increase to goodwill. During the third quarter, we also wrote off \$14.4 million of goodwill that resulted from the SGM acquisition and was assigned to our existing China chocolate business, as this reporting unit was expected to benefit from acquisition synergies relating to the sale of Golden Monkey-branded product through its Tier 1 and hypermarket distributor networks. This goodwill impairment was driven by the continued declining performance in our China chocolate business through the third quarter, as a result of macroeconomic challenges and changing consumer shopping behavior mentioned previously.

In 2014, the annual impairment testing of our India reporting unit resulted in a \$11.4 million goodwill impairment charge and a \$4.5 million pre-tax write-down of a trademark associated with the India business. These impairment charges were largely a result of our decision to exit the oils portion of the India business and realign our approach to regional marketing and distribution in India.

The assessment of the valuation of goodwill and other long-lived assets is based on management estimates and assumptions, as discussed in our critical accounting policies included in Item 7 of this Annual Report on Form 10-K. These estimates and assumptions are subject to change due to changing economic and competitive conditions.

## Business Realignment Charges

Expenses recorded for business realignment activities during 2015, 2014 and 2013 and their classification within the Statements of Income are as follows:

For the years ended December 31,	2015	2014	2013
<b>In millions of dollars</b>			
<b>Cost of sales:</b>			
Other international restructuring programs	\$ 8.8	\$ —	\$ —
Next Century program	—	1.6	0.4
Total cost of sales	8.8	1.6	0.4
<b>Selling, marketing and administrative:</b>			
2015 productivity initiative	13.6	—	—
Other international restructuring programs	3.8	2.9	—
Total selling, marketing and administrative	17.4	2.9	—
<b>Business realignment charges:</b>			
2015 productivity initiative	92.1	—	—
Next Century program - plant closure expenses	—	7.5	16.4
Divestiture of Mauna Loa	2.7	22.3	—
India voluntary retirement program	—	—	2.3
Total business realignment charges	94.8	29.7	18.7
Total charges associated with business realignment activities	\$ 121.0	\$ 34.3	\$ 19.1

### *2015 Productivity Initiative*

On June 19, 2015, we announced a new productivity initiative (the “2015 Productivity Initiative”) intended to move decision making closer to the customer and the consumer, to enable a more enterprise-wide approach to innovation, to more swiftly advance our knowledge agenda, and to provide for a more efficient cost structure, while ensuring that we effectively allocate resources to future growth areas. Overall, the 2015 Initiative is intended to simplify the organizational structure to enhance the Company’s ability to rapidly anticipate and respond to the changing demands of the global consumer.

The 2015 Productivity Initiative was executed throughout the third and fourth quarters, resulting in a net reduction of approximately 300 positions, with the majority of the departures taking place by the end of 2015. For the year ended December 31, 2015, we incurred charges totaling \$105.7 million, representing employee severance and related separation benefits as well as incremental third-party costs related to the design and implementation of the new organizational structure. This also includes a pension settlement cost of \$10.2 million relating to lump sum withdrawals by employees retiring or leaving the Company as a result of the 2015 Productivity Initiative.

Total pre-tax charges and costs for this program are expected to be approximately \$120 million, the majority of which are cash. This excludes the 2015 pension settlement costs and any additional pension settlement costs that could be triggered by additional lump sum withdrawals in 2016. The remaining costs are expected to be incurred within the first three quarters of 2016.

### *Other international restructuring programs*

Other 2015 charges for business realignment activities relate principally to accelerated depreciation and amortization and employee severance costs for programs commenced in 2014 to rationalize certain non-U.S. manufacturing and distribution activities and to establish our own sales and distribution teams in Brazil in connection with our purchase of the non-controlling interest from our joint venture partner. Remaining costs relating to these programs are not expected to be significant.

### *Divestiture of Mauna Loa*

In December 2014, we entered into an agreement to sell the Mauna Loa Macadamia Nut Corporation (“Mauna Loa”).

As a result of the expected sale, in 2014 we recorded an estimated loss on the anticipated sale of \$22.3 million to reflect the disposal entity at fair value, less an estimate of the selling costs. The sale was completed in the first quarter of 2015, resulted in an additional loss on sale of \$2.7 million based on updates to the selling expenses and tax benefits.

#### *Next Century program*

The 2014 and 2013 charges shown above relate primarily to the demolition of the Company's former manufacturing facility, representing the final phase of the Project Next Century program ("Next Century program"). This program was substantially complete as of December 31, 2014.

The restructuring charges discussed above for the years ended December 31, 2015, 2014 and 2013 relate predominantly to initiatives undertaken by the North America segment, with the exception of the international programs, which relate to the International and Other segment. Segment operating results do not include business realignment and related charges as these initiatives are generally centrally managed and are not included within our internal measures of segment performance.

### **Operating Profit and Operating Profit Margin**

#### *2015 compared with 2014*

Operating profit decreased 25.5% in 2015 compared with 2014 due primarily to the goodwill impairment charges, higher selling, marketing and administrative costs related to acquisitions as well as higher business realignment charges, offset in part by the higher gross profit.

Operating profit margin decreased to 14.0% in 2015 from 18.8% in 2014 due to the goodwill impairment charges, higher selling, marketing and administrative expenses as a percent of sales, and higher business realignment charges.

On a non-GAAP basis, 2015 operating profit and operating profit margin increased 1.8% and 40 basis points, respectively.

#### *2014 compared with 2013*

Operating profit increased 4.1% in 2014 compared with 2013 due primarily to the higher level of gross profit and lower overall selling, marketing and administrative costs, offset in part by higher business realignment and impairment charges in 2014.

Operating profit margin increased to 18.8% in 2014 from 18.7% in 2013 due to lower SM&A expenses as a percent of sales, partially offset by higher business realignment and impairment charges.

### **Interest Expense, Net**

#### *2015 compared with 2014*

Net interest expense was \$22.3 million higher in 2015 than in 2014 due primarily to the premium paid to repurchase long-term debt as part of a cash tender offer. This increase was partially offset by higher capitalized interest expense coupled with savings resulting from fixed-to-floating interest rate swap agreements put in place towards the end of 2014.

#### *2014 compared with 2013*

Net interest expense was \$4.9 million lower in 2014 than in 2013 due primarily to a greater level of capitalized interest in 2014 as well as higher interest income earned on short-term investments.

## **Other (Income) Expense, Net**

### *2015 compared with 2014*

Other (income) expense, net was \$27.4 million higher in 2015 than 2014, due primarily to the write-down of equity investments qualifying for federal historic and energy tax credits, partially offset by the gain on the sale of a non-core trademark.

### *2014 compared with 2013*

Other (income) expense, net reflected a net expense of \$2.7 million in 2014 compared to a net gain of \$1.6 million in 2013, due primarily to the foreign exchange loss related to our strategy to cap the U.S. denominated acquisition price of SGM, offset in part by the gain realized on the acquisition of a controlling interest in Lotte Shanghai Food Company.

## **Income Taxes and Effective Tax Rate**

### *2015 compared with 2014*

Our effective income tax rate was 43.1% for 2015 compared with 35.2% for 2014. The 2015 tax rate was significantly impacted by the non-deductible goodwill impairment charges. Excluding the impact of the goodwill impairment and other non-GAAP charges, the 2015 effective income tax rate was 130 basis points lower than the 2014 rate. The 2015 rate benefited from tax credits realized from the investment tax strategy initiated in the second quarter of 2015, which was partially offset by the valuation allowance recorded against the SGM net operating loss carryforwards.

### *2014 compared with 2013*

Our effective income tax rate was 35.2% for 2014 compared with 34.4% for 2013. The 2014 effective income tax rate was higher due to unfavorable tax return true-up adjustments, unfavorable shifts of taxable income to higher tax jurisdictions, and the impact of business realignment and impairment charges with minimal tax benefit, partly offset by favorable settlement of Canadian assessments and favorable settlement of U.S. audits.

## **Net Income and Net Income Per Share**

### *2015 compared with 2014*

Net income decreased \$333.9 million, or 39.4%, while earnings per share-diluted (“EPS”) decreased \$1.45, or 38.5%, in 2015 compared with 2014. The decreases in both net income and EPS were driven by the goodwill impairment charges, higher selling, marketing and administrative costs related to acquisitions as well as higher business realignment charges, as noted above. Our 2015 EPS also benefited from lower weighted-average shares outstanding, as a result of share repurchases pursuant to our Board-approved repurchase programs.

On a non-GAAP basis, net income increased \$13.8 million in 2015, or 1.5%, and EPS increased \$0.14, or 3.5%, as compared with 2014. The increases in 2015 non-GAAP net income and EPS were primarily driven by gross margin expansion and lower net interest expense.

### *2014 compared with 2013*

Net income increased \$26.4 million, or 3.2%, while EPS-diluted increased \$0.16, or 4.4%, in 2014 compared with 2013. The increases in both net income and EPS were driven by higher sales, offset by higher commodity costs and unfavorable sales mix, as noted above. Our 2014 EPS also benefited from lower weighted-average shares outstanding, as a result of share repurchases pursuant to our Board-approved repurchase programs.

On a non-GAAP basis, net income increased \$51.6 million in 2015, or 6.1%, and EPS increased \$0.26, or 7.0%, as compared with 2013. The increases in 2014 non-GAAP net income and EPS were primarily driven by lower selling, marketing and administrative expenses as a percent of sales.



## SEGMENT RESULTS

The summary that follows provides a discussion of the results of operations of our two reportable segments: North America and International and Other. The segments reflect our operations on a geographic basis. For segment reporting purposes, we use “segment income” to evaluate segment performance and allocate resources. Segment income excludes unallocated general corporate administrative expenses, as well as business realignment initiatives, goodwill and other intangible asset impairment charges, acquisition-related costs, the non-service related portion of pension expense and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the CODM and used for internal management reporting and performance evaluation. Segment income and segment income margin, which are presented in the segment discussion that follows, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. We believe that these measures are useful to investors and other users of our financial information in evaluating ongoing operating profitability as well as in evaluating operating performance in relation to our competitors, as they exclude the activities that are not integral to our ongoing operations. For further information, see the Non-GAAP Disclosures at the beginning of this Item 7.

Our segment results, including a reconciliation to our consolidated results, were as follows:

For the years ended December 31,	2015	2014	2013
<b>In millions of dollars</b>			
<b>Net Sales:</b>			
North America	\$ 6,468.1	\$ 6,352.7	\$ 6,200.1
International and Other	918.5	1,069.1	946.0
<b>Total</b>	<b>\$ 7,386.6</b>	<b>\$ 7,421.8</b>	<b>\$ 7,146.1</b>
<b>Segment Income (Loss):</b>			
North America	\$ 2,074.0	\$ 1,916.2	\$ 1,862.6
International and Other	(98.1)	40.0	44.6
<b>Total segment income</b>	<b>1,975.9</b>	<b>1,956.2</b>	<b>1,907.2</b>
Unallocated corporate expense (1)	497.4	503.2	535.1
Goodwill and other intangible asset impairment charges	280.8	15.9	—
Charges associated with business realignment activities	121.0	34.3	19.1
Non-service related pension expense (income)	18.1	(1.8)	10.9
Acquisition and integration costs	20.9	12.4	4.1
<b>Operating profit</b>	<b>1,037.7</b>	<b>1,392.2</b>	<b>1,338.0</b>
Interest expense, net	105.8	83.5	88.3
Other (income) expense, net	30.1	2.7	(1.6)
<b>Income before income taxes</b>	<b>\$ 901.8</b>	<b>\$ 1,306.0</b>	<b>\$ 1,251.3</b>

- (1) Includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance, and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense, and (d) other gains or losses that are not integral to segment performance.

## North America

The North America segment is responsible for our chocolate and non-chocolate confectionery market position, as well as our grocery and growing snacks market positions, in the United States and Canada. This includes developing and growing our business in chocolate and non-chocolate confectionery, pantry, food service and other snacking product lines. North America accounted for 87.6%, 85.6% and 86.8% of our net sales in 2015, 2014 and 2013, respectively. North America results for the years ended December 31, 2015, 2014 and 2013 were as follows:

For the years ended December 31,	2015	2014	2013	Percent / Point Change	
				2015 vs 2014	2014 vs 2013
<b>In millions of dollars</b>					
Net sales	\$ 6,468.1	\$ 6,352.7	\$ 6,200.1	1.8%	2.5%
Segment income	2,074.0	1,916.2	1,862.6	8.2%	2.9%
Segment margin	32.1%	30.2%	30.0%		

### 2015 compared with 2014

Net sales of our North America segment increased \$115.4 million or 1.8% in 2015 compared to 2014, reflecting net price realization of 4.8% and the favorable net impact of acquisitions and divestitures of 0.3%, substantially offset by volume declines of 2.5% and an unfavorable impact from foreign currency exchange rates that reduced net sales by approximately 0.8%. The volume decline was due to elasticity related to the 2014 pricing action as well as lower everyday product sales, which have been impacted by changing consumer shopping habits, such as channel shifting and e-commerce, an increase in competitive activity and a proliferation of broader snacking options in the marketplace. Our Canada operations were impacted by the stronger U.S. dollar, which drove the unfavorable foreign currency impact.

Our North America segment income increased \$157.8 million or 8.2% in 2015 compared to 2014, driven by gross margin expansion, primarily due to favorable price realization and supply chain productivity which offset volume declines and input cost increases.

### 2014 compared with 2013

Net sales of our North America segment increased \$152.6 million or 2.5% in 2014 compared to 2013, reflecting volume growth of 2.4%, net price realization of 0.5% and an unfavorable impact from foreign currency exchange rates that reduced net sales by approximately 0.4%. 2014 new product introductions, including *York* and *Kit Kat* Minis, Nutrageous relaunch, *Brookside* Crunchy Clusters, *Lancaster* Soft Cremes and *Hershey's* Spreads, drove the volume growth, as sales volumes for core, everyday products were unfavorably impacted by increased levels of distribution and in-store activity from confection and other snacking categories. Higher levels of trade promotion reduced the benefit from the 2014 mid-year pricing action. Our Canada operations were impacted by the stronger U.S. dollar, which drove the unfavorable foreign currency impact.

Our North America segment income increased \$53.6 million or 2.9% in 2014 compared to 2013, principally due to higher sales volumes and supply chain productivity improvements, which offset input cost increases and unfavorable sales mix. Our core product mix in 2014 was more heavily weighted toward seasonal offerings which typically generate lower margins than our core, everyday instant consumable products. Additionally, advertising, consumer promotions and marketing expenses decreased 2.8% in 2014 due to the timing of new product launches, a reduction in media production costs, and a decision to shift resources to other more productive areas.

## International and Other

The International and Other segment includes all other countries where we currently manufacture, import, market, sell or distribute chocolate and non-chocolate confectionery and other products. Currently, this includes our operations in China and other Asia markets, Latin America, Europe, Africa and the Middle East, along with exports to these regions. While a less significant component, this segment also includes our global retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania, New York City, Chicago, Las Vegas, Shanghai, Niagara Falls (Ontario), Dubai and Singapore, as well as operations associated with licensing the use of certain trademarks and products to third parties around the world. International and Other accounted for 12.4%, 14.4% and 13.2% of our net

sales in 2015, 2014 and 2013, respectively. International and Other results for the years ended December 31, 2015, 2014 and 2013 were as follows:

For the years ended December 31,	2015	2014	2013	Percent / Point Change	
				2015 vs 2014	2014 vs 2013
<b>In millions of dollars</b>					
Net sales	\$ 918.5	\$ 1,069.1	\$ 946.0	(14.1)%	13.0 %
Segment (loss) income	(98.1)	40.0	44.6	NM	(10.3)%
Segment margin	(10.7)%	3.7%	4.7%		

#### *2015 compared with 2014*

Net sales of our International and Other segment decreased \$150.6 million or 14.1% in 2015 compared to 2014, reflecting volume declines of 9.0%, the unfavorable impact from foreign currency exchange rates of 6.2%, and unfavorable net price realization of 4.0%, partially offset by incremental revenue from the acquisition of SGM representing an increase of 5.1% to 2015 net sales. Excluding the unfavorable impact of foreign currency exchange rates, the net sales of our International and Other segment declined approximately 7.9%.

The net sales decline was driven by volume declines in our China chocolate business. In 2015, chocolate category growth in China was flat relative to the prior year; however our 2015 chocolate retail takeaway in China declined by 11%, resulting in a market share decline in China of 1.1%. We believe that the category continues to be impacted by macroeconomic challenges and trends that are affecting consumer shopping behavior as accelerated e-commerce and on-line purchases of broader consumer staples are leading to lower trips to Tier 1 hypermarkets, where the majority of our chocolate sales are derived, adversely impacting the impulse-oriented chocolate category.

Performance in our focus markets of Mexico and Brazil improved and, on a constant currency basis, net sales in 2015 in these countries increased by approximately 6% and 3%, respectively, versus 2014. Constant currency net sales in India declined in 2015, primarily due to the planned discontinuance of edible oil products.

Our International and Other segment loss was \$98.1 million in 2015 compared to segment income of \$40.0 million in 2014. The decline was primarily attributable to lower net sales of chocolate products in China, coupled with losses at SGM as that business has also been impacted by the uncertain macroeconomic conditions in China as well as incremental integration-related costs.

#### *2014 compared with 2013*

Net sales of our International and Other segment increased \$123.1 million or 13.0% in 2014 compared to 2013, reflecting volume growth of 17.0%, unfavorable net price realization of 1.7%, and an unfavorable impact from foreign currency exchange rates that reduced net sales by approximately 2.3%. The sales volume increase was primarily due to increased demand for new and existing products in China as well as \$54 million of incremental sales from the newly acquired SGM business. Excluding SGM, our 2014 chocolate net sales grew 35% in China and we increased our market share to almost 10% of the chocolate category. Our 2014 sales in Mexico were unfavorably impacted by the challenging economic environment, while our Brazil performance improved sequentially as the year progressed, finishing 2014 up approximately 7% from the prior year, excluding the impact of unfavorable currency. The unfavorable price realization reflects increased trade promotions and allowances, particularly in China and Mexico where we have made additional investments to drive sales volume growth.

Our International and Other segment income decreased \$4.6 million or 10.3% in 2014 compared to 2013, as the benefit from higher sales volume was more than offset by higher trade promotions and a 5.9% higher investment in advertising to support core brands and the introduction of new products in our international markets. The most significant portion of this investment was focused on our China and Mexico markets. We also increased headcount, particularly in China in support of sales growth.

## **Unallocated Corporate Items**

Unallocated corporate administration includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense, and (d) other gains or losses that are not integral to segment performance.

In 2015, unallocated corporate items totaled \$497.4 million compared to \$503.2 million in 2014, with the reduction driven primarily by the implementation of the 2015 Productivity Initiative discussed previously.

In 2014, unallocated corporate items totaled \$503.2 million compared to \$535.1 million in 2013, with the reduction driven by lower incentive compensation expense as well as discretionary cost containment measures intended to mitigate the higher commodity and other input costs in 2014.

## FINANCIAL CONDITION

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Significant factors affecting liquidity include cash flows generated from operating activities, capital expenditures, acquisitions, dividends, repurchase of outstanding shares, adequacy of available commercial paper and bank lines of credit, and the ability to attract long-term capital with satisfactory terms. We generate substantial cash from operations and remain in a strong financial position, with sufficient liquidity available for capital reinvestment, payment of dividends and strategic acquisitions.

### Cash Flow Summary

The following table is derived from our Consolidated Statement of Cash Flows:

In millions of dollars	2015	2014	2013
Net cash provided by (used in):			
Operating activities	\$ 1,214.5	\$ 844.4	\$ 1,191.4
Investing activities	(477.2)	(862.6)	(351.6)
Financing activities	(755.2)	(719.3)	(446.6)
Effect of exchange rate changes on cash and cash equivalents	(10.4)	(6.2)	(3.0)
Increase (decrease) in cash and cash equivalents	(28.3)	(743.7)	390.2

### Operating activities

Our principal source of liquidity is operating cash flows. Our net income and, consequently, our cash provided by operations are impacted by sales volume, seasonal sales patterns, timing of new product introductions, profit margins and price changes. Sales are typically higher during the third and fourth quarters of the year due to seasonal and holiday-related sales patterns. Generally, working capital needs peak during the summer months. We meet these needs primarily with cash on hand, bank borrowings or the issuance of commercial paper.

Cash provided by operating activities in 2015 increased \$370.0 million relative to 2014. This increase was driven by the following factors:

- Working capital (comprised of inventory, accounts receivable and accounts payable) generated cash of \$22 million in 2015, while it consumed cash of \$169 million in 2014. This fluctuation was mainly driven by lower inventory purchases in the 2015 period, since certain raw material inventory had been built up at the preceding year-end to take advantage of favorable pricing.
- Our hedging activities favorably impacted cash flow by \$55 million in 2015 versus an unfavorable impact of \$78 million in 2014, due principally to market gains and losses on our commodity futures. Our cash receipts typically increase when futures market prices are increasing.
- 2015 cash flow was favorably impacted by approximately \$30 million from the timing of tax payments in 2015 compared to 2014.

Cash provided by operating activities in 2014 decreased \$347.0 million as compared to 2013, primarily due to a \$140 million incremental investment in working capital to support the high sales volumes, partially offset by increased net earnings in 2014. Derivative activities had a \$78 million unfavorable impact on 2014 operating cash flow and \$101 million favorable impact on 2013 operating cash flow.

*Pension and Post-Retirement Activity.* We recorded net periodic benefit costs of \$66.8 million, \$37.3 million and \$55.0 million 2015, 2014, and 2013, respectively, relating to our benefit plans (including our defined benefit and other post retirement plans). The main drivers of fluctuations in expense from year to year are assumptions in formulating our long-term estimates, including discount rates used to value plan obligations, expected returns on plan assets, the service and interest costs, and the amortization of actuarial gains and losses. The 2015 costs also include net settlement and curtailment charges of \$22.4 million, that were triggered by the 2015 Productivity Initiative.

The funded status of our qualified defined benefit pension plans is dependent upon many factors, including returns on invested assets, the level of market interest rates and the level of funding. We contribute cash to our plans at our discretion, subject to applicable regulations and minimum contribution requirements. Cash contributions to our pension and post retirement plans totaled \$53.3 million, \$53.1 million and \$57.2 million in 2015, 2014 and 2013, respectively.

### ***Investing activities***

Our principal uses of cash for investment purposes relate to purchases of property, plant and equipment and capitalized software, purchases of short-term investments and acquisitions of businesses, partially offset by proceeds from sales of property, plant and equipment and short-term investments. We used cash of \$477.2 million for investing activities in 2015 compared to \$862.6 million in 2014, with the decrease driven by less business acquisition activity and proceeds from the sale of short term investments. We used cash of \$351.6 million for investing activities in 2013, which was primarily driven by capital expenditures relating to the Malaysia facility and the Next Century program.

Primary investing activities include the following:

- *Capital spending.* Capital expenditures, primarily to support capacity expansion, innovation, and cost savings, were \$329.7 million in 2015, \$345.9 million in 2014 and \$323.6 million in 2013. Our 2015 expenditures included approximately \$80 million relating to the construction of a manufacturing facility in Malaysia, compared to \$115 million in 2014. Capital expenditures in 2013 included \$40 million relating to the Malaysia facility and \$11.8 million relating to the Next Century program. Capitalized software additions were primarily related to ongoing enhancements of our information systems. We expect 2016 capital expenditures, including capitalized software, to approximate \$285 million to \$295 million.
- *Acquisitions.* In 2015, we spent \$218.7 million to acquire Krave. In 2014, we spent \$396.3 million to acquire three businesses, including \$379.7 million for SGM and \$26.6 million for Allan, partially offset by net cash received of \$10.0 million relating to the LSFC acquisition, whereby cash acquired in the transaction exceeded the \$5.6 million paid for the controlling interest. See Note 2 to the Consolidated Financial Statements for additional information regarding our recent acquisitions.

### ***Financing activities***

Our cash flow from financing activities generally relates to the use of cash for purchases of our Common Stock and payment of dividends, offset by net borrowing activity and proceeds from the exercise of stock options. We used cash of \$755.2 million for financing activities in 2015 compared to \$719.3 million in 2014, with the increase due mainly to higher dividend payments and repayments of long term debt and short term borrowings, offset in part by proceeds from the issuance of long term borrowings. Our cash used in 2014 exceeded our cash used for financing activities in 2013 by \$272.7 million, primarily due to higher dividend payments and share repurchases.

The majority of our financing activity was attributed to the following:

- *Short-term borrowings, net.* In addition to utilizing cash on hand, we use short-term borrowings (commercial paper and bank borrowings) to fund seasonal working capital requirements and ongoing business needs. In 2015, we generated cash flow of \$10.7 million from higher borrowings at certain of our international businesses. In 2014, we generated additional cash flow from the issuance of \$55.0 million in commercial paper.
- *Long-term debt borrowings and repayments.* In 2015, we used \$355 million to repay long-term debt, including \$100.2 million to repurchase \$71.6 million of our long-term debt as part of a cash tender offer. Additionally, in 2015, we issued \$300 million of 1.60% Notes due in 2018 and \$300 million of 3.20% Notes due in 2025. We had no repayment activity in 2014. In 2013, we repaid \$250 million of 5.0% Notes due in 2013 and issued \$250 million of 2.625% Notes due in 2023.
- *Share repurchases.* We repurchase shares of Common Stock to offset the dilutive impact of treasury shares issued under our equity compensation plans. The value of these share repurchases in a given period varies based on the volume of stock options exercised and our market price. In addition, we periodically repurchase shares of Common Stock pursuant to Board-authorized programs intended to drive additional stockholder value. We used cash for total share repurchases of \$582.5 million in 2015, compared to \$576.5 million in

2014. This includes purchases pursuant to authorized programs of \$402.5 million to purchase 4.2 million shares in 2015 and \$202.3 million to purchase 2.1 million shares in 2014. We had no share repurchases under these programs in 2013. As of December 31, 2015, approximately \$20 million remained available under the \$250 million share repurchase authorization approved by the Board in February 2015. In January 2016, our Board of Directors approved an additional \$500 million share repurchase authorization, to commence after the existing 2015 authorization is completed.

- *Dividend payments.* Total dividend payments to holders of our Common Stock and Class B Common Stock were \$476.1 million in 2015, \$440.4 million in 2014 and \$393.8 million in 2013. Dividends per share of Common Stock increased 9.6% to \$2.236 per share in 2015 compared to \$2.04 per share in 2014, while dividends per share of Class B Common Stock increased 10.3% in 2015.
- *Proceeds from the exercise of stock options, including tax benefits.* We received \$97.6 million from employee exercises of stock options, including excess tax benefits, in 2015, as compared to \$175.8 million in 2014 and \$195.7 million in 2013. Variances are driven by the number of shares exercised and the share price at the date of grant.
- *Other.* In September 2015, we acquired the remaining 49% interest in Hershey do Brasil under a cooperative agreement with Pandurata Netherlands B.V. (“Bauducco”) for approximately \$38.3 million. Additionally, in December 2015, we paid \$10.0 million in contingent consideration to the shareholders of Krave.

### **Liquidity and Capital Resources**

At December 31, 2015, our cash and cash equivalents totaled \$346.5 million. At December 31, 2014, our cash and cash equivalents totaled \$374.9 million, and we held short-term investments in the form of term deposits with original maturities of one-year totaling \$97.1 million. In total, our cash and short-term investment holdings at the end of 2015 declined \$125.5 million compared to the 2014 year-end balance as a result of the net uses of cash outlined in the previous discussion.

Approximately half of the balance of our cash and cash equivalents at December 31, 2015 was held by subsidiaries domiciled outside of the United States. If these amounts held outside of the United States were to be repatriated, under current law they would be subject to U.S. federal income taxes, less applicable foreign tax credits. However, our intent is to permanently reinvest these funds outside of the United States. The cash that our foreign subsidiaries hold for indefinite reinvestment is expected to be used to finance foreign operations and investments. We believe we have sufficient liquidity to satisfy our cash needs, including our cash needs in the United States.

We maintain debt levels we consider prudent based on our cash flow, interest coverage ratio and percentage of debt to capital. We use debt financing to lower our overall cost of capital which increases our return on stockholders’ equity. Our total debt was \$2.4 billion at December 31, 2015 and \$2.2 billion at December 31, 2014. Our total debt increased in 2015 mainly due to the additional debt issued mid-year to repay commercial paper that had been used to fund the Krave acquisition in the first quarter of 2015.

In October 2011, we entered into a five-year agreement establishing an unsecured revolving credit facility to borrow up to \$1.1 billion, with an option to increase borrowings by an additional \$400 million with the consent of the lenders. In November 2013, this agreement was amended to reduce the amount of borrowings available under the unsecured revolving credit facility to \$1.0 billion, maintain the option to increase borrowings by an additional \$400 million with the consent of the lenders, and extend the termination date to November 2018. As of December 31, 2015, the termination date of this agreement has been extended to November 2020. As of December 31, 2015, \$1.0 billion was available to borrow under the agreement and no borrowings were outstanding. The unsecured revolving credit agreement contains certain financial and other covenants, customary representations, warranties and events of default. We were in compliance with all covenants as of December 31, 2015. We may use these funds for general corporate purposes, including commercial paper backstop and business acquisitions.

In addition to the revolving credit facility, we maintain lines of credit in various currencies with domestic and international commercial banks. As of December 31, 2015, we had available capacity of \$203.4 million under these lines of credit.

Furthermore, we have a current shelf registration statement filed with the United States Securities and Exchange Commission that allows for the issuance of an indeterminate amount of debt securities. Proceeds from the debt issuances and any other offerings under the current registration statement may be used for general corporate requirements, including reducing existing borrowings, financing capital additions, and funding contributions to our pension plans, future business acquisitions and working capital requirements.

Our ability to obtain debt financing at comparable risk-based interest rates is partly a function of our existing cash-flow-to-debt and debt-to-capitalization levels as well as our current credit standing.

We believe that our existing sources of liquidity are adequate to meet anticipated funding needs at comparable risk-based interest rates for the foreseeable future. Acquisition spending and/or share repurchases could potentially increase our debt. Operating cash flow and access to capital markets are expected to satisfy our various cash flow requirements, including acquisitions and capital expenditures.

### **Equity Structure**

We have two classes of stock outstanding – Common Stock and Class B Common Stock (“Class B Stock”). Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors. Holders of the Common Stock have 1 vote per share. Holders of the Class B Stock have 10 votes per share. Holders of the Common Stock, voting separately as a class, are entitled to elect one-sixth of our Board. With respect to dividend rights, holders of the Common Stock are entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Hershey Trust Company, as trustee for the benefit of Milton Hershey School, maintains voting control over The Hershey Company. In addition, Hershey Trust Company currently has three representatives who are members of the Company's Board, one of whom is the Lead Independent Director. These representatives, from time to time in performing their responsibilities on the Company's Board, may exercise influence with regard to the ongoing business decisions of our Board or management. Hershey Trust Company, as trustee for the benefit of Milton Hershey School, in its role as controlling stockholder of the Company, has indicated it intends to retain its controlling interest in The Hershey Company and that the Company Board, and not the Hershey Trust Company board, is solely responsible and accountable for the Company's management and performance.

Pennsylvania law requires that the Office of Attorney General be provided advance notice of any transaction that would result in Hershey Trust Company, as trustee for the benefit of Milton Hershey School, no longer having voting control of the Company. The law provides specific statutory authority for the Attorney General to intercede and petition the Court having jurisdiction over the Hershey Trust Company, as trustee for the benefit of Milton Hershey School, to stop such a transaction if the Attorney General can prove that the transaction is unnecessary for the future economic viability of the Company and is inconsistent with investment and management considerations under fiduciary obligations. This legislation makes it more difficult for a third party to acquire a majority of our outstanding voting stock and thereby may delay or prevent a change in control of the Company.

### **Guarantees and Other Off-Balance Sheet Arrangements**

We do not have guarantees or other off-balance sheet financing arrangements, including variable interest entities, which we believe could have a material impact on our financial condition or liquidity.



## Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2015:

Contractual Obligations	Payments due by Period				
	In millions of dollars				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-term debt	\$ 2,057.0	\$ 499.9	\$ 300.4	\$ 350.8	\$ 905.9
Interest expense (1)	457.3	73.6	118.2	111.8	153.7
Lease obligations (2)	28.2	12.6	13.3	1.6	0.7
Minimum pension plan funding obligations (3)	12.1	0.8	4.7	4.4	2.2
Unconditional purchase obligations (4)	2,333.4	1,343.1	967.9	22.4	—
Total obligations	\$ 4,888.0	\$ 1,930.0	\$ 1,404.5	\$ 491.0	\$ 1,062.5

(1) Includes the net interest payments on fixed and variable rate debt and associated interest rate swaps. Interest associated with variable rate debt was forecasted using the LIBOR forward curve as of December 31, 2015.

(2) Includes the minimum rental commitments under non-cancelable operating leases primarily for offices, retail stores, warehouses and distribution facilities, and certain equipment. We do not have material capital lease obligations.

(3) Represents future pension payments to comply with local funding requirements. Our policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 (“ERISA”), federal income tax laws and the funding requirements of the Pension Protection Act of 2006. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans. For more information, see Note 9 to the Consolidated Financial Statements.

(4) Purchase obligations consist primarily of fixed commitments for the purchase of raw materials to be utilized in the normal course of business. Amounts presented included fixed price forward contracts and unpriced contracts that were valued using market prices as of December 31, 2015. The amounts presented in the table do not include items already recorded in accounts payable or accrued liabilities at year-end 2015, nor does the table reflect cash flows we are likely to incur based on our plans, but are not obligated to incur. Such amounts are part of normal operations and are reflected in historical operating cash flow trends. We do not believe such purchase obligations will adversely affect our liquidity position.

In entering into contractual obligations, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. Our risk is limited to replacing the contracts at prevailing market rates. We do not expect any significant losses resulting from counterparty defaults.

## Asset Retirement Obligations

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. Our asbestos management program is compliant with current applicable regulations, which require that we handle or dispose of asbestos in a specified manner if such facilities undergo major renovations or are demolished. Costs associated with the removal of asbestos related to the closure of a manufacturing facility under the Next Century program were recorded primarily in 2012 and included in business realignment and impairment charges. The costs associated with the removal of asbestos from the facility were not material. With regard to other facilities, we do not have sufficient information to estimate the fair value of any asset retirement obligations related to these facilities. We cannot specify the settlement date or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected present value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal of significant quantities of asbestos.

## Income Tax Obligations

Liabilities for unrecognized income tax benefits are excluded from the table above as we are unable to reasonably predict the ultimate amount or timing of a settlement of these potential liabilities. See Note 7 to our Consolidated Financial Statements for more information.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to use judgment and make estimates and assumptions. We believe that our most critical accounting policies and estimates relate to the following:

- Accrued Liabilities for Trade Promotion Activities
- Pension and Other Post-Retirement Benefits Plans
- Goodwill and Other Intangible Assets
- Commodities Futures and Options Contracts
- Income Taxes

Management has discussed the development, selection and disclosure of critical accounting policies and estimates with the Audit Committee of our Board. While we base estimates and assumptions on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Other significant accounting policies are outlined in Note 1 to our Consolidated Financial Statements.

### Accrued Liabilities for Trade Promotion Activities

We promote our products with advertising, trade promotions and consumer incentives. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs and other direct marketing expenses as incurred. We recognize the costs of trade promotion and consumer incentive activities as a reduction to net sales along with a corresponding accrued liability based on estimates at the time of revenue recognition. These estimates are based on our analysis of the programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends and our experience with payment patterns associated with similar programs offered in the past.

Our trade promotional costs totaled \$1,122.3 million, \$1,125.5 million and \$995.7 million in 2015, 2014 and 2013, respectively. The estimated costs of these programs are reasonably likely to change in the future due to changes in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products. Differences between estimated expense and actual program performance are recognized as a change in estimate in a subsequent period and are normally not significant. Over the three-year period ended December 31, 2015, actual promotional costs have not deviated from the estimated amount for a given year by more than approximately 3%.

### Pension and Other Post-Retirement Benefits Plans

We sponsor various defined benefit pension plans. The primary plans are The Hershey Company Retirement Plan and The Hershey Company Retirement Plan for Hourly Employees, which are cash balance plans that provide pension benefits for most U.S. employees hired prior to January 1, 2007. We also sponsor two primary other post-employment benefit (“OPEB”) plans, consisting of a health care plan and life insurance plan for retirees. The health care plan is contributory, with participants’ contributions adjusted annually, and the life insurance plan is non-contributory.

For accounting purposes, the defined benefit pension and OPEB plans require assumptions to estimate the projected and accumulated benefit obligations, including the following variables: discount rate; expected salary increases; certain employee-related factors, such as turnover, retirement age and mortality; expected return on assets; and health care cost trend rates. These and other assumptions affect the annual expense and obligations recognized for the underlying plans. Our assumptions reflect our historical experiences and management's best judgment regarding future expectations.

The net periodic benefit costs relating to our pension and OPEB plans were as follows:

For the years ended December 31,	2015	2014	2013
<b>In millions of dollars</b>			
<b><i>Pension plans</i></b>			
Service cost and amortization of prior service cost (1)	\$ 27.1	\$ 26.3	\$ 31.8
Interest cost, expected return on plan assets and amortization of net loss	5.9	(1.9)	11.2
Curtailment and settlement loss (credit)	22.4	—	(0.4)
Net periodic pension benefit cost	<u>\$ 55.4</u>	<u>\$ 24.4</u>	<u>\$ 42.6</u>
<b><i>OPEB plans</i></b>			
Net periodic other post-retirement benefit cost	<u>\$ 11.5</u>	<u>\$ 12.9</u>	<u>\$ 12.4</u>

(1) We believe that the service cost and amortization of prior service cost components of net periodic pension benefit cost reflect the ongoing operating cost of our pension plans, particularly since our most significant plans were closed to most new entrants after 2007.

Actuarial gains and losses may arise when actual experience differs from assumed experience or when we revise the actuarial assumptions used to value the plans' obligations. We only amortize the unrecognized net actuarial gains and losses in excess of 10% of a respective plan's projected benefit obligation, or the fair market value of assets, if greater. The estimated recognized net actuarial loss component of net periodic pension benefit expense for 2016 is \$35.2 million. The 2015 recognized net actuarial loss component of net periodic pension benefit expense was \$30.5 million.

The weighted-average assumptions for our pension and OPEB plans were as follows:

	2015	2014	2013
<b><i>Pension plans</i></b>			
Expense discount rate	3.7%	4.5%	3.7%
Benefit obligation discount rate	4.0%	3.7%	4.5%
Expected return on plan assets	6.3%	7.0%	7.8%
Expected rate of salary increases	4.1%	4.0%	4.0%
<b><i>OPEB plans</i></b>			
Expense discount rate	3.7%	4.5%	3.7%
Benefit obligation discount rate	4.0%	3.7%	4.5%

To determine the expected return on our pension plan assets, we consider the current asset allocations, as well as historical and expected returns on the categories of plan assets. The historical average return over the 28 years prior to December 31, 2015 was approximately 8.3%. The actual return on assets was (2.3%), 8.4% and 16.7% for the years ended December 31, 2015, 2014 and 2013, respectively. Our investment policies specify target allocation percentages for each asset class. The current estimated asset return is based upon the following targeted asset allocation for our domestic pension plans as of December 31, 2015:

Asset Class	Target Asset Allocation
Equity securities	50%
Debt securities	49%
Cash	1%

### ***Sensitivity of Assumptions***

Since pension and OPEB liabilities are measured on a discounted basis, the discount rate impacts our plan obligations and expenses. The discount rate used for our pension and OPEB plans is based on a yield curve constructed from a portfolio of high-quality bonds for which the timing and amount of cash flows approximate the estimated payouts of the plans. A 100 basis point decline in the weighted average pension discount rate would increase net periodic pension benefit expense by approximately \$4.7 million. A decrease in the OPEB discount rate by 100 basis points would decrease annual OPEB expense by approximately \$0.5 million. For the OPEB plans, a decrease in the discount rate assumption would result in a decrease in benefit cost because of the lower interest cost, which would more than offset the impact of the lower discount rate assumption on the post-retirement benefit obligation.

The expected return on plan assets assumption impacts our defined benefit expense, since certain of our defined benefit pension plans are partially funded. For 2016, we reduced the expected rate of return assumption to 6.1% from the 6.3% assumption used in 2015, to reflect lower expected long-term returns due to slowing growth in developed and emerging markets. The process for setting the expected rates of return is described in Note 9 to the Consolidated Financial Statements. A 100 basis point decrease or increase in the rate of return for pension assets would correspondingly increase or decrease annual net periodic pension benefit expense by approximately \$11.0 million.

For year-end 2015, we adopted the Society of Actuaries updated RP-2014 mortality tables with MP-2015 generational projection scales; however, adoption of these tables did not have a significant impact on our pension obligations or net period benefit cost since our primary plans are cash balance plans and most participants take lump-sum settlements upon retirement.

### ***Funding***

We fund domestic pension liabilities in accordance with the limits imposed by ERISA, federal income tax laws and the funding requirements of the Pension Protection Act of 2006. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans. The annual minimum cash funding requirements for our plans are not material. However, we made contributions of \$32.9 million in 2015 and \$29.4 million in 2014, including \$22.9 million in 2015 and \$22.0 million in 2014 to maintain the funded status of our domestic plans as well as contributions to pay benefits under our non-qualified pension plans in both years. These contributions were fully tax deductible. We expect to make additional contributions of approximately \$18.5 million to our domestic plans in 2016.

### ***Goodwill and Other Intangible Assets***

Goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually or more often if indicators of a potential impairment are present. Our annual impairment tests are conducted at the beginning of the fourth quarter.

We use a two-step process to quantitatively evaluate goodwill for impairment. In the first step, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, we complete a second step to determine the amount of the goodwill impairment that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). We compare the resulting implied fair value of the goodwill to the carrying amount and record an impairment charge for the difference. We test individual indefinite-lived intangible assets by comparing the estimated fair value with the book values of each asset.

We determine the fair value of our reporting units and indefinite-lived intangible assets using an income approach. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate the future cash flows used to measure fair value. Our estimates of future cash flows consider past performance, current and anticipated market conditions and internal projections and operating plans which incorporate estimates for sales growth and profitability, and cash flows associated with taxes and capital spending. Additional assumptions include forecasted growth rates, estimated discount rates, which may be risk-adjusted for the operating market of the reporting unit, and estimated royalty rates that would be charged for comparable branded licenses. We believe such assumptions also reflect current and anticipated market conditions and are consistent with those that would be used by other marketplace participants for

similar valuation purposes. Such assumptions are subject to change due to changing economic and competitive conditions.

We also have intangible assets, consisting primarily of certain trademarks, customer-related intangible assets and patents obtained through business acquisitions, that are expected to have determinable useful lives. The costs of finite-lived intangible assets are amortized to expense over their estimated lives. Our estimates of the useful lives of finite-lived intangible assets consider judgments regarding the future effects of obsolescence, demand, competition and other economic factors. We conduct impairment tests when events or changes in circumstances indicate that the carrying value of these finite-lived assets may not be recoverable. Undiscounted cash flow analyses are used to determine if an impairment exists. If an impairment is determined to exist, the loss is calculated based on the estimated fair value of the assets.

As discussed in Note 2, based on the declining performance levels and the results of our post-acquisition assessment, we determined that an interim impairment test of the SGM reporting unit was required by U.S. generally accepted accounting principles. We performed the first step of this test as of July 5, 2015 using an income approach based on our estimates of future performance scenarios for the business. The results of this test indicated that the fair value of the reporting unit was less than the carrying amount as of the measurement date, suggesting that a goodwill impairment was probable, which required us to perform a second step analysis to confirm that an impairment existed and to determine the amount of the impairment based on our reassessed value of the reporting unit. Although preliminary, as a result of this reassessment, in the second quarter of 2015 we recorded an estimated \$249.8 million non-cash goodwill impairment charge, representing a write-down of all of the goodwill related to the SGM reporting unit as of July 5, 2015. During the third quarter, we increased the value of acquired goodwill by \$16.6 million, with the corresponding offset principally represented by the establishment of additional opening balance sheet liabilities for additional commitments and contingencies that were identified through our post-acquisition assessment. We also finalized the impairment test of the goodwill relating to the SGM reporting unit, which resulted in a write-off of this additional goodwill in the third quarter, for a total impairment of \$266.4 million. We also tested the other long-lived assets of SGM for recoverability by comparing the sum of the undiscounted cash flows to the carrying value of the asset group, and no impairment was indicated.

In connection with the SGM acquisition, we assigned approximately \$15 million of goodwill to our existing China chocolate business, as this reporting unit was expected to benefit from acquisition synergies relating to the sale of Golden Monkey-branded product through its Tier 1 and hypermarket distributor networks. As the net sales and earnings of our China business continued to be adversely impacted by macroeconomic challenges and changing consumer shopping behavior through the third quarter, we determined that an interim impairment test of the goodwill in this reporting unit was also required. We performed the first step of this test in the third quarter of 2015 using an income approach based on our estimates of future performance scenarios for the business. The results of this test suggested that a goodwill impairment was probable, and the conclusions of the second step analysis resulted in a write-down of \$14.4 million, representing the full value of goodwill attributed to this reporting unit as of October 4, 2015. We also tested the other long-lived assets of the China asset group for recoverability by comparing the sum of the undiscounted cash flows to the carrying value of the asset group, and no impairment was indicated.

At December 31, 2015, after considering the impairments noted above, the remaining net book value of our goodwill totaled \$684.3 million and related to seven reporting units. As it relates to our annual testing performed at the beginning of the fourth quarter, no additional goodwill impairment was indicated, and the percentage of excess fair value over carrying value was at least 50% for each of our tested reporting units, with the exception of our Krave reporting unit, which includes goodwill of \$147.1 million. This reporting unit comprises a recently acquired business whose estimated fair value approximates its carrying value.

During our 2014 annual testing, the fair value of our India reporting unit approximated its carrying value. As a result and given the sensitivity of the India impairment analysis to changes in the underlying assumptions, we performed a step two analysis which indicated a goodwill impairment of \$11.4 million. In addition, our 2014 annual test of indefinite-lived intangible assets resulted in a \$4.5 million pre-tax write-down of a trademark, also associated with the India business. Also in 2014, in connection with the anticipated sale of our Mauna Loa business (as discussed in Note 2 to the Consolidated Financial Statements), during the third and fourth quarters of 2014, we recorded estimated impairment charges totaling \$18.5 million to write-down goodwill and an indefinite-lived trademark intangible asset, based on the valuation of these assets as implied by the agreed-upon sales price.

## Commodities Futures and Options Contracts

As discussed in Note 1 and Note 5 to the Consolidated Financial Statements, we use derivative financial instruments to manage a number of our market risks. Specifically, we use commodities futures and options contracts, in combination with forward purchasing of cocoa products and other commodities, to manage our commodity price risk, which represents a significant market risk exposure for us.

We have historically applied hedge accounting to our commodity derivative instruments. In order to qualify for hedge accounting, a specified level of hedging effectiveness between the derivative instrument and the item being hedged must exist at inception and throughout the hedged period. We must formally document the nature of and relationship between the derivative and the hedged item, as well as our risk management objectives, strategies for undertaking the hedge transaction and method of assessing hedge effectiveness. We must also maintain certain operational processes and controls that support the conduct of our commodities hedging program. Additionally, since these are typically hedges of forecasted transactions, the significant characteristics and expected terms of the forecasted transactions must be specifically identified, and it must be probable that the forecasted transactions will occur. If it is no longer probable that a hedged forecasted transaction will occur, we would recognize the gain or loss related to the derivative in earnings.

Because we generally have designated these commodity future and option contracts as derivative instruments in cash flow hedging relationships, our mark-to-market gains (losses) were deferred to accumulated other comprehensive income ("AOCI"). The amounts deferred and reclassified from AOCI were as follows:

For the years ended December 31,	2015	2014	2013
In millions of dollars			
Net gains (losses) deferred to AOCI for commodity cash flow hedging derivatives	\$ 84.4	\$ (11.2)	\$ 84.7
Gains (losses) reclassified from AOCI to earnings	40.6	68.5	(8.4)
Hedge ineffectiveness gains recognized in income, before tax	1.0	2.5	3.2

As discussed in Item 9A. Controls and Procedures, our cocoa commodity derivatives did not qualify for hedge accounting treatment as of the beginning of the third quarter of 2015. Therefore, changes in the fair value of cocoa commodity derivatives for the third and fourth quarters of 2015 were recorded as incurred within cost of sales in the income statement.

Effective January 1, 2016, we are no longer electing to designate any of our existing or new cocoa or other commodity derivatives for hedge accounting treatment. Additionally, we have revised our definition of segment income and redefined non-GAAP income and earnings per share measures to exclude gains and losses on commodity derivatives until the related inventory is sold. This change to our definition of segment income and non-GAAP income and non-GAAP earnings per share will continue to reflect the derivative gains and losses with the underlying economic exposure being hedged and thereby eliminate the mark-to-market volatility within our reported segment income as well as non-GAAP income and non-GAAP earnings per share.

## Income Taxes

We base our deferred income taxes, accrued income taxes and provision for income taxes upon income, statutory tax rates, the legal structure of our Company, interpretation of tax laws and tax planning opportunities available to us in the various jurisdictions in which we operate. We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. We are regularly audited by federal, state and foreign tax authorities, but a number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. From time to time, these audits result in assessments of additional tax. We maintain reserves for such assessments.

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, we recognize the amount of tax benefit that has a greater than 50% likelihood of being ultimately realized upon settlement. Future changes in judgments and estimates related to the expected ultimate resolution of uncertain tax positions will affect income in the quarter of such change. While it is often difficult to predict the final

outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the most likely outcome. Accrued interest and penalties related to unrecognized tax benefits are included in income tax expense. We adjust these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances, such as receiving audit assessments or clearing of an item for which a reserve has been established. Settlement of any particular position could require the use of cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period of resolution.

We believe it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of valuation allowances. Our valuation allowances are primarily related to U.S. capital loss carryforwards and various foreign jurisdictions' net operating loss carryforwards and other deferred tax assets for which we do not expect to realize a benefit.

#### **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We use certain derivative instruments to manage our interest rate, foreign currency exchange rate, and commodity price risks. We monitor and manage these exposures as part of our overall risk management program.

We enter into interest rate swap agreements and foreign currency forward exchange contracts and options for periods consistent with related underlying exposures. We enter into commodities futures and options contracts and other derivative instruments for varying periods. These commodity derivative instruments are intended to be, and are effective as, economic hedges of market price risks associated with anticipated raw material purchases, energy requirements and transportation costs. We do not hold or issue derivative instruments for trading purposes and are not a party to any instruments with leverage or prepayment features.

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by entering into exchange-traded contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

Refer to Note 1 and Note 5 to the Consolidated Financial Statements for further discussion of these derivative instruments and our hedging policies.

#### **Interest Rate Risk**

In order to manage interest rate exposure, we periodically enter into interest rate swap agreements. We are currently using forward starting interest rate swap agreements to reduce interest volatility associated with certain anticipated debt issues and fixed-to-floating interest rate swaps to achieve a desired proportion of variable versus fixed rate debt, based on current and projected market conditions. The notional amount, interest payment and maturity date of these swaps generally match the principal, interest payment and maturity date of the related debt, and the swaps are valued using observable benchmark rates.

The total notional amount of interest rate swaps outstanding at December 31, 2015 and 2014 was \$850 million and \$1.2 billion, respectively. The notional amount at December 31, 2015, includes \$350 million of fixed-to-floating interest rate swaps which convert a comparable amount of fixed-rate debt to variable rate debt. A hypothetical 100 basis point increase in interest rates applied to this now variable rate debt as of December 31, 2015 would have increased interest expense by approximately \$3.6 million for the full year 2015 and \$4.6 million for the full year 2014.

We consider our current risk related to market fluctuations in interest rates on our remaining debt portfolio, excluding fixed-rate debt converted to variable with fixed-to-floating instruments, to be minimal since this debt is largely long-term and fixed-rate in nature. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A 100 basis point increase in market interest rates would decrease the fair value of our fixed-rate long-term debt at December 31, 2015 and December 31, 2014 by approximately \$76 million and \$57 million, respectively. However, since we currently have no plans to repurchase our outstanding fixed-rate instruments before their maturities, the impact of market interest rate fluctuations on our long-term debt does not affect our results of operations or financial position.

## Foreign Currency Exchange Rate Risk

We are exposed to currency fluctuations related to manufacturing or selling products in currencies other than the U.S. dollar. We may enter into foreign currency forward exchange contracts and options to reduce fluctuations in our long or short currency positions relating primarily to purchase commitments or forecasted purchases for equipment, raw materials and finished goods denominated in foreign currencies. We also may hedge payment of forecasted intercompany transactions with our subsidiaries outside of the United States. We generally hedge foreign currency price risks for periods from 3 to 24 months.

A summary of foreign currency forward exchange contracts and the corresponding amounts at contracted forward rates is as follows:

December 31,	2015		2014	
	Contract Amount	Primary Currencies	Contract Amount	Primary Currencies
<b>In millions of dollars</b>				
Foreign currency forward exchange contracts to purchase foreign currencies	\$ 19.8	Euros	\$ 21.9	Euros
Foreign currency forward exchange contracts to sell foreign currencies	\$ 11.9	Brazilian reals Japanese yen	\$ 48.8	Canadian dollars Brazilian reals Japanese yen

The fair value of foreign currency forward exchange contracts represents the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign currency forward exchange contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences. At December 31, 2015 and 2014, the net fair value of these instruments was a liability of \$0.1 million and an asset of \$1.5 million, respectively. Assuming an unfavorable 10% change in year-end foreign currency exchange rates, the fair value of these instruments would have declined by \$3.2 million and \$7.0 million, respectively.

## Commodities—Price Risk Management and Futures Contracts

Our most significant raw material requirements include cocoa products, sugar, dairy products, peanuts and almonds. The cost of cocoa products and prices for related futures contracts and costs for certain other raw materials historically have been subject to wide fluctuations attributable to a variety of factors. These factors include:

- Commodity market fluctuations;
- Foreign currency exchange rates;
- Imbalances between supply and demand;
- The effect of weather on crop yield;
- Speculative influences;
- Trade agreements among producing and consuming nations;
- Supplier compliance with commitments;
- Political unrest in producing countries; and
- Changes in governmental agricultural programs and energy policies.

We use futures and options contracts and other commodity derivative instruments in combination with forward purchasing of cocoa products, sugar, corn sweeteners, natural gas and certain dairy products primarily to reduce the risk of future price increases and provide visibility to future costs. Currently, active futures contracts are not available for use in pricing our other major raw material requirements, primarily peanuts and almonds. We attempt to minimize the effect of future price fluctuations related to the purchase of raw materials by using forward purchasing to cover future manufacturing requirements generally for 3 to 24 months. However, the dairy futures markets are not as developed as many of the other commodities futures markets and, therefore, it is difficult to hedge our costs for dairy products by entering into futures contracts or other derivative instruments to extend coverage for long periods of time.



We use diesel swap futures contracts to minimize price fluctuations associated with our transportation costs. Our commodity procurement practices are intended to reduce the risk of future price increases and provide visibility to future costs, but also may potentially limit our ability to benefit from possible price decreases. Our costs for major raw materials will not necessarily reflect market price fluctuations primarily because of our forward purchasing and hedging practices.

During 2015, average cocoa futures contract prices increased compared with 2014 and traded in a range between \$1.28 and \$1.53 per pound, based on the Intercontinental Exchange futures contract. Cocoa production was higher in 2015 and global demand was slightly higher, which produced a small surplus in cocoa supplies over the past year. Despite the small increase in global cocoa inventories, prices remained elevated in response to concerns over the future balance of global cocoa supply and demand.

The table below shows annual average cocoa futures prices and the highest and lowest monthly averages for each of the calendar years indicated. The prices reflect the monthly averages of the quotations at noon of the three active futures trading contracts closest to maturity on the Intercontinental Exchange.

	Cocoa Futures Contract Prices (dollars per pound)				
	2015	2014	2013	2012	2011
Annual Average	\$ 1.40	\$ 1.36	\$ 1.09	\$ 1.07	\$ 1.34
High	1.53	1.45	1.26	1.17	1.55
Low	1.28	1.25	0.97	1.00	0.99

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

Our costs for cocoa products will not necessarily reflect market price fluctuations because of our forward purchasing and hedging practices, premiums and discounts reflective of varying delivery times, and supply and demand for our specific varieties and grades of cocoa liquor, cocoa butter and cocoa powder. As a result, the average futures contract prices are not necessarily indicative of our average costs.

During 2015, prices for fluid dairy milk ranged from a low of \$0.15 per pound to a high of \$0.18 per pound, on a class II fluid milk basis. Dairy prices were lower than 2014, driven by increased production and larger inventories globally.

The price of sugar is subject to price supports under U.S. farm legislation. Such legislation establishes import quotas and duties to support the price of sugar. As a result, sugar prices paid by users in the United States are currently higher than prices on the world sugar market. In 2015, as part of an anti-dumping case against Mexican sugar producers, the U.S. Government determined that Mexico was dumping sugar into the U.S. market. As a result of the case, the U.S. and Mexican governments signed a suspension agreement which will limit sugar exports from Mexico to the U.S. and cause U.S. sugar prices to trade \$0.03 to \$0.05 per pound higher than prior to the case. U.S. refined sugar prices traded in a range from \$0.36 to \$0.40 per pound during 2015.

Peanut prices in the U.S. began the year around \$0.52 per pound and closed the year at \$0.46 per pound. Peanut supply is ample to support U.S. demand heading into 2016. Almond prices began the year at \$4.34 per pound and decreased to \$4.04 per pound during 2015. The fourth consecutive year of drought in California had a negative impact on yields, with the 2015 crop estimated to be approximately 5% lower than 2014.

We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the Intercontinental Exchange or various other exchanges. These changes in value represent unrealized gains and losses. The cash transfers offset higher or lower cash requirements for the payment of future invoice prices of raw materials, energy requirements and transportation costs.

#### *Commodity Sensitivity Analysis*

Our open commodity derivative contracts had a notional value of \$374.8 million as of December 31, 2015 and \$347.5 million as of December 31, 2014. At the end of 2015, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses in 2015 by \$37.5 million, generally offset by a reduction in the cost of the underlying commodity purchases.

**Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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## RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Hershey Company is responsible for the financial statements and other financial information contained in this report. We believe that the financial statements have been prepared in conformity with U.S. generally accepted accounting principles appropriate under the circumstances to reflect in all material respects the substance of applicable events and transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgments. The other financial information in this annual report is consistent with the financial statements.

We maintain a system of internal accounting controls designed to provide reasonable assurance that financial records are reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. The concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to be derived. We believe our system provides an appropriate balance in this regard. We maintain an Internal Audit Department which reviews the adequacy and tests the application of internal accounting controls.

The 2015, 2014 and 2013 financial statements have been audited by KPMG LLP, an independent registered public accounting firm. KPMG LLP's report on our financial statements and internal controls over financial reporting is included on page 48.

The Audit Committee of the Board of Directors of the Company, consisting solely of independent, non-management directors, meets regularly with the independent auditors, internal auditors and management to discuss, among other things, the audit scope and results. KPMG LLP and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

/s/ JOHN P. BILBREY

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**John P. Bilbrey**  
*Chief Executive Officer*  
*(Principal Executive Officer)*

/s/ PATRICIA A. LITTLE

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**Patricia A. Little**  
*Chief Financial Officer*  
*(Principal Financial Officer)*

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
The Hershey Company:

We have audited the accompanying consolidated balance sheets of The Hershey Company and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, cash flows and stockholders’ equity for each of the years in the three-year period ended December 31, 2015. In connection with our audits of the consolidated financial statements, we also have audited the related consolidated financial statement schedule. We also have audited the Company’s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company’s management is responsible for these consolidated financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule, and an opinion on the Company’s internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness existed as of December 31, 2015 related to the Company’s accounting for cocoa derivative financial instruments. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2015 consolidated financial statements, and this material weakness does not affect our opinion included below on those financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Hershey Company and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Also in our opinion, because of the effect of the aforementioned material weakness on the achievement of the objectives of the control criteria, The Hershey Company and subsidiaries has not maintained effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We do not express an opinion or any other form of assurance on management's statements referring to actions taken after December 31, 2015, relative to the aforementioned material weakness in internal control over financial reporting.

/s/ KPMG LLP

New York, New York  
February 26, 2016

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

For the years ended December 31,	2015	2014	2013
<b>Net sales</b>	\$ 7,386,626	\$ 7,421,768	\$ 7,146,079
<b>Costs and expenses:</b>			
Cost of sales	4,003,951	4,085,602	3,865,231
Selling, marketing and administrative	1,969,308	1,898,284	1,924,132
Goodwill and other intangible asset impairment charges	280,802	15,900	—
Business realignment charges	94,806	29,721	18,665
Total costs and expenses	<u>6,348,867</u>	<u>6,029,507</u>	<u>5,808,028</u>
<b>Operating profit</b>	1,037,759	1,392,261	1,338,051
Interest expense, net	105,773	83,532	88,356
Other (income) expense, net	30,139	2,686	(1,624)
Income before income taxes	<u>901,847</u>	<u>1,306,043</u>	<u>1,251,319</u>
Provision for income taxes	388,896	459,131	430,849
<b>Net income</b>	<u>\$ 512,951</u>	<u>\$ 846,912</u>	<u>\$ 820,470</u>
<b>Net income per share—basic:</b>			
Common stock	\$ 2.40	\$ 3.91	\$ 3.76
Class B common stock	\$ 2.19	\$ 3.54	\$ 3.39
<b>Net income per share—diluted:</b>			
Common stock	\$ 2.32	\$ 3.77	\$ 3.61
Class B common stock	\$ 2.19	\$ 3.52	\$ 3.37
<b>Dividends paid per share:</b>			
Common stock	\$ 2.236	\$ 2.040	\$ 1.81
Class B common stock	\$ 2.032	\$ 1.842	\$ 1.63

See Notes to Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

For the years ended December 31,	2015	2014	2013
<b>Net income</b>	\$ 512,951	\$ 846,912	\$ 820,470
<b>Other comprehensive (loss) income, net of tax:</b>			
Foreign currency translation adjustments	(59,707)	(26,851)	(26,003)
Pension and post-retirement benefit plans	30,002	(85,016)	166,403
Cash flow hedges:			
Gains (losses) on cash flow hedging derivatives	38,319	(37,077)	72,334
Reclassification adjustments	(23,218)	(43,062)	5,775
<b>Total other comprehensive (loss) income, net of tax</b>	<b>(14,604)</b>	<b>(192,006)</b>	<b>218,509</b>
<b>Total comprehensive income</b>	<b>\$ 498,347</b>	<b>\$ 654,906</b>	<b>\$ 1,038,979</b>
Comprehensive loss attributable to noncontrolling interests	2,152	—	—
<b>Comprehensive income attributable to The Hershey Company</b>	<b>\$ 500,499</b>	<b>\$ 654,906</b>	<b>\$ 1,038,979</b>

See Notes to Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

December 31,	2015	2014
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 346,529	\$ 374,854
Short-term investments	—	97,131
Accounts receivable—trade, net	599,073	596,940
Inventories	750,970	801,036
Deferred income taxes	—	100,515
Prepaid expenses and other	152,026	276,571
Total current assets	<u>1,848,598</u>	<u>2,247,047</u>
<b>Property, plant and equipment, net</b>	2,240,460	2,151,901
<b>Goodwill</b>	684,252	792,955
<b>Other intangibles</b>	379,305	294,841
<b>Other assets</b>	155,366	136,126
<b>Deferred income taxes</b>	36,390	—
Total assets	<u>\$ 5,344,371</u>	<u>\$ 5,622,870</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 474,266	\$ 482,017
Accrued liabilities	856,967	813,513
Accrued income taxes	23,243	4,616
Short-term debt	363,513	384,696
Current portion of long-term debt	499,923	250,805
Total current liabilities	<u>2,217,912</u>	<u>1,935,647</u>
<b>Long-term debt</b>	1,557,091	1,542,317
<b>Other long-term liabilities</b>	468,718	526,003
<b>Deferred income taxes</b>	53,188	99,373
Total liabilities	<u>4,296,909</u>	<u>4,103,340</u>
<b>Stockholders' equity:</b>		
The Hershey Company stockholders' equity		
Preferred stock, shares issued: none in 2015 and 2014	—	—
Common stock, shares issued: 299,281,967 in 2015 and 299,281,967 in 2014	299,281	299,281
Class B common stock, shares issued: 60,619,777 in 2015 and 60,619,777 in 2014	60,620	60,620
Additional paid-in capital	783,877	754,186
Retained earnings	5,897,603	5,860,784
Treasury—common stock shares, at cost: 143,124,384 in 2015 and 138,856,786 in 2014	(5,672,359)	(5,161,236)
Accumulated other comprehensive loss	(371,025)	(358,573)
The Hershey Company stockholders' equity	<u>997,997</u>	<u>1,455,062</u>
Noncontrolling interests in subsidiaries	49,465	64,468
Total stockholders' equity	<u>1,047,462</u>	<u>1,519,530</u>
Total liabilities and stockholders' equity	<u>\$ 5,344,371</u>	<u>\$ 5,622,870</u>

See Notes to Consolidated Financial Statements.



**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)

For the years ended December 31,	2015	2014	2013
<b>Operating Activities</b>			
Net income	\$ 512,951	\$ 846,912	\$ 820,470
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	244,928	211,532	201,033
Stock-based compensation expense	51,533	54,068	53,967
Excess tax benefits from stock-based compensation	(24,839)	(53,497)	(48,396)
Deferred income taxes	(38,537)	18,796	7,457
Non-cash business realignment and impairment charges	283,469	39,988	—
Contributions to pension and other benefits plans	(53,273)	(53,110)	(57,213)
Loss on early extinguishment of debt	28,326	—	—
Write-down of equity investments	39,489	—	—
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade, net	(24,440)	(67,464)	(16,529)
Inventories	52,049	(88,497)	(26,279)
Accounts payable and accrued liabilities	(1,017)	(13,847)	102,411
Other assets and liabilities	143,817	(50,504)	154,478
Net cash provided by operating activities	<u>1,214,456</u>	<u>844,377</u>	<u>1,191,399</u>
<b>Investing Activities</b>			
Capital additions	(329,707)	(345,947)	(323,551)
Capitalized software additions	(27,103)	(24,842)	(27,360)
Proceeds from sales of property, plant and equipment	1,205	1,612	15,331
Proceeds from sale of business	32,408	—	—
Loan to affiliate	—	—	(16,000)
Equity investments in tax credit qualifying partnerships	(30,720)	—	—
Business acquisitions, net of cash and cash equivalents acquired	(218,654)	(396,265)	—
Sale (purchase) of short-term investments	95,316	(97,131)	—
Net cash used in investing activities	<u>(477,255)</u>	<u>(862,573)</u>	<u>(351,580)</u>
<b>Financing Activities</b>			
Net increase in short-term debt	10,720	117,515	54,351
Long-term borrowings	599,031	3,051	250,595
Repayment of long-term debt	(355,446)	(1,442)	(250,761)
Cash dividends paid	(476,132)	(440,414)	(393,801)
Exercise of stock options	72,719	122,306	147,255
Excess tax benefits from stock-based compensation	24,839	53,497	48,396
Contributions from noncontrolling interest	—	2,940	2,940
Payment of contingent consideration	(10,000)	—	—
Purchase of noncontrolling interest	(38,270)	—	—
Repurchase of common stock	(582,623)	(576,755)	(305,564)
Net cash used in financing activities	<u>(755,162)</u>	<u>(719,302)</u>	<u>(446,589)</u>
Effect of exchange rate changes on cash and cash equivalents	(10,364)	(6,156)	(2,994)
(Decrease) increase in cash and cash equivalents	(28,325)	(743,654)	390,236
Cash and cash equivalents, beginning of period	374,854	1,118,508	728,272
Cash and cash equivalents, end of period	<u>\$ 346,529</u>	<u>\$ 374,854</u>	<u>\$ 1,118,508</u>
<b>Supplemental Disclosure</b>			
Interest paid (excluding loss on early extinguishment of debt in 2015)	\$ 88,448	\$ 87,801	\$ 92,551
Income taxes paid	368,926	384,318	373,902

See Notes to Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(in thousands)

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
<b>Balance, January 1, 2013</b>	\$ —	\$ 299,272	\$ 60,629	\$ 592,975	\$ 5,027,617	\$ (4,558,668)	\$ (385,076)	\$ 11,624	\$ 1,048,373
Net income					820,470				820,470
Other comprehensive income							218,509		218,509
Dividends:									
Common stock, \$1.81 per share					(294,979)				(294,979)
Class B common stock, \$1.63 per share					(98,822)				(98,822)
Conversion of Class B common stock into common stock		9	(9)						—
Stock-based compensation				52,465					52,465
Exercise of stock options and incentive-based transactions				19,504		156,502			176,006
Repurchase of common stock						(305,564)			(305,564)
Earnings of and contributions from noncontrolling interests, net								(406)	(406)
<b>Balance, December 31, 2013</b>	—	299,281	60,620	664,944	5,454,286	(4,707,730)	(166,567)	11,218	1,616,052
Net income					846,912				846,912
Other comprehensive income							(192,006)		(192,006)
Dividends:									
Common stock, \$2.04 per share					(328,752)				(328,752)
Class B common stock, \$1.842 per share					(111,662)				(111,662)
Stock-based compensation				52,870					52,870
Exercise of stock options and incentive-based transactions				36,372		123,249			159,621
Repurchase of common stock						(576,755)			(576,755)
Acquisition of Lotte Shanghai Food Company								49,724	49,724
Earnings of and contributions from noncontrolling interests, net								3,526	3,526
<b>Balance, December 31, 2014</b>	—	299,281	60,620	754,186	5,860,784	(5,161,236)	(358,573)	64,468	1,519,530
Net income					512,951				512,951
Other comprehensive loss							(12,452)		(12,452)
Dividends:									
Common stock, \$2.236 per share					(352,953)				(352,953)
Class B common stock, \$2.032 per share					(123,179)				(123,179)
Stock-based compensation				50,722					50,722
Exercise of stock options and incentive-based transactions				8,204		71,500			79,704
Repurchase of common stock						(582,623)			(582,623)
Impact of reclassification to and purchase of redeemable noncontrolling interest				(29,235)				(13,428)	(42,663)
Earnings of noncontrolling interests								577	577
<b>Balance, December 31, 2015</b>	—	299,281	60,620	783,877	\$ 5,897,603	\$ (5,672,359)	\$ (371,025)	\$ 49,465	\$ 1,047,462

See Notes to Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(amounts in thousands, except share data or if otherwise indicated)**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Description of Business**

The Hershey Company together with its wholly-owned subsidiaries and entities in which it has a controlling interest, (the “Company,” “Hershey,” “we” or “us”) is a global confectionery leader known for its branded portfolio of chocolate, sweets, mints and other great-tasting snacks. The Company has more than 80 brands worldwide including such iconic brand names as *Hershey’s*, *Reese’s*, *Hershey’s Kisses*, *Jolly Rancher* and *Ice Breakers*, which are marketed, sold and distributed in approximately 70 countries worldwide. Hershey is focused on growing its presence in key international markets while continuing to build its competitive advantage in North America. The Company currently operates through two reportable segments that are aligned with its management structure and the key markets it serves: North America and International and Other. For additional information on our segment presentation, see Note 11.

### **Basis of Presentation**

Our consolidated financial statements include the accounts of The Hershey Company and its majority-owned or controlled subsidiaries. Intercompany transactions and balances have been eliminated. We have a controlling financial interest if we own a majority of the outstanding voting common stock and minority shareholders do not have substantive participating rights, we have significant control through contractual or economic interests in which we are the primary beneficiary or we have the power to direct the activities that most significantly impact the entity's economic performance. Net income (loss) attributable to noncontrolling interests is not significant and is recorded within selling, marketing and administrative expense in the Consolidated Statements of Income. See Note 12 for additional information on our noncontrolling interests. We use the equity method of accounting when we have a 20% to 50% interest in other companies and exercise significant influence. Additionally, in 2015 we began making investments in partnership entities which make equity investments in projects eligible to receive federal historic and energy tax credits which are accounted for using the equity method. See Note 7 for additional information on our equity investments in partnership entities qualifying for tax credits. We held no equity investments at December 31, 2014.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Our significant estimates and assumptions include, among others, pension and other post-retirement benefit plan assumptions, valuation assumptions of goodwill and other intangible assets, useful lives of long-lived assets, marketing and trade promotion accruals and income taxes. These estimates and assumptions are based on management’s best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and the effects of any revisions are reflected in the consolidated financial statements in the period that they are determined. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

### **Revenue Recognition**

We record sales when all of the following criteria have been met:

- A valid customer order with a fixed price has been received;
- The product has been delivered to the customer;
- There is no further significant obligation to assist in the resale of the product; and
- Collectability is reasonably assured.

Net sales include revenue from the sale of finished goods and royalty income, net of allowances for trade promotions, consumer coupon programs and other sales incentives, and allowances and discounts associated with aged or potentially unsaleable products. Trade promotions and sales incentives primarily include reduced price features,

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(amounts in thousands, except share data or if otherwise indicated)**

merchandising displays, sales growth incentives, new item allowances and cooperative advertising. Sales, use, value-added and other excise taxes are not recognized in revenue.

In 2015, 2014 and 2013, approximately 26%, 25% and 26%, respectively, of our consolidated net sales were made to McLane Company, Inc., one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers and the primary distributor of our products to Wal-Mart Stores, Inc.

#### **Cost of Sales**

Cost of sales represents costs directly related to the manufacture and distribution of our products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, warehousing and the depreciation of manufacturing, warehousing and distribution facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes.

#### **Selling, Marketing and Administrative Expense**

Selling, marketing and administrative expense (“SM&A”) represents costs incurred in generating revenues and in managing our business. Such costs include advertising and other marketing expenses, selling expenses, research and development, administrative and other indirect overhead costs, amortization of capitalized software and depreciation of administrative facilities. Research and development costs, charged to expense as incurred, totaled \$49,281 in 2015, \$47,554 in 2014 and \$47,636 in 2013. Advertising expense is also charged to expense as incurred and totaled \$561,644 in 2015, \$570,223 in 2014 and \$582,354 in 2013. Prepaid advertising expense was \$3,924 and \$8,193 as of December 31, 2015 and 2014, respectively.

#### **Cash Equivalents**

Cash equivalents consist of highly liquid debt instruments, time deposits and money market funds with original maturities of three months or less. The fair value of cash and cash equivalents approximates the carrying amount.

#### **Short-term Investments**

Short-term investments consist of bank term deposits that have original maturity dates ranging from greater than three months to twelve months. Short-term investments are carried at cost, which approximates fair value.

#### **Accounts Receivable—Trade**

In the normal course of business, we extend credit to customers that satisfy pre-defined credit criteria, based upon the results of our recurring financial account reviews and our evaluation of current and projected economic conditions. Our primary concentrations of credit risk are associated with Wal-Mart Stores, Inc. and McLane Company, Inc., two customers served principally by our North America segment. As of December 31, 2015, McLane Company, Inc. accounted for approximately 19% of our total accounts receivable. Wal-Mart Stores, Inc. accounted for approximately 14% of our total accounts receivable as of December 31, 2015. No other customer accounted for more than 10% of our year-end accounts receivable. We believe that we have little concentration of credit risk associated with the remainder of our customer base. Accounts receivable-trade in the Consolidated Balance Sheets is presented net of allowances and anticipated discounts of \$32,638 and \$15,885 at December 31, 2015 and 2014, respectively.

#### **Inventories**

Inventories are valued at the lower of cost or market value, adjusted for the value of inventory that is estimated to be excess, obsolete or otherwise unsaleable. As of December 31, 2015, approximately 55% of our inventories, representing the majority of our U.S. inventories, were valued under the last-in, first-out (“LIFO”) method. The remainder of our inventories in the U.S. and inventories for our international businesses are valued at the lower of first-in, first-out (“FIFO”) cost or market. LIFO cost of inventories valued using the LIFO method was \$410,865 as of December 31, 2015 and \$430,094 as of December 31, 2014. The adjustment to LIFO, as shown in Note 15, approximates the excess of replacement cost over the stated LIFO inventory value. The net impact of LIFO acquisitions and liquidations was not material to 2015, 2014 or 2013.

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**Property, Plant and Equipment**

Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, as follows: 3 to 15 years for machinery and equipment; and 25 to 40 years for buildings and related improvements. Maintenance and repairs are expensed as incurred. We capitalize applicable interest charges incurred during the construction of new facilities and production lines and amortize these costs over the assets' estimated useful lives.

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated. If these assets are considered to be impaired, we measure impairment as the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets held for sale or disposal at the lower of the carrying amount or fair value less cost to sell.

We assess asset retirement obligations on a periodic basis and recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We capitalize associated asset retirement costs as part of the carrying amount of the long-lived asset.

**Computer Software**

We capitalize costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and it is probable the software being developed will be completed and placed in service. Capitalized costs include only (i) external direct costs of materials and services consumed in developing or obtaining internal-use software, (ii) payroll and other related costs for employees who are directly associated with and who devote time to the internal-use software project and (iii) interest costs incurred, when material, while developing internal-use software. We cease capitalization of such costs no later than the point at which the project is substantially complete and ready for its intended purpose.

The unamortized amount of capitalized software totaled \$68,004 and \$63,252 at December 31, 2015 and 2014, respectively. We amortize software costs using the straight-line method over the expected life of the software, generally 3 to 5 years. Accumulated amortization of capitalized software was \$304,057 and \$300,698 as of December 31, 2015 and 2014, respectively. Such amounts are recorded within other assets in the Consolidated Balance Sheets.

We review the carrying value of software and development costs for impairment in accordance with our policy pertaining to the impairment of long-lived assets. Generally, we measure impairment under the following circumstances:

- When internal-use computer software is not expected to provide substantive service potential;
- When a significant change occurs in the extent or manner in which the software is used or is expected to be used;
- When a significant change is made or will be made to the software program; and
- When the costs of developing or modifying internal-use computer software significantly exceed the amount originally expected to develop or modify the software.

**Goodwill and Other Intangible Assets**

Goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually or more often if indicators of a potential impairment are present. Our annual impairment tests are conducted at the beginning of the fourth quarter. We use a two-step process to quantitatively evaluate goodwill for impairment. In the first step, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, we complete a second step to determine the amount of the goodwill impairment that we should record. In the second step, we determine an implied fair value of the reporting unit's goodwill by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). We compare the resulting

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implied fair value of the goodwill to the carrying amount and record an impairment charge for the difference. We test individual indefinite-lived intangible assets by comparing the estimated fair value with the book values of each asset.

We determine the fair value of our reporting units and indefinite-lived intangible assets using an income approach. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate the future cash flows used to measure fair value. Our estimates of future cash flows consider past performance, current and anticipated market conditions and internal projections and operating plans which incorporate estimates for sales growth and profitability, and cash flows associated with taxes and capital spending. Additional assumptions include forecasted growth rates, estimated discount rates, which may be risk-adjusted for the operating market of the reporting unit, and estimated royalty rates that would be charged for comparable branded licenses. We believe such assumptions also reflect current and anticipated market conditions and are consistent with those that would be used by other marketplace participants for similar valuation purposes. Such assumptions are subject to change due to changing economic and competitive conditions. See Note 3 for additional information regarding the results of impairment tests.

The cost of intangible assets with finite useful lives is amortized on a straight-line basis. Our finite-lived intangible assets consist primarily of certain trademarks, customer-related intangible assets and patents obtained through business acquisitions, which are amortized over estimated useful lives of approximately 25 years, 15 years, and 5 years, respectively. When certain events or changes in operating conditions indicate that the carrying value of these assets may not be recoverable, we perform an impairment assessment and may adjust the remaining useful lives.

#### **Currency Translation**

The financial statements of our foreign entities with functional currencies other than the U.S. dollar are translated into U.S. dollars, with the resulting translation adjustments recorded as a component of other comprehensive income (loss). Assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date, while income and expense items are translated using the average exchange rates during the period.

#### **Derivative Instruments**

We use derivative instruments principally to offset exposure to market risks arising from changes in commodity prices, foreign currency exchange rates and interest rates. See Note 5 for additional information on our risk management strategy and the types of instruments we use.

Derivative instruments are recognized on the balance sheet at their fair values. When we become party to a derivative instrument and intend to apply hedge accounting, we designate the instrument for financial reporting purposes as a cash flow or fair value hedge. The accounting for changes in fair value (gains or losses) of a derivative instrument depends on whether we had designated it and it qualified as part of a hedging relationship, as noted below:

- Changes in the fair value of a derivative that is designated as a cash flow hedge are recorded in accumulated other comprehensive income (“AOCI”) to the extent effective and reclassified into earnings in the same period or periods during which the transaction hedged by that derivative also affects earnings.
- Changes in the fair value of a derivative that is designated as a fair value hedge, along with the offsetting loss or gain on the hedged asset or liability that is attributable to the risk being hedged, are recorded in earnings, thereby reflecting in earnings the net extent to which the hedge is not effective in achieving offsetting changes in fair value.
- Changes in the fair value of a derivative not designated as a hedging instrument are recognized in earnings in cost of sales or SM&A, consistent with the related exposure.

For derivatives designated as hedges, we assess, both at the hedge's inception and on an ongoing basis, whether they are highly effective in offsetting changes in fair values or cash flows of hedged items. The ineffective portion, if any, is recorded directly in earnings. In addition, if we determine that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively.

We do not hold or issue derivative instruments for trading or speculative purposes and are not a party to any instruments with leverage or prepayment features.

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Cash flows related to the derivative instruments we use to manage interest, commodity or other currency exposures are classified as operating activities.

**Other (Income) Expense, net**

In the second quarter of 2015, we began presenting a new non-operating "other (income) expense, net" classification to report certain gains and losses associated with activities not directly related to our core operations. For the years ended December 31, 2014 and 2013, we reclassified from selling, marketing and administrative expenses to other (income) expense, net total net expense of \$2,686 and income of \$1,624, respectively, to conform to the current year presentation. After considering these reclassifications, amounts reflected in other (income) expense, net include the following:

	Year Ended		
	December 31, 2015	December 31, 2014	December 31, 2013
Gain on sale of non-core trademark	\$ (9,950)	\$ —	\$ —
Write-down of equity investments in partnerships qualifying for historic tax credits (see Note 7)	39,489	—	—
Foreign currency exchange loss relating to strategy to cap Shanghai Golden Monkey acquisition price as denominated in U.S. dollars	—	6,722	—
Gain on acquisition of controlling interest in Lotte Shanghai Food Company	—	(4,628)	—
Other losses (gains), net	600	592	(1,624)
Total	<u>\$ 30,139</u>	<u>\$ 2,686</u>	<u>\$ (1,624)</u>

**Reclassifications**

Certain prior period amounts have been reclassified to conform to current year presentation. Specifically, this includes amounts presented in our "other (income) expense, net" caption included in our Consolidated Statements of Income and the "effect of exchange rate changes on cash and cash equivalents" included in our Consolidated Statements of Cash Flows.

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. ASU No. 2014-09 will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard was originally effective for us on January 1, 2017; however, in July 2015 the FASB decided to defer the effective date by one year. Early application is not permitted, but reporting entities may choose to adopt the standard as of the original effective date. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the effect that ASU No. 2014-09 will have on our consolidated financial statements and related disclosures, our transition date and transition method.

In April 2015, the FASB issued ASU No. 2015-03, *Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU is effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2015, with early adoption permitted. Management elected to early adopt this new guidance effective for the year ended December 31, 2015, and has applied changes retrospectively to all periods presented. Adoption of this ASU did not materially impact our consolidated financial statements or related disclosures.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740)*. This ASU simplifies the presentation of deferred income taxes by requiring that deferred tax assets and liabilities be classified as non-current in a classified statement of financial position. This ASU is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, with early adoption permitted. Management elected to early adopt this

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new guidance effect for the year ended December 31, 2015 on a prospective basis. Prior period balances have not been adjusted.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on our consolidated financial statements or disclosures.

**2. BUSINESS ACQUISITIONS AND DIVESTITURES**

Acquisitions of businesses are accounted for as purchases and, accordingly, the results of operations of the businesses acquired have been included in the consolidated financial statements since the respective dates of the acquisitions. The purchase price for each of the acquisitions is allocated to the assets acquired and liabilities assumed.

**2015 Acquisition**

KRAVE Pure Foods

In March 2015, we completed the acquisition of all of the outstanding shares of KRAVE Pure Foods, Inc. (“Krave”), manufacturer of KRAVE jerky, a leading all-natural snack brand of premium jerky products. The transaction was undertaken to allow Hershey to tap into the rapidly growing meat snacks category and further expand into the broader snacks space. Krave is headquartered in Sonoma, California and generated 2014 annual sales of approximately \$35 million.

Total purchase consideration included cash consideration of \$220,016, as well as agreement to pay additional cash consideration of up to \$20,000 to the Krave shareholders if certain defined targets related to net sales and gross profit margin are met or exceeded during the twelve-month periods ending December 31, 2015 or March 31, 2016. The fair value of the contingent cash consideration was appropriately classified as a liability of \$16,800 as of the acquisition date. Based on revised targets in a subsequent agreement with the Krave shareholders, the fair value was reduced over the second and third quarters of 2015 to \$10,000, with the adjustment to fair value recorded within selling, marketing and administrative expenses. The remaining \$10,000 was paid in December 2015.

The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Goodwill	\$ 147,089
Trademarks	112,000
Other intangible assets	17,000
Other assets, primarily current assets, net of cash acquired totaling \$1,362	9,465
Current liabilities	(2,756)
Non-current deferred tax liabilities	(47,344)
Net assets acquired	<u>\$ 235,454</u>

Goodwill is calculated as the excess of the purchase price over the fair value of the net assets acquired. The goodwill resulting from the acquisition is attributable primarily to the value of leveraging our brand building expertise, consumer insights, supply chain capabilities and retail relationships to accelerate growth and access to KRAVE products. The recorded goodwill is not expected to be deductible for tax purposes. The purchase price allocation for Krave was concluded in the third quarter of 2015.

Acquired trademarks were assigned estimated useful lives of 22 years, while other intangibles, including customer relationships and covenants not to compete, were assigned estimated useful lives ranging from 5 to 16 years.



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**2014 Acquisitions**

Shanghai Golden Monkey

On September 26, 2014 (the “Initial Acquisition”), our wholly-owned subsidiary, Hershey Netherlands B.V., completed the acquisition of 80% of the total outstanding shares of Shanghai Golden Monkey Food Joint Stock Co., Ltd. (“SGM”), a privately held confectionery company based in Shanghai, China operating through six production facilities located in China. The Golden Monkey product line is primarily sold in China's traditional trade channels. The business complements our position in China, and was undertaken to enable us to take advantage of SGM's distribution and manufacturing capabilities to expand sales of our Hershey products in the China marketplace. Our consolidated net sales for the year ended December 31, 2014 included approximately \$54 million generated by SGM since the date of acquisition.

The Initial Acquisition was funded by cash consideration of \$394,470, subject to working capital and net debt adjustments. At December 31, 2014, we had recorded a receivable of \$37,860, reflecting our current best estimate of the amount due from the selling SGM shareholders for the working capital and net debt adjustments. Such amount is reflected within prepaid expenses and other in the Consolidated Balance Sheet.

As part of the transaction, Hershey Netherlands B.V. contractually agreed to purchase the remaining 20% of the outstanding shares of SGM on the one-year anniversary of the Initial Acquisition, subject to the parties obtaining government and regulatory approvals and satisfaction of other closing conditions. At December 31, 2014, we had recorded a liability of \$100,067, reflecting the acquisition date fair value of the future payment to be made to the SGM shareholders. This liability is included within accrued liabilities in the Consolidated Balance Sheet.

The goodwill that resulted from the SGM acquisition was attributable primarily to the value of providing an established platform to leverage our brands in the China market, as well as expected synergies and other benefits from the combined brand portfolios. The recorded goodwill is not deductible for tax purposes. Acquired distribution channel relationships and trademarks were assigned estimated useful lives of 16 years and 22 years, respectively.

During the first quarter of 2015, we came to an agreement with the selling SGM shareholders to revise the aforementioned receivable and liability balances to reflect partial settlement of the receivable. As a result, in the first quarter, the receivable was adjusted to \$8,685 and the liability was adjusted to \$76,815. Additionally, during the first quarter of 2015, goodwill was increased by \$6,623 to recognize revisions to the estimated value of assets and liabilities acquired in the acquisition. During the second quarter, based on our ongoing procedures to assess the quality of acquired trade accounts receivable, we recorded an additional adjustment to increase goodwill by \$25,898 to reflect bad debt allowance for an additional amount of trade receivables considered to be uncollectible as of the acquisition date.

During the third quarter of 2015, we continued our procedures to assess the quality of acquired trade accounts receivable. We also undertook procedures to further evaluate and quantify outstanding pre-acquisition trade promotion commitments to distributors, as well as allowances for returns and discounts related to excess and unsalable inventory held at distributors and sales branches as of the acquisition date. In addition, we concluded on our procedures to estimate the value of pre-acquisition indirect tax contingencies. As a result of these procedures, during the third quarter, we increased the value of acquired goodwill by \$16,599, with the corresponding offset principally represented by the establishment of additional opening balance sheet liabilities for the aforementioned commitments and contingencies.

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Based on all of the information obtained through the procedures noted previously, we updated our estimates of the acquisition-date fair values of the net assets acquired as of September 26, 2015, the conclusion of the one-year measurement period. Subsequent revisions to the valuation of acquired net assets have been reflected in current results. A roll-forward of the estimated acquisition-date fair values at December 31, 2014 to the final acquisition-date fair values as of September 26, 2015, the conclusion of the one-year measurement period, is as follows:

In millions of dollars	Acquisition date purchase price allocation*		
	At 12/31/14	Adjustments	At 9/26/15
Accounts receivable - trade	\$ 46	\$ (26)	\$ 20
Inventories	42	(1)	41
Other current assets	37	6	43
Property, plant and equipment	112	2	114
Goodwill	235	49	284
Other intangible assets	145	—	145
Other non-current assets	35	(3)	32
Current liabilities assumed	(54)	(20)	(74)
Short-term debt assumed	(105)	—	(105)
Other non-current liabilities assumed, principally deferred taxes	(52)	(2)	(54)
Net assets acquired	<u>\$ 441</u>		<u>\$ 446</u>

\* Note that the final opening balance sheet value of goodwill presented in the schedule above differs from total write-off of \$280.8 million due to changes in foreign currency exchange rates since the date of acquisition.

In the fourth quarter of 2015, we entered into a new agreement with the selling SGM shareholders to reduce the originally-agreed purchase price for the remaining 20% of SGM to approximately \$36 million. We completed the purchase on February 3, 2016. We are directing our efforts currently on developing an integration plan that is focused on the optimal structure for top-line growth.

*Goodwill impairment - SGM reporting unit*

As discussed in the second quarter of 2015, since its initial acquisition in 2014, the SGM business has performed below expectations, with net sales and earnings levels well below pre-acquisition levels. In addition, as part of our ongoing integration process, we continued to assess the quality of SGM's accounts receivable and existing distributor networks. Based on the declining performance levels and the results of our assessment to date, we determined that an interim impairment test of the SGM reporting unit was required by U.S. generally accepted accounting principles. We performed the first step of this test as of July 5, 2015 using an income approach based on our estimates of future performance scenarios for the business. The results of this test indicated that the fair value of the reporting unit was less than the carrying amount as of the measurement date, suggesting that a goodwill impairment was probable, which required us to perform a second step analysis to confirm that an impairment exists and to determine the amount of the impairment based on our reassessed value of the reporting unit. Although preliminary, as a result of this reassessment, in the second quarter of 2015 we recorded an estimated \$249,811 non-cash goodwill impairment charge, representing a write-down of all of the goodwill related to the SGM reporting unit as of July 5, 2015.

As noted above, during the third quarter, we increased the value of acquired goodwill by \$16,599, with the corresponding offset principally represented by the establishment of additional opening balance sheet liabilities for the aforementioned commitments and contingencies. We also finalized the impairment test of the goodwill relating to the SGM reporting unit, which resulted in a write-off of this additional goodwill in the third quarter, for a total impairment of \$266,409. We also tested the other long-lived assets of SGM for recoverability by comparing the sum of the undiscounted cash flows to the carrying value of the asset group, and no impairment was indicated.

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*Goodwill impairment - China chocolate reporting unit*

In connection with the SGM acquisition, we assigned approximately \$15 million of goodwill to our existing China chocolate business, as this reporting unit was expected to benefit from acquisition synergies relating to the sale of Golden Monkey-branded product through its Tier 1 and hypermarket distributor networks. As the net sales and earnings of our China business continued to be adversely impacted by macroeconomic challenges and changing consumer shopping behavior through the third quarter, we determined that an interim impairment test of the goodwill in this reporting unit was also required. We performed the first step of this test in the third quarter of 2015 using an income approach based on our estimates of future performance scenarios for the business. The results of this test suggested that a goodwill impairment was probable, and the conclusions of the second step analysis resulted in a write-down of \$14,393, representing the full value of goodwill attributed to this reporting unit as of October 4, 2015.

The Allan Candy Company Limited

In December 2014, our wholly-owned subsidiary, Hershey Canada Inc., completed the acquisition of all of the outstanding shares of The Allan Candy Company Limited (“Allan”) for cash consideration of approximately \$27,376, subject to a working capital adjustment. Allan is headquartered in Ontario, Canada and manufactures certain non-chocolate products on behalf of Hershey, in addition to manufacturing and distributing its own branded products, principally in Canada. The preliminary purchase price allocation includes fixed assets of \$10,897, goodwill of \$6,996, other intangible assets of \$8,092, and other net assets of \$1,391. Other intangibles include customer relationships and trademarks with estimated useful lives ranging from 3 to 19 years.

During the first half of 2015, we increased goodwill by \$1,820 to recognize revisions to the preliminary fair value of net assets acquired. The purchase price allocation for Allan was concluded in the second quarter of 2015.

Lotte Shanghai Food Company

In March 2014, we acquired an additional 5.9% interest in Lotte Shanghai Food Company (“LSFC”), a joint venture established in 2007 in China for the purpose of manufacturing and selling product to the venture partners. For this additional interest, we paid \$5,580 in cash, increasing our ownership from 44.1% to 50%. At the same time, we also amended the LSFC shareholders' agreement resulting in our operational control over the venture. With the additional operational control, we reassessed our involvement with LSFC and concluded that we have a controlling financial interest. Therefore, we consolidated the venture as of the March 2014 acquisition date. We had previously accounted for our investment in LSFC using the equity method.

Total consideration transferred was approximately \$99,161, including the \$5,580 cash consideration paid, the estimated fair value of our previously held equity interest of \$43,857 and the estimated fair value of the remaining noncontrolling interest in LSFC of \$49,724, which fair values were determined using a market-based approach. The fair value of the LSFC assets acquired and liabilities assumed on the acquisition date was \$99,449, including fixed assets of \$106,253, short-term debt obligations of \$13,292 and other net assets of \$6,488.

We recognized a gain of approximately \$4,627 in connection with this transaction, primarily related to the remeasurement of the fair value of our equity interest immediately before the business combination. The gain is included in other (income) expense, net within our Consolidated Statement of Income for the year ended December 31, 2014. Additionally, cash acquired in the transaction exceeded the \$5,580 paid for the controlling interest by \$10,035, resulting in a positive cash impact from the acquisition as presented in the Consolidated Statement of Cash Flows for the year ended December 31, 2014.

Pro Forma Presentation

Pro forma results of operations have not been presented for these aforementioned acquisitions, as the impact to our consolidated financial statements was not expected to be material. In 2014 and 2013, we incurred net acquisition-related costs primarily related to the SGM acquisition of \$13,270 and \$4,072, respectively. These costs primarily consist of third-party advisory fees and are recorded within selling, marketing and administrative costs in the Consolidated Statements of Income, with the exception of the 2014 costs reflecting net foreign currency exchange losses relating to our strategy to cap the SGM acquisition price as denominated in U.S. dollars, which are recorded within other (income) expense, net. Acquisition costs incurred in 2015 were not significant.

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**2015 Divestiture**

In December 2014, we entered into an agreement to sell the Mauna Loa Macadamia Nut Corporation (“Mauna Loa”). The transaction closed in the first quarter of 2015, resulting in proceeds, net of selling expenses and an estimated working capital adjustment, of approximately \$32,400. As a result of the expected sale, in 2014, we recorded an estimated loss on the anticipated sale of \$22,256 to reflect the disposal entity at fair value, less an estimate of the selling costs. This amount included impairment charges totaling \$18,531 to write down goodwill and the indefinite-lived trademark intangible asset, based on the valuation of these assets as implied by the agreed-upon sales price. The sale of Mauna Loa resulted in the recording of an additional loss on sale of \$2,667 in the first quarter of 2015, based on updates to the selling expenses and tax benefits. The loss on the sale is reflected within business realignment and impairment costs in the Consolidated Statements of Income.

Mauna Loa had historically been reported within our North America segment. Its operations were not material to our annual net sales, net income or earnings per share. Amounts classified as assets and liabilities held for sale at December 31, 2014 were presented within prepaid expenses and other assets and accrued liabilities, respectively, and included the following:

<b>Assets held for sale</b>	
Inventories	\$ 21,489
Prepaid expenses and other	173
Property, plant and equipment, net	12,691
Other intangibles	12,705
	<u>\$ 47,058</u>
<b>Liabilities held for sale</b>	
Accounts payable and accrued liabilities	\$ 3,726
Other long-term liabilities	9,029
	<u>\$ 12,755</u>

**3. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying value of goodwill by reportable segment for the years ended December 31, 2015 and 2014 are as follows:

	<b>North America</b>	<b>International and Other</b>	<b>Total</b>
Goodwill	\$ 543,628	\$ 103,079	\$ 646,707
Accumulated impairment loss	(4,973)	(65,173)	(70,146)
Balance at January 1, 2014	<u>538,655</u>	<u>37,906</u>	<u>576,561</u>
Acquired during the period	6,996	235,138	242,134
Impairment	—	(11,400)	(11,400)
Transfer to assets held for sale	(1,448)	—	(1,448)
Foreign currency translation	(10,854)	(2,038)	(12,892)
Balance at December 31, 2014	<u>533,349</u>	<u>259,606</u>	<u>792,955</u>
Acquired during the period	147,334	—	147,334
Impairment	—	(280,802)	(280,802)
Purchase price allocation adjustments	1,575	46,203	47,778
Foreign currency translation	(20,175)	(2,838)	(23,013)
Balance at December 31, 2015	<u>\$ 662,083</u>	<u>\$ 22,169</u>	<u>\$ 684,252</u>

As discussed in Note 1, we perform our annual impairment test of goodwill and other indefinite-lived intangible assets at the beginning of the fourth quarter. The \$280,802 impairment charge recorded in 2015 resulted from our interim

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reassessment of the valuation of the SGM business, coupled with the write-down of goodwill attributed to the China chocolate business in connection with the SGM acquisition. See Note 2 for additional information.

In 2014, the annual impairment testing of our India reporting unit resulted in a \$11,400 goodwill impairment charge and a \$4,500 pre-tax write-down of a trademark associated with the India business. These impairment charges were largely a result of our decision to exit the oils portion of the India business and realign our approach to regional marketing and distribution in India.

Our remaining goodwill is currently attributed to seven reporting units. For step one of our 2015 annual test, the percentage of excess fair value over carrying value was at least 50% for each of our seven tested reporting units, with the exception of our Krave reporting unit, representing a recently acquired business whose estimated fair value approximated its carrying value.

The following table provides the gross carrying amount and accumulated amortization for each major class of intangible asset:

December 31,	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>				
Trademarks	\$ 227,511	\$ (16,246)	\$ 129,223	\$ (7,593)
Customer-related	146,532	(26,643)	138,964	(20,404)
Patents	16,857	(12,481)	18,383	(11,447)
Other	—	—	8,805	(6,090)
<b>Total</b>	<b>390,900</b>	<b>(55,370)</b>	<b>295,375</b>	<b>(45,534)</b>
<b>Intangible assets not subject to amortization:</b>				
Trademarks	43,775		45,000	
<b>Total other intangible assets</b>	<b>\$ 379,305</b>		<b>\$ 294,841</b>	

Total amortization expense for the years ended December 31, 2015, 2014 and 2013 was \$22,306, \$11,328 and \$10,849, respectively.

Amortization expense for the next five years, based on current intangible balances, is estimated to be as follows:

Year ending December 31,	2016	2017	2018	2019	2020
Amortization expense	\$ 21,928	\$ 21,546	\$ 20,006	\$ 19,899	\$ 19,660

#### **4. SHORT AND LONG-TERM DEBT**

##### **Short-term Debt**

As a source of short-term financing, we utilize cash on hand and commercial paper or bank loans with an original maturity of three months or less. We maintain a \$1.0 billion unsecured revolving credit facility, which currently expires in November 2020. The agreement also includes an option to increase borrowings by an additional \$400,000 with the consent of the lenders.

The unsecured committed revolving credit agreement contains a financial covenant whereby the ratio of (a) pre-tax income from operations from the most recent four fiscal quarters to (b) consolidated interest expense for the most recent four fiscal quarters may not be less than 2.0 to 1.0 at the end of each fiscal quarter. The credit agreement also contains customary representations, warranties and events of default. Payment of outstanding advances may be accelerated, at the option of the lenders, should we default in our obligation under the credit agreement. As of December 31, 2015, we complied with all customary affirmative and negative covenants and the financial covenant

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pertaining to our credit agreement. There were no significant compensating balance agreements that legally restricted these funds.

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. Our credit limit in various currencies was \$516,916 in 2015 and \$447,629 in 2014. These lines permit us to borrow at the respective banks' prime commercial interest rates, or lower. We had short-term foreign bank loans against these lines of credit for \$313,520 and \$329,701 in December 31, 2015 and December 31, 2014, respectively. Commitment fees relating to our revolving credit facility and lines of credit are not material.

At December 31, 2015, we had outstanding commercial paper totaling \$49,993, at a weighted average interest rate of 0.40%. At December 31, 2014, we had outstanding commercial paper totaling \$54,995, at a weighted average interest rate of 0.09%.

The maximum amount of short-term borrowings outstanding during 2015 was \$687,981. The weighted-average interest rate on short-term borrowings outstanding was 3.0% as of December 31, 2015 and 3.2% as of December 31, 2014.

**Long-term Debt**

Long-term debt consisted of the following:

December 31,	2015	2014
4.85% Notes due 2015	\$ —	\$ 250,000
5.45% Notes due 2016	250,000	250,000
1.50% Notes due 2016	250,000	250,000
1.60% Notes due 2018	300,000	—
4.125% Notes due 2020	350,000	350,000
8.8% Debentures due 2021	84,715	100,000
2.625% Notes due 2023	250,000	250,000
3.20% Notes due 2025	300,000	—
7.2% Debentures due 2027	193,639	250,000
Other obligations, net of debt issuance costs and unamortized debt discount	78,660	93,122
<b>Total long-term debt</b>	<b>2,057,014</b>	<b>1,793,122</b>
Less—current portion	499,923	250,805
<b>Long-term portion</b>	<b>\$ 1,557,091</b>	<b>\$ 1,542,317</b>

In August 2015, we repaid \$250,000 of 4.85% Notes due in 2015 at maturity with commercial paper. Also in August 2015, we issued \$300,000 of 1.60% Notes due in 2018 and \$300,000 of 3.20% Notes due in 2025 (the "Notes"). The Notes were issued under a shelf registration statement on Form S-3 filed in June 2015 that registered an indeterminate amount of debt securities.

In August 2015, we paid \$100,165 to repurchase \$71,646 of our long-term debt as part of a cash tender offer, consisting of \$15,285 of our 8.80% Debentures due in 2021 and \$56,361 of our 7.20% Debentures due in 2027. We used a portion of the proceeds from the Notes issued in August 2015 to fund the repurchase. As a result of the repurchase, we recorded interest expense of \$28,326 which represented the premium paid for the tender offer as well as the write-off of the related unamortized debt discount and debt issuance costs. Upon extinguishment of the debt, we unwound the fixed-to-floating interest rate swaps related to the tendered bonds and recognized a gain of \$278 currently in interest expense resulting from the hedging instruments.

In the third and fourth quarters of 2015, we reclassified to current liabilities \$250,000 in outstanding principal of our 5.45% Notes which are due in September 2016 and \$250,000 in outstanding principal of our 1.50% Notes which are due in November 2016, respectively. In the third quarter of 2014, we reclassified to current liabilities \$250,000 in outstanding principal amount relating to our 4.85% Notes which came due in August 2015.

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Aggregate annual maturities of long-term debt are as follows for the years ending December 31:

2016	\$ 499,923
2017	120
2018	300,279
2019	367
2020	350,462
Thereafter	905,863

Our debt is principally unsecured and of equal priority. None of our debt is convertible into our Common Stock.

**Interest Expense**

Net interest expense consisted of the following:

For the years ended December 31,	2015	2014	2013
Interest expense	\$ 93,520	\$ 93,777	\$ 93,258
Capitalized interest	(12,537)	(6,179)	(1,744)
Loss on extinguishment of debt	28,326	—	—
Interest expense	109,309	87,598	91,514
Interest income	(3,536)	(4,066)	(3,158)
Interest expense, net	<u>\$ 105,773</u>	<u>\$ 83,532</u>	<u>\$ 88,356</u>

**5. DERIVATIVE INSTRUMENTS AND FAIR VALUE MEASUREMENTS**

We are exposed to market risks arising principally from changes in foreign currency exchange rates, interest rates and commodity prices. We use certain derivative instruments to manage these risks. These include interest rate swaps to manage interest rate risk, foreign currency forward exchange contracts and options to manage foreign currency exchange rate risk, and commodities futures and options contracts to manage commodity market price risk exposures.

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by entering into exchanged-traded contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

**Commodity Price Risk**

We enter into commodities futures and options contracts and other commodity derivative instruments to reduce the effect of future price fluctuations associated with the purchase of raw materials, energy requirements and transportation services. We generally hedge commodity price risks for 3- to 24-month periods. Through 2015, we have designated the majority of our commodity derivative instruments as cash flow hedges under the hedge accounting requirements. We account for the effective portion of mark-to-market gains and losses on commodity derivative instruments in other comprehensive income, to be recognized in cost of sales in the same period that we record the hedged raw material requirements in cost of sales. The ineffective portion of gains and losses is recorded currently in cost of sales. Cocoa commodity derivatives did not qualify for hedge accounting treatment as of the beginning of the third quarter of 2015. Therefore, changes in the fair value of these derivatives were recorded as incurred within cost of sales for the third and fourth quarters of 2015.

Effective January 1, 2016, we are no longer electing to designate any of our existing or new cocoa or other commodity derivatives for hedge accounting treatment. Additionally, we have revised our definition of segment income and redefined non-GAAP income and earnings per share measures to exclude gains and losses on commodity derivatives until the related inventory is sold. This change to our definition of segment income and non-GAAP income and non-GAAP earnings per share will continue to reflect the derivative gains and losses with the underlying economic

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exposure being hedged and thereby eliminate the mark-to-market volatility within our reported segment income as well as non-GAAP income and non-GAAP earnings per share.

**Foreign Exchange Price Risk**

We are exposed to foreign currency exchange rate risk related to our international operations, including non-functional currency intercompany debt and other non-functional currency transactions of certain subsidiaries. Principal currencies hedged include the euro, Canadian dollar, Malaysian ringgit, Swiss franc, Chinese renminbi, Japanese yen, and Brazilian real. We typically utilize foreign currency forward exchange contracts and options to hedge these exposures for periods ranging from 3 to 24 months. The contracts are either designated as cash flow hedges or are undesignated. The net notional amount of foreign exchange contracts accounted for as cash flow hedges was \$10,752 at December 31, 2015 and \$22,725 at December 31, 2014. The effective portion of the changes in fair value on these contracts is recorded in other comprehensive income and reclassified into earnings in the same period in which the hedged transactions affect earnings. The net notional amount of foreign exchange contracts that are not designated as accounting hedges was \$2,791 at December 31, 2015 and \$4,144 at December 31, 2014. The change in fair value on these instruments is recorded directly in cost of sales or selling, marketing and administrative expense, depending on the nature of the underlying exposure.

**Interest Rate Risk**

In order to manage interest rate exposure, from time to time we enter into interest rate swap agreements that effectively convert variable rate debt to a fixed interest rate. These swaps are designated as cash flow hedges, with gains and losses deferred in other comprehensive income to be recognized as an adjustment to interest expense in the same period that the hedged interest payments affect earnings. The notional amount of interest rate derivative instruments in cash flow hedging relationships was \$500,000 at December 31, 2015 and \$750,000 at December 31, 2014.

We also manage our targeted mix of fixed and floating rate debt with debt issuances and by entering into fixed-to-floating interest rate swaps in order to mitigate fluctuations in earnings and cash flows that may result from interest rate volatility. These swaps are designated as fair value hedges, for which the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in current earnings as interest expense (income), net. The notional amount, interest payment and maturity date of these swaps generally match the principal, interest payment and maturity date of the related debt, and the swaps are valued using observable benchmark rates (Level 2 valuation). The notional amount of interest rate derivative instruments in fair value hedge relationships was \$350,000 at December 31, 2015. We had \$450,000 derivative instruments in fair value hedge relationships at December 31, 2014.

**Equity Price Risk**

We are exposed to market price changes in certain broad market indices related to our deferred compensation obligations to our employees. In the first quarter of 2014, we entered into equity swap contracts to hedge the portion of the exposure that is linked to market-level equity returns. These contracts are not designated as hedges for accounting purposes and are entered into for periods of 3 to 12 months. The change in fair value of these derivatives is recorded in selling, marketing and administrative expense, together with the change in the related liabilities. The notional amount of the contracts outstanding at December 31, 2015 was \$22,230.

**Fair Value**

Accounting guidance on fair value measurements requires that financial assets and liabilities be classified and disclosed in one of the following categories of the fair value hierarchy:

*Level 1* – Based on unadjusted quoted prices for identical assets or liabilities in an active market.

*Level 2* – Based on observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3* – Based on unobservable inputs that reflect the entity's own assumptions about the assumptions that a market participant would use in pricing the asset or liability.

We did not have any level 3 financial assets or liabilities, nor were there any transfers between levels during the periods presented.



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The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheet on a recurring basis as of December 31, 2015 and 2014:

December 31,	2015		2014	
	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
<b>Derivatives designated as cash flow hedging instruments:</b>				
Commodities futures and options (2)	\$ —	\$ 479	\$ —	\$ 9,944
Foreign exchange contracts (3)	367	475	2,196	2,447
Interest rate swap agreements (4)	—	40,299	—	29,505
Cross-currency swap agreement (5)	—	—	2,016	—
	367	41,253	4,212	41,896
<b>Derivatives designated as fair value hedging instruments:</b>				
Interest rate swap agreements (4)	4,313	—	1,746	—
<b>Derivatives not designated as hedging instruments:</b>				
Commodities futures and options (2)	—	1,574	—	—
Deferred compensation derivatives (6)	1,198	—	1,074	—
Foreign exchange contracts (3)	69	—	4,049	2,334
	1,267	1,574	5,123	2,334
<b>Total</b>	\$ 5,947	\$ 42,827	\$ 11,081	\$ 44,230

- (1) Derivatives assets are classified on our balance sheet within prepaid expenses and other as well as other assets. Derivative liabilities are classified on our balance sheet within accrued liabilities and other long-term liabilities.
- (2) The fair value of commodities futures and options contracts is based on quoted market prices and is, therefore, categorized as Level 1 within the fair value hierarchy. As of December 31, 2015, liabilities include the net of assets of \$54,090 and liabilities of \$54,860 associated with cash transfers receivable or payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period. The comparable amounts reflected on a net basis in liabilities at December 31, 2014 were assets of \$51,225 and liabilities of \$56,840. At December 31, 2015, the remaining amount reflected in liabilities related to the fair value of other non-exchange traded derivative instruments. At December 31, 2014, the amount reflected in assets related to the fair value of options contracts.
- (3) The fair value of foreign currency forward exchange contracts is the difference between the contract and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign currency forward exchange contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences. These contracts are classified as Level 2 within the fair value hierarchy.
- (4) The fair value of interest rate swap agreements represents the difference in the present value of cash flows calculated at the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments. Such contracts are categorized as Level 2 within the fair value hierarchy.
- (5) The fair value of the cross-currency swap agreement is categorized as Level 2 within the fair value hierarchy and is estimated based on the difference between the contract and current market foreign currency exchange rates at the end of the period.
- (6) The fair value of deferred compensation derivatives is based on quoted prices for market interest rates and a broad market equity index and is, therefore, categorized as Level 2 within the fair value hierarchy.

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Other Financial Instruments

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, accounts payable and short-term debt approximated fair value as of December 31, 2015 and December 31, 2014 because of the relatively short maturity of these instruments.

The estimated fair value of our long-term debt is based on quoted market prices for similar debt issues and is, therefore, classified as Level 2 within the valuation hierarchy. The fair values and carrying values of long-term debt, including the current portion, was as follows:

At December 31,	Fair Value		Carrying Value	
	2015	2014	2015	2014
Current portion of long-term debt	\$ 509,580	\$ 257,280	\$ 499,923	\$ 250,805
Long-term debt	1,668,379	1,715,662	1,557,091	1,542,317
Total	\$ 2,177,959	\$ 1,972,942	\$ 2,057,014	\$ 1,793,122

Other Fair Value Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, U.S. GAAP requires that, under certain circumstances, we also record assets and liabilities at fair value on a nonrecurring basis. Generally, assets are recorded at fair value on a nonrecurring basis as a result of impairment charges. As discussed in Note 2, we conducted an interim impairment test on the goodwill generated by the SGM acquisition, which resulted in impairment charges totaling \$280,802. In 2014, as discussed in Note 3, in connection with our annual impairment testing of goodwill and indefinite-lived intangible assets, we recorded impairment charges totaling \$15,900 relating to our India business. These charges were determined by comparing the fair value of the assets to their carrying value. The fair value of the assets was derived using discounted cash flow analyses based on Level 3 inputs.

As discussed in Note 2, in connection with the planned Mauna Loa divestiture, we classified the net assets as held for sale as of December 31, 2014, resulting in a write down of \$18,531 based upon the agreed-upon sales price and related transaction costs. The loss was calculated based on Level 3 inputs and included in 2014 earnings.

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**Income Statement Impact of Derivative Instruments**

The effect of derivative instruments on the Consolidated Statements of Income for the years ended December 31, 2015 and December 31, 2014 was as follows:

	Non-designated Hedges		Cash Flow Hedges					
	Gains (losses) recognized in income (a)		Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)		Gains (losses) reclassified from accumulated OCI into income (effective portion) (b)		Gains recognized in income (ineffective portion) (c)	
			2015	2014	2015	2014	2015	2014
Commodities futures and options	\$(2,777)	\$ 2,339	\$ 84,382	\$(11,165)	\$40,600	\$68,500	\$ 987	\$ 2,498
Foreign exchange contracts	487	(1,486)	(155)	2,056	956	3,403	—	—
Interest rate swap agreements	—	—	(22,388)	(52,249)	(4,922)	(4,500)	—	—
Deferred compensation derivatives	173	2,983	—	—	—	—	—	—
<b>Total</b>	<b>\$(2,117)</b>	<b>\$ 3,836</b>	<b>\$ 61,839</b>	<b>\$(61,358)</b>	<b>\$36,634</b>	<b>\$67,403</b>	<b>\$ 987</b>	<b>\$ 2,498</b>

- (a) Gains (losses) recognized in income for non-designated commodities futures and options contracts were included in cost of sales. Gains (losses) recognized in income for non-designated foreign currency forward exchange contracts and deferred compensation derivatives were included in selling, marketing and administrative expenses.
- (b) Gains (losses) reclassified from AOCI into income were included in cost of sales for commodities futures and options contracts and for foreign currency forward exchange contracts designated as hedges of purchases of inventory or other productive assets. Other gains (losses) for foreign currency forward exchange contracts were included in selling, marketing and administrative expenses. For the year ended December 31, 2014, this included \$3,801 relating to unrealized gains on foreign currency forward exchange contracts that were reclassified from AOCI to selling, marketing and administrative expenses as a result of the discontinuance of cash flow hedge accounting because it was determined to be probable that the original forecasted transactions would not occur within the time period originally designated or the subsequent two months thereafter. Losses reclassified from AOCI into income for interest rate swap agreements were included in interest expense.
- (c) Gains representing hedge ineffectiveness were included in cost of sales for commodities futures and options contracts.

The amount of net gains on derivative instruments, including interest rate swap agreements, foreign currency forward exchange contracts and options, commodities futures and options contracts, and other commodity derivative instruments expected to be reclassified into earnings in the next 12 months was approximately \$15,005 after tax as of December 31, 2015. This amount was primarily associated with commodities futures contracts.

Fair Value Hedges

For the years ended December 31, 2015 and 2014, we recognized a net pretax benefit to interest expense of \$6,905 and \$938 relating to our fixed-to-floating interest swap arrangements.

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**6. COMPREHENSIVE INCOME**

A summary of the components of comprehensive income is as follows:

<b>For the year ended December 31, 2015</b>	<b>Pre-Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>After-Tax Amount</b>
Net income			\$ 512,951
Other comprehensive income (loss):			
Foreign currency translation adjustments	\$ (59,707)	\$ —	(59,707)
Pension and post-retirement benefit plans (a)	46,910	(16,908)	30,002
Cash flow hedges:			
Gains on cash flow hedging derivatives	61,839	(23,520)	38,319
Reclassification adjustments (b)	(36,634)	13,416	(23,218)
Total other comprehensive income (loss)	<u>\$ 12,408</u>	<u>\$ (27,012)</u>	<u>(14,604)</u>
Total comprehensive income			<u>\$ 498,347</u>
Comprehensive loss attributable to noncontrolling interests			2,152
Comprehensive income attributable to The Hershey Company			<u>\$ 500,499</u>

<b>For the year ended December 31, 2014</b>	<b>Pre-Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>After-Tax Amount</b>
Net income			\$ 846,912
Other comprehensive loss:			
Foreign currency translation adjustments	\$ (26,851)	\$ —	(26,851)
Pension and post-retirement benefit plans (a)	(135,361)	50,345	(85,016)
Cash flow hedges:			
Losses on cash flow hedging derivatives	(61,358)	24,281	(37,077)
Reclassification adjustments (b)	(67,403)	24,341	(43,062)
Total other comprehensive loss	<u>\$ (290,973)</u>	<u>\$ 98,967</u>	<u>(192,006)</u>
Total comprehensive income			<u>\$ 654,906</u>

<b>For the year ended December 31, 2013</b>	<b>Pre-Tax Amount</b>	<b>Tax (Expense) Benefit</b>	<b>After-Tax Amount</b>
Net income			\$ 820,470
Other comprehensive income (loss):			
Foreign currency translation adjustments	\$ (26,003)	\$ —	(26,003)
Pension and post-retirement benefit plans (a)	265,015	(98,612)	166,403
Cash flow hedges:			
Gains on cash flow hedging derivatives	116,329	(43,995)	72,334
Reclassification adjustments (b)	9,365	(3,590)	5,775
Total other comprehensive income	<u>\$ 364,706</u>	<u>\$ (146,197)</u>	<u>218,509</u>
Total comprehensive income			<u>\$ 1,038,979</u>

- (a) These amounts are included in the computation of net periodic benefit costs. For more information, see Note 9.  
(b) For information on the presentation of reclassification adjustments for cash flow hedges on the Consolidated Statements of Income, see Note 5.

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The components of accumulated other comprehensive loss, as shown on the Consolidated Balance Sheets, are as follows:

December 31,	2015	2014
Foreign currency translation adjustments	\$ (101,236)	\$ (43,681)
Pension and post-retirement benefit plans, net of tax	(254,648)	(284,650)
Cash flow hedges, net of tax	(15,141)	(30,242)
Total accumulated other comprehensive loss	<u>\$ (371,025)</u>	<u>\$ (358,573)</u>

**7. INCOME TAXES**

Our income (loss) before income taxes was as follows:

For the years ended December 31,	2015	2014	2013
Domestic	\$ 1,357,618	\$ 1,320,738	\$ 1,252,208
Foreign	(455,771)	(14,695)	(889)
Income before income taxes	<u>\$ 901,847</u>	<u>\$ 1,306,043</u>	<u>\$ 1,251,319</u>

Our provision for income taxes was as follows:

For the years ended December 31,	2015	2014	2013
Current:			
Federal	\$ 409,060	\$ 385,642	\$ 372,649
State	47,978	52,331	47,980
Foreign	(29,605)	2,362	2,763
Current provision for income taxes	<u>427,433</u>	<u>440,335</u>	<u>423,392</u>
Deferred:			
Federal	(31,153)	20,649	11,334
State	(2,346)	2,725	2,212
Foreign	(5,038)	(4,578)	(6,089)
Deferred income tax provision	<u>(38,537)</u>	<u>18,796</u>	<u>7,457</u>
Total provision for income taxes	<u>\$ 388,896</u>	<u>\$ 459,131</u>	<u>\$ 430,849</u>

The decrease in the federal deferred tax provision in 2015 was primarily due to higher deferred tax assets associated with reserves and inventory in 2015 compared with 2014.

The income tax benefit associated with stock-based compensation of \$24,839 and \$53,497 for the years ended December 31, 2015 and 2014, respectively, reduced accrued income taxes on the Consolidated Balance Sheets. We credited additional paid-in capital to reflect these excess income tax benefits.

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Deferred taxes reflect temporary differences between the tax basis and financial statement carrying value of assets and liabilities. The significant temporary differences that comprised the deferred tax assets and liabilities were as follows:

December 31,	2015	2014
<b>Deferred tax assets:</b>		
Post-retirement benefit obligations	\$ 95,763	\$ 109,973
Accrued expenses and other reserves	163,908	139,492
Stock-based compensation	46,665	46,061
Derivative instruments	8,858	19,171
Pension	28,940	24,584
Lease financing obligation	18,947	18,991
Accrued trade promotion reserves	36,501	41,332
Net operating loss carryforwards	99,155	50,044
Capital loss carryforwards	44,546	43,155
Other	14,444	3,208
Gross deferred tax assets	557,727	496,011
Valuation allowance	(207,055)	(147,223)
Total deferred tax assets	350,672	348,788
<b>Deferred tax liabilities:</b>		
Property, plant and equipment, net	218,729	221,389
Acquired intangibles	120,420	85,037
Inventories	20,063	32,157
Other	8,258	9,063
Total deferred tax liabilities	367,470	347,646
Net deferred tax (liabilities) assets	\$ (16,798)	\$ 1,142
<b>Included in:</b>		
Current deferred tax assets, net	\$ —	\$ 100,515
Non-current deferred tax assets, net	36,390	—
Non-current deferred tax liabilities, net	(53,188)	(99,373)
Net deferred tax (liabilities) assets	\$ (16,798)	\$ 1,142

We believe that it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets. Changes in deferred tax assets for net operating loss carryforwards resulted primarily from current year losses in foreign jurisdictions. Changes in deferred tax liabilities for acquired intangibles resulted from book intangibles related to the Krave acquisition in 2015. Additional information on income tax benefits and expenses related to components of accumulated other comprehensive loss is provided in Note 6.

The valuation allowances as of December 31, 2015 and 2014 are primarily related to U.S. capital loss carryforwards and various foreign jurisdictions' net operating loss carryforwards and other deferred tax assets that we do not expect to realize.

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The following table reconciles the federal statutory income tax rate with our effective income tax rate:

For the years ended December 31,	2015	2014	2013
Federal statutory income tax rate	35.0%	35.0%	35.0%
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	4.2	3.0	2.8
Qualified production income deduction	(4.4)	(2.4)	(2.6)
Business realignment and impairment charges and gain on sale of trademark licensing rights	10.8	0.7	0.1
International operations	2.2	(0.1)	(0.4)
Historic and solar tax credits	(3.3)	—	—
Other, net	(1.4)	(1.0)	(0.5)
Effective income tax rate	<u>43.1%</u>	<u>35.2%</u>	<u>34.4%</u>

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2015	2014
Balance at beginning of year	\$ 32,230	\$ 103,963
Additions for tax positions taken during prior years	1,122	—
Reductions for tax positions taken during prior years	(2,112)	(71,643)
Additions for tax positions taken during the current year	6,623	8,403
Settlements	(702)	(4,643)
Expiration of statutes of limitations	(3,750)	(3,850)
Balance at end of year	<u>\$ 33,411</u>	<u>\$ 32,230</u>

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$25,947 as of December 31, 2015 and \$23,502 as of December 31, 2014.

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized a net tax expense of \$1,153 in 2015, a net tax benefit of \$9,082 in 2014 and a net tax expense of \$5,901 in 2013 for interest and penalties. Accrued net interest and penalties were \$3,791 as of December 31, 2015 and \$2,638 as of December 31, 2014.

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. A number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the most likely outcome. We adjust these unrecognized tax benefits, as well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use of cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period of resolution.

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state), Canada, China and Mexico. U.S., Canadian, Chinese and Mexican federal audit issues typically involve the timing of deductions and transfer pricing adjustments. During the first quarter of 2013, the U.S. Internal Revenue Service (“IRS”) commenced its audit of our U.S. income tax returns for 2009 through 2011. The audit was concluded in the second quarter of 2014. Tax examinations by various state taxing authorities could be conducted for years beginning in 2012.

We are no longer subject to Canadian federal income tax examinations by the Canada Revenue Agency (“CRA”) for years before 2007. The CRA commenced its audit of our Canadian income tax returns for 2010 through 2012 in the second quarter of 2014. During the fourth quarter of 2013, the CRA concluded its audit for 2007 through 2009 and issued a letter to us indicating proposed adjustments primarily associated with business realignment charges and transfer pricing. During the third quarter of 2014, the CRA withdrew the proposed adjustments related to business

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realignment charges and transfer pricing of inventory, and we paid a \$2,212 assessment related to other cross-border adjustments. During the fourth quarter of 2014, the CRA concluded its audit for 2010 through 2012 and issued a letter to us indicating proposed transfer pricing adjustments. We provided notice to the U.S. Competent Authority and the CRA provided notice to the Canada Competent Authority of the likely need for their assistance to resolve the adjustments. Accordingly, as of December 31, 2015, we recorded a non-current receivable of approximately \$1,428 associated with the anticipated resolution of the adjustments by the Competent Authority of each country.

We are no longer subject to Chinese federal income tax examinations by the China State Administration of Taxation ("China SAT") for years before 2010. We are no longer subject to Mexican federal income tax examinations by the Servicio de Administracion Tributaria ("Mexico SAT") for years before 2010. We work with the IRS, the CRA, the China SAT and the Mexico SAT to resolve proposed audit adjustments and to minimize the amount of adjustments. We do not anticipate that any potential tax adjustments will have a significant impact on our financial position or results of operations.

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately \$8,649 within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

As of December 31, 2015, we had approximately \$239,099 of undistributed earnings of our international subsidiaries. We intend to continue to reinvest earnings outside the United States for the foreseeable future and, therefore, have not recognized any U.S. tax expense on these earnings.

Investments in Partnerships Qualifying for Tax Credits

In the second quarter of 2015, the Company began making investments in partnership entities which make equity investments in projects eligible to receive federal historic and energy tax credits. The investments are accounted for under the equity method and reported within other assets in our Consolidated Balance Sheets. The tax credits, when realized, are recognized as a reduction of tax expense, at which time the corresponding equity investment is written-down to reflect the remaining value of the future benefits to be realized. For the year ended December 31, 2015, we recognized investment tax credits and related outside basis difference benefit totaling \$43,437, and we wrote-down the equity investment by \$39,489 to reflect the realization of these benefits. The equity investment write-down is reflected within other (income) expense, net in the Consolidated Statements of Income.

**8. BUSINESS REALIGNMENT ACTIVITIES**

Expenses recorded for business realignment activities during 2015, 2014 and 2013 were as follows:

For the years ended December 31,	2015	2014	2013
Cost of sales:			
Other international restructuring programs	\$ 8,801	\$ —	\$ —
Next Century program	—	1,622	402
Total cost of sales	8,801	1,622	402
Selling, marketing and administrative:			
2015 productivity initiative	13,614	—	—
Other international restructuring programs	3,754	2,947	18
Total selling, marketing and administrative	17,368	2,947	18
Business realignment charges:			
2015 productivity initiative	92,139	—	—
Next Century program - plant closure expenses	—	7,465	16,387
Divestiture of Mauna Loa (see Note 2)	2,667	22,256	—
India voluntary retirement program	—	—	2,278
Total business realignment charges	94,806	29,721	18,665
Total charges associated with business realignment activities	<u>\$ 120,975</u>	<u>\$ 34,290</u>	<u>\$ 19,085</u>



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On June 19, 2015, we announced a new productivity initiative (the “2015 Productivity Initiative”) intended to move decision making closer to the customer and the consumer, to enable a more enterprise-wide approach to innovation, to more swiftly advance our knowledge agenda, and to provide for a more efficient cost structure, while ensuring that we effectively allocate resources to future growth areas. Overall, the 2015 Productivity Initiative is intended to simplify the organizational structure to enhance the Company's ability to rapidly anticipate and respond to the changing demands of the global consumer.

The 2015 Productivity Initiative was executed throughout the third and fourth quarters, resulting in a net reduction of approximately 300 positions, with the majority of the departures taking place by the end of 2015. For the year ended December 31, 2015, we incurred charges totaling \$105,753, representing employee severance and related separation benefits as well as incremental third-party costs related to the design and implementation of the new organizational structure. This also includes a pension settlement cost of \$10,178 relating to lump sum withdrawals by employees retiring or leaving the Company as a result of this program.

Total pre-tax charges and costs for this program are expected to be approximately \$120 million, the majority of which are cash. This excludes the impact of the 2015 pension settlement costs and any additional pension settlement costs that could be triggered by additional lump sum withdrawals in 2016. The remaining costs for the 2015 Initiative are expected to be incurred within the first three quarters of 2016.

Other 2015 charges for business realignment activities relate principally to accelerated depreciation and amortization and employee severance costs for a couple of programs commenced in 2014 to rationalize certain non-U.S. manufacturing and distribution activities and to establish our own sales and distribution teams in Brazil in connection with our exit from the Bauducco joint venture.

The 2014 and 2013 charges shown above relate primarily to the demolition of the Company's former manufacturing facility, representing the final phase of the Project Next Century program. This was program was substantially complete as of December 31, 2014.

Segment operating results do not include business realignment and related charges because we evaluate segment performance excluding such charges.

The following table summarizes our business realignment activity for the year ended December 31, 2015:

	<b>Employee related costs</b>	<b>Other exit costs</b>	<b>Other implementation costs</b>	<b>Total</b>
Liability balance at December 31, 2014	\$ 79	\$ —	\$ —	\$ 79
2015 business realignment charges	81,961	—	6,785	88,746
Cash payments	(65,336)	—	(6,785)	(72,121)
Other, net	(394)	—	—	(394)
Liability balance at December 31, 2015	<u>\$ 16,310</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 16,310</u>

The charges reflected in the liability roll-forward above do not include items charged directly to expense, such as accelerated depreciation and amortization and the loss on the Mauna Loa divestiture and certain of the administrative charges associated with the 2015 Initiative, as those items are not reflected in the business realignment liability in our Consolidated Balance Sheets.

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**9. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS**

We sponsor a number of defined benefit pension plans. The primary plans are The Hershey Company Retirement Plan and The Hershey Company Retirement Plan for Hourly Employees. These are cash balance plans that provide pension benefits for most domestic employees hired prior to January 1, 2007. We also sponsor two post-retirement benefit plans: health care and life insurance. The health care plan is contributory, with participants' contributions adjusted annually. The life insurance plan is non-contributory.

**Obligations and Funded Status**

A summary of the changes in benefit obligations, plan assets and funded status of these plans is as follows:

December 31,	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
<b>Change in benefit obligation</b>				
Projected benefits obligation at beginning of year	\$ 1,260,895	\$ 1,120,492	\$ 294,064	\$ 270,937
Service cost	28,300	26,935	542	706
Interest cost	44,179	48,886	10,187	11,696
Plan amendments	67	168	—	—
Actuarial (gain) loss	(51,064)	134,902	(26,887)	35,688
Curtailement	(2,693)	—	292	—
Settlement	(57,193)	—	—	—
Divestiture	(4,047)	—	—	—
Currency translation and other	(11,456)	(6,204)	(2,206)	(1,264)
Benefits paid	(37,564)	(64,284)	(20,375)	(23,699)
Projected benefits obligation at end of year	<u>1,169,424</u>	<u>1,260,895</u>	<u>255,617</u>	<u>294,064</u>
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	1,136,943	1,091,985	—	—
Actual return on plan assets	(19,804)	85,921	—	—
Employer contributions	32,898	29,409	20,375	23,699
Settlement	(57,193)	—	—	—
Divestiture	(2,485)	—	—	—
Currency translation and other	(10,893)	(6,088)	—	—
Benefits paid	(37,564)	(64,284)	(20,375)	(23,699)
Fair value of plan assets at end of year	<u>1,041,902</u>	<u>1,136,943</u>	<u>—</u>	<u>—</u>
<b>Funded status at end of year</b>	<u>\$ (127,522)</u>	<u>\$ (123,952)</u>	<u>\$ (255,617)</u>	<u>\$ (294,064)</u>
<b>Amounts recognized in the Consolidated Balance Sheets:</b>				
Other assets	\$ —	\$ 25	\$ —	\$ —
Accrued liabilities	(4,841)	(9,054)	(24,205)	(25,214)
Other long-term liabilities	(122,681)	(114,923)	(231,412)	(268,850)
Total	<u>\$ (127,522)</u>	<u>\$ (123,952)</u>	<u>\$ (255,617)</u>	<u>\$ (294,064)</u>
<b>Amounts recognized in Accumulated Other Comprehensive Income (Loss), net of tax:</b>				
Actuarial net (loss) gain	\$ (264,570)	\$ (279,625)	\$ 7,574	\$ (7,936)
Net prior service credit (cost)	4,267	5,341	(1,919)	(2,430)
Net amounts recognized in AOCI	<u>\$ (260,303)</u>	<u>\$ (274,284)</u>	<u>\$ 5,655</u>	<u>\$ (10,366)</u>

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The accumulated benefit obligation for all defined benefit pension plans was \$1,129,052 as of December 31, 2015 and \$1,206,929 as of December 31, 2014.

Plans with accumulated benefit obligations in excess of plan assets were as follows:

December 31,	2015	2014
Projected benefit obligation	\$ 1,110,232	\$ 1,193,151
Accumulated benefit obligation	1,081,002	1,151,210
Fair value of plan assets	985,111	1,071,539

**Net Periodic Benefit Cost**

The components of net periodic benefit cost were as follows:

For the years ended December 31,	Pension Benefits			Other Benefits		
	2015	2014	2013	2015	2014	2013
<b>Amounts recognized in net periodic benefit cost</b>						
Service cost	\$ 28,300	\$ 26,935	\$ 31,339	\$ 542	\$ 706	\$ 1,094
Interest cost	44,179	48,886	43,962	10,187	11,696	10,747
Expected return on plan assets	(68,830)	(74,080)	(73,128)	—	—	—
Amortization of prior service (credit) cost	(1,178)	(667)	422	611	616	618
Amortization of net loss (gain)	30,510	23,360	40,397	(57)	(141)	(73)
Curtailed credit	(688)	—	(364)	204	—	—
Settlement loss	23,067	—	18	—	—	—
<b>Total net periodic benefit cost</b>	<b>\$ 55,360</b>	<b>\$ 24,434</b>	<b>\$ 42,646</b>	<b>\$ 11,487</b>	<b>\$ 12,877</b>	<b>\$ 12,386</b>
<b>Change in plan assets and benefit obligations recognized in AOCI, pre-tax</b>						
Actuarial net (gain) loss	\$ (21,554)	\$ 99,136	\$ (230,605)	\$ (26,270)	\$ 36,021	\$ (33,165)
Prior service (credit) cost	1,748	833	(613)	(834)	(629)	(632)
Total recognized in other comprehensive (income) loss, pre-tax	\$ (19,806)	\$ 99,969	\$ (231,218)	\$ (27,104)	\$ 35,392	\$ (33,797)
<b>Net amounts recognized in periodic benefit cost and AOCI</b>	<b>\$ 35,554</b>	<b>\$ 124,403</b>	<b>\$ (188,572)</b>	<b>\$ (15,617)</b>	<b>\$ 48,269</b>	<b>\$ (21,411)</b>

Amounts expected to be amortized from AOCI into net periodic benefit cost during 2016 are as follows:

	Pension Plans	Post-Retirement Benefit Plans
Amortization of net actuarial loss (gain)	\$ 35,230	\$ (49)
Amortization of prior service (credit) cost	\$ (1,046)	\$ 575

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**Assumptions**

The weighted-average assumptions used in computing the benefit obligations were as follows:

December 31,	Pension Benefits		Other Benefits	
	2015	2014	2015	2014
Discount rate	4.0%	3.7%	4.0%	3.7%
Rate of increase in compensation levels	3.8%	4.0%	N/A	N/A

The weighted-average assumptions used in computing net periodic benefit cost were as follows:

For the years ended December 31,	Pension Benefits			Other Benefits		
	2015	2014	2013	2015	2014	2013
Discount rate	3.7%	4.5%	3.7%	3.7%	4.5%	3.7%
Expected long-term return on plan assets	6.3%	7.0%	7.8%	N/A	N/A	N/A
Rate of compensation increase	4.1%	4.0%	4.0%	N/A	N/A	N/A

The Company's discount rate assumption is determined by developing a yield curve based on high quality corporate bonds with maturities matching the plans' expected benefit payment streams. The plans' expected cash flows are then discounted by the resulting year-by-year spot rates.

We based the asset return assumption of 6.3% for 2015, 7.0% for 2014 and 7.8% for 2013 on current and expected asset allocations, as well as historical and expected returns on the plan asset categories. For 2016, we reduced the expected return on plan assets assumption to 6.1% from the 6.3% assumption used during 2015, reflecting lower expected long-term returns due to slowing growth in developed and emerging markets. The historical average return over the 28 years prior to December 31, 2015, was approximately 8.3%.

For purposes of measuring our post-retirement benefit obligation at December 31, 2015, we assumed a 6.5% pre-65 and a 7.3% post-65 annual rate of increase in the per capita cost of covered health care benefits for 2016, grading down to 5.0% by 2019. Similarly, for measurement purposes as of December 31, 2014, we assumed a 7.0% pre-65 and a 8.0% post-65 annual rate of increase in the per capita cost of covered health care benefits for 2015, grading down to 5.0% by 2019. Assumed health care cost trend rates could have a significant effect on the amounts reported for the post-retirement health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects:

Impact of assumed health care cost trend rates	One-Percentage Point Increase	One-Percentage Point Decrease
Effect on total service and interest cost components	\$ 139	\$ (122)
Effect on accumulated post-retirement benefit obligation	3,539	(3,144)

The valuations and assumptions reflect adoption of the Society of Actuaries updated RP-2014 mortality tables with MP-2015 generational projection scales, which we adopted as of December 31, 2015. Adoption of the updated scale did not have a significant impact on our current pension obligations or net period benefit cost since our primary plans are cash balance plans and most participants take lump-sum settlements upon retirement.

**Plan Assets**

We broadly diversify our pension plan assets across domestic and international equities and fixed income asset classes. Our target asset allocation for our major domestic pension plans as of December 31, 2015 was as follows:

Asset Class	Target Asset Allocation
Equity securities	50%
Debt securities	49%
Cash	1%

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As of December 31, 2015, actual allocations were consistent with the targets and within our allowable ranges. We expect the level of volatility in pension plan asset returns to be in line with the overall volatility of the markets within each asset class.

The following table sets forth by level, within the fair value hierarchy (as defined in Note 5), pension plan assets at their fair values as of December 31, 2015:

	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Cash and cash equivalents	\$ 1,763	\$ 30,389	\$ —	\$ 32,152
Equity securities:				
U.S. all-cap (a)	—	138,367	—	138,367
International all-cap (c)	108,862	3,118	—	111,980
Global all-cap (d)	73,157	196,063	—	269,220
Fixed income securities:				
U.S. government/agency	117,378	120,136	—	237,514
Corporate bonds (e)	101,476	37,748	—	139,224
Collateralized obligations (f)	32,532	8,157	—	40,689
International government/ corporate bonds (g)	31,917	40,839	—	72,756
<b>Total assets at fair value</b>	<b>\$ 467,085</b>	<b>\$ 574,817</b>	<b>\$ —</b>	<b>\$ 1,041,902</b>

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair values as of December 31, 2014:

	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total
Cash and cash equivalents	\$ 2,123	\$ 47,702	\$ —	\$ 49,825
Equity securities:				
U.S. all-cap (a)	1,034	140,948	—	141,982
U.S. large-cap (b)	91,363	—	—	91,363
U.S. small/mid-cap	37,797	—	—	37,797
International all-cap (c)	121,901	3,510	—	125,411
Global all-cap (d)	165,131	—	—	165,131
Fixed income securities:				
U.S. government/agency	138,556	42,787	—	181,343
Corporate bonds (e)	144,289	41,248	—	185,537
Collateralized obligations (f)	33,753	24,305	—	58,058
International government/ corporate bonds (g)	53,205	47,291	—	100,496
<b>Total assets at fair value</b>	<b>\$ 789,152</b>	<b>\$ 347,791</b>	<b>\$ —</b>	<b>\$ 1,136,943</b>

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- (a) This category comprises equity funds that track the Russell 3000 index.
- (b) This category comprises equity funds that track the S&P 500 and/or Russell 1000 indices.
- (c) This category comprises equity funds that track the MSCI World Ex-US index.
- (d) This category comprises equity funds that track the MSCI World index and/or MSCI All Country World Index.
- (e) This category comprises fixed income funds primarily invested in investment grade bonds.
- (f) This category comprises fixed income funds primarily invested in high quality mortgage-backed securities and other asset-backed obligations.
- (g) This category comprises fixed income funds invested in Canadian and other international bonds.

The fair value of the Level 1 assets was based on quoted prices in active markets for the identical assets. The fair value of the Level 2 assets was determined by management based on an assessment of valuations provided by asset management entities and was calculated by aggregating market prices for all underlying securities.

Investment objectives for our domestic plan assets are:

- To ensure high correlation between the value of plan assets and liabilities;
- To maintain careful control of the risk level within each asset class; and
- To focus on a long-term return objective.

We believe that there are no significant concentrations of risk within our plan assets as of December 31, 2015. We comply with the rules and regulations promulgated under the Employee Retirement Income Security Act of 1974 (“ERISA”) and we prohibit investments and investment strategies not allowed by ERISA. We do not permit direct purchases of our Company’s securities or the use of derivatives for the purpose of speculation. We invest the assets of non-domestic plans in compliance with laws and regulations applicable to those plans.

**Cash Flows**

Our policy is to fund domestic pension liabilities in accordance with the limits imposed by the ERISA, federal income tax laws and the funding requirements of the Pension Protection Act of 2006. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans.

We made total contributions to the pension plans of \$32,898 during 2015, including contributions of \$22,900 to maintain the funded status of our domestic plans. In 2014, we made total contributions of \$29,409 to the pension plans. For 2016, minimum funding requirements for our pension plans are approximately \$800 and we expect to make additional contributions of approximately \$18,500 to maintain the funded status of our domestic plans.

Total benefit payments expected to be paid to plan participants, including pension benefits funded from the plans and other benefits funded from Company assets, are as follows:

	Expected Benefit Payments					
	2016	2017	2018	2019	2020	2021-2025
Pension Benefits	\$ 178,748	\$ 93,577	\$ 72,676	\$ 76,944	\$ 82,176	\$ 447,262
Other Benefits	24,233	22,478	20,574	18,979	17,790	76,248

The pension benefit payments expected for 2016 include additional lump sum withdrawals related to the 2015 Productivity Initiative (see Note 8).

**Multiemployer Pension Plan**

With the acquisition of Brookside Foods Ltd. in January 2012, we began participation in the BCTGM Union and Industry Canadian Pension Plan, a trustee-managed multiemployer defined benefit pension plan. We currently have approximately 140 employees participating in the plan and contributions were not significant in 2015, 2014 or 2013. Our obligation during the term of the collective bargaining agreement is limited to remitting the required contributions to the plan.

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**Savings Plans**

The Company sponsors several defined contribution plans to provide retirement benefits to employees. Contributions to The Hershey Company 401(k) Plan and similar plans for non-domestic employees are based on a portion of eligible pay up to a defined maximum. All matching contributions were made in cash. Expense associated with the defined contribution plans was \$44,285 in 2015, \$46,064 in 2014 and \$43,257 in 2013.

**10. STOCK COMPENSATION PLANS**

Share-based grants for compensation and incentive purposes are made pursuant to the Equity and Incentive Compensation Plan (“EICP”). The EICP provides for grants of one or more of the following stock-based compensation awards to employees, non-employee directors and certain service providers upon whom the successful conduct of our business is dependent:

- Non-qualified stock options (“stock options”);
- Performance stock units (“PSUs”) and performance stock;
- Stock appreciation rights;
- Restricted stock units (“RSUs”) and restricted stock; and
- Other stock-based awards.

As of December 31, 2015, 68.5 million shares were authorized and approved by our stockholders for grants under the EICP. The EICP also provides for the deferral of stock-based compensation awards by participants if approved by the Compensation and Executive Organization Committee of our Board and if in accordance with an applicable deferred compensation plan of the Company. Currently, the Compensation and Executive Organization Committee has authorized the deferral of PSU and RSU awards by certain eligible employees under the Company’s Deferred Compensation Plan. Our Board has authorized our non-employee directors to defer any portion of their cash retainer, committee chair fees and RSUs awarded after 2007 that they elect to convert into deferred stock units under our Directors’ Compensation Plan.

For the periods presented, compensation expense for all types of stock-based compensation programs and the related income tax benefit recognized were as follows:

<b>For the years ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Pre-tax compensation expense	\$ 51,533	\$ 54,068	\$ 53,984
Related income tax benefit	17,109	18,653	18,517

Compensation costs for stock compensation plans are primarily included in selling, marketing and administrative expense. As of December 31, 2015, total stock-based compensation cost related to non-vested awards not yet recognized was \$54,526 and the weighted-average period over which this amount is expected to be recognized was approximately 2.2 years.

**Stock Options**

The exercise price of each stock option awarded under the EICP equals the closing price of our Common Stock on the New York Stock Exchange on the date of grant. Each stock option has a maximum term of 10 years. Grants of stock options provide for pro-rated vesting, typically over a four year period. Expense for stock options is based on grant date fair value and recognized on a straight-line method over the vesting period.

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A summary of activity relating to grants of stock options for the year ended December 31, 2015 is as follows:

<b>Stock Options</b>	<b>Shares</b>	<b>Weighted-Average Exercise Price (per share)</b>	<b>Weighted-Average Remaining Contractual Term</b>	<b>Aggregate Intrinsic Value</b>
Outstanding at beginning of the period	7,319,377	\$66.69	6.3 years	
Granted	1,355,575	\$105.18		
Exercised	(1,449,054)	\$52.78		
Forfeited	(383,335)	\$99.20		
Outstanding as of December 31, 2015	<u>6,842,563</u>	\$75.48	5.8 years	\$ 128,710
Options exercisable as of December 31, 2015	<u>4,284,014</u>	\$63.21	4.3 years	\$ 118,232

The weighted-average fair value of options granted was \$18.99, \$21.50 and \$14.51 per share in 2015, 2014 and 2013, respectively. The fair value was estimated on the date of grant using a Black-Scholes option-pricing model and the following weighted-average assumptions:

<b>For the years ended December 31,</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Dividend yields	2.1%	2.0%	2.2%
Expected volatility	20.7%	22.3%	22.2%
Risk-free interest rates	1.9%	2.1%	1.4%
Expected lives in years	6.7	6.7	6.6

- “Dividend yields” means the sum of dividends declared for the four most recent quarterly periods, divided by the average price of our Common Stock for the comparable periods;
- “Expected volatility” means the historical volatility of our Common Stock over the expected term of each grant;
- “Risk-free interest rates” means the U.S. Treasury yield curve rate in effect at the time of grant for periods within the contractual life of the stock option; and
- “Expected lives” means the period of time that stock options granted are expected to be outstanding based primarily on historical data.

The total intrinsic value of options exercised was \$66,161, \$133,948 and \$135,396 in 2015, 2014 and 2013, respectively.

As of December 31, 2015, there was \$19,008 of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted under the EICP, which we expect to recognize over a weighted-average period of 2.4 years.



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The following table summarizes information about stock options outstanding as of December 31, 2015:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/15	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/15	Weighted-Average Exercise Price
\$33.40 - \$56.33	1,998,058	3.2	\$44.52	1,998,058	\$44.52
\$60.68 - \$81.73	2,420,944	5.8	\$71.38	1,658,197	\$69.89
\$86.75 - \$106.65	2,423,561	7.9	\$105.09	627,759	\$105.09
\$33.40 - \$106.65	6,842,563	5.8	\$75.48	4,284,014	\$63.21

**Performance Stock Units and Restricted Stock Units**

Under the EICP, we grant PSUs to selected executives and other key employees. Vesting is contingent upon the achievement of certain performance objectives. We grant PSUs over 3-year performance cycles. If we meet targets for financial measures at the end of the applicable 3-year performance cycle, we award a resulting number of shares of our Common Stock to the participants. For each PSU granted from 2013 through 2015, 50% of the target award was comprised of a market-based total shareholder return component and 50% of the target award was comprised of performance-based components. The performance scores for 2013 through 2015 grants of PSUs can range from 0% to 250% of the targeted amounts.

We recognize the compensation cost associated with PSUs ratably over the 3-year term. Compensation cost is based on the grant date fair value because the grants can only be settled in shares of our Common Stock. The grant date fair value of PSUs is determined based on the Monte Carlo simulation model for the market-based total shareholder return component and the closing market price of the Company's Common Stock on the date of grant for performance-based components.

In 2015, 2014 and 2013, we awarded RSUs to certain executive officers and other key employees under the EICP. We also awarded RSUs quarterly to non-employee directors.

We recognize the compensation cost associated with employee RSUs over a specified restriction period based on the grant date fair value or year-end market value of our Common Stock. We recognize expense for employee RSUs based on the straight-line method. We recognize the compensation cost associated with non-employee director RSUs ratably over the vesting period.

A summary of activity relating to grants of PSUs and RSUs for the period ended December 31, 2015 is as follows:

Performance Stock Units and Restricted Stock Units	Number of units	Weighted-average grant date fair value for equity awards or market value for liability awards (per unit)
Outstanding at beginning of year	904,306	\$94.48
Granted	381,407	\$104.68
Performance assumption change	(281,902)	\$107.39
Vested	(452,118)	\$75.40
Forfeited	(56,486)	\$111.39
Outstanding at end of year	495,207	\$106.40

The table above excludes PSU awards for 20,586 units as of December 31, 2015 and 25,462 units as of December 31, 2014 for which the measurement date has not yet occurred for accounting purposes.

The following table sets forth information about the fair value of the PSUs and RSUs granted for potential future distribution to employees and non-employee directors. In addition, the table provides assumptions used to determine the fair value of the market-based total shareholder return component using the Monte Carlo simulation model on the date of grant.

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For the years ended December 31,	2015	2014	2013
Units granted	381,407	331,788	395,862
Weighted-average fair value at date of grant	\$ 104.68	\$ 115.57	\$ 88.49
Monte Carlo simulation assumptions:			
Estimated values	\$ 61.22	\$ 80.95	\$ 55.49
Dividend yields	2.0%	1.8%	2.0%
Expected volatility	14.9%	15.5%	17.1%

- “Estimated values” means the fair value for the market-based total shareholder return component of each PSU at the date of grant using a Monte Carlo simulation model;
- “Dividend yields” means the sum of dividends declared for the four most recent quarterly periods, divided by the average price of our Common Stock for the comparable periods;
- “Expected volatility” means the historical volatility of our Common Stock over the expected term of each grant.

The intrinsic value of share-based liabilities paid, combined with the fair value of shares vested, totaled \$46,113, \$57,360 and \$62,582 in 2015, 2014 and 2013, respectively.

Deferred PSUs, deferred RSUs and deferred stock units representing directors’ fees totaled 505,992 units as of December 31, 2015. Each unit is equivalent to one share of the Company’s Common Stock.

## 11. SEGMENT INFORMATION

Our organizational structure is designed to ensure continued focus on North America, coupled with an emphasis on accelerating growth in our focus international markets, as we transform into a more global company. Our business is organized around geographic regions, which enables us to build processes for repeatable success in our global markets. The Presidents of our geographic regions, along with the Senior Vice President responsible for our Global Retail and Licensing business, are accountable for delivering our annual financial plans and report into our CEO, who serves as our Chief Operating Decision Maker (“CODM”), so we have defined our operating segments on a geographic basis. Our North America business currently generates over 87% of our consolidated revenue and none of our other geographic regions are individually significant. Therefore, we currently define our reportable segments as follows:

- **North America** - This segment is responsible for our traditional chocolate and non-chocolate confectionery market position, as well as our grocery and growing snacks market positions, in the United States and Canada. This includes developing and growing our business in chocolate and non-chocolate confectionery, pantry, food service and other snacking product lines.
- **International and Other** - This segment includes all other countries where The Hershey Company currently manufactures, imports, markets, sells or distributes chocolate and non-chocolate confectionery and other products. Currently, this includes our operations in China and other Asia markets, Latin America, Europe, Africa and the Middle East, along with exports to these regions. While a less significant component, this segment also includes our global retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania, New York City, Chicago, Las Vegas, Shanghai, Niagara Falls (Ontario), Dubai, and Singapore, as well as operations associated with licensing the use of certain of the Company's trademarks and products to third parties around the world.

For segment reporting purposes, we use “segment income” to evaluate segment performance and allocate resources. Segment income excludes unallocated general corporate administrative expenses, as well as business realignment and impairment charges, acquisition-related costs, the non-service related portion of pension expense and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the CODM.

Accounting policies associated with our operating segments are generally the same as those described in Note 1.

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Certain manufacturing, warehousing, distribution and other activities supporting our global operations are integrated to maximize efficiency and productivity. As a result, assets and capital expenditures are not managed on a segment basis and are not included in the information reported to the CODM for the purpose of evaluating performance or allocating resources. We disclose depreciation and amortization that is generated by segment-specific assets, since these amounts are included within the measure of segment income reported to the CODM.

Our segment net sales and earnings were as follows:

For the years ended December 31,	2015	2014	2013
Net sales:			
North America	\$ 6,468,158	\$ 6,352,729	\$ 6,200,118
International and Other	918,468	1,069,039	945,961
Total	<u>\$ 7,386,626</u>	<u>\$ 7,421,768</u>	<u>\$ 7,146,079</u>
Segment income:			
North America	\$ 2,073,967	\$ 1,916,207	\$ 1,862,636
International and Other	(98,067)	40,004	44,587
Total segment income	1,975,900	1,956,211	1,907,223
Unallocated corporate expense (1)	497,386	503,234	535,130
Goodwill and other intangible asset impairment	280,802	15,900	—
Charges associated with business realignment activities	120,975	34,290	19,085
Non-service related pension expense (income)	18,079	(1,834)	10,885
Acquisition and integration costs	20,899	12,360	4,072
Operating profit	1,037,759	1,392,261	1,338,051
Interest expense, net	105,773	83,532	88,356
Other (income) expense, net	30,139	2,686	(1,624)
Income before income taxes	<u>\$ 901,847</u>	<u>\$ 1,306,043</u>	<u>\$ 1,251,319</u>

- (1) Includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance, and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense, and (d) other gains or losses that are not integral to segment performance.

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Depreciation and amortization expense included within segment income presented above is as follows:

For the years ended December 31,	2015	2014	2013
North America	\$ 153,185	\$ 146,475	\$ 143,640
International and Other	46,342	28,463	23,461
Corporate	45,401	36,594	33,932
Total	<u>\$ 244,928</u>	<u>\$ 211,532</u>	<u>\$ 201,033</u>

Additional geographic information is as follows:

	2015	2014	2013
Net sales:			
United States	\$ 6,116,490	\$ 5,996,564	\$ 5,832,070
Other	1,270,136	1,425,204	1,314,009
Total	<u>\$ 7,386,626</u>	<u>\$ 7,421,768</u>	<u>\$ 7,146,079</u>
Long-lived assets:			
United States	\$ 1,528,723	\$ 1,477,455	\$ 1,474,155
Other	711,737	674,446	331,190
Total	<u>\$ 2,240,460</u>	<u>\$ 2,151,901</u>	<u>\$ 1,805,345</u>

## 12. EQUITY AND NONCONTROLLING INTERESTS

We had 1,055,000,000 authorized shares of capital stock as of December 31, 2015. Of this total, 900,000,000 shares were designated as Common Stock, 150,000,000 shares were designated as Class B Stock and 5,000,000 shares were designated as Preferred Stock. Each class has a par value of one dollar per share.

Changes in the outstanding shares of Common Stock for the past three years were as follows:

For the years ended December 31,	2015	2014	2013
Shares issued	359,901,744	359,901,744	359,901,744
Treasury shares at beginning of year	(138,856,786)	(136,007,023)	(136,115,714)
Stock repurchases:			
Repurchase programs	(4,209,112)	(2,135,268)	—
Stock-based compensation programs	(1,776,838)	(3,676,513)	(3,655,830)
Stock issuances:			
Stock-based compensation programs	1,718,352	2,962,018	3,764,521
Treasury shares at end of year	(143,124,384)	(138,856,786)	(136,007,023)
Net shares outstanding at end of year	<u>216,777,360</u>	<u>221,044,958</u>	<u>223,894,721</u>

Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors. The holders of Common Stock have 1 vote per share and the holders of Class B Stock have 10 votes per share. However, the Common Stock holders, voting separately as a class, are entitled to elect one-sixth of the Board. With respect to dividend rights, the Common Stock holders are entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 2015, no shares of Class B Stock were converted into Common Stock. During 2014, 440 shares were converted and during 2013, 8,600 shares were converted.

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**Hershey Trust Company**

Hershey Trust Company, as trustee for the benefit of Milton Hershey School and as direct owner of investment shares, held 12,902,921 shares of our Common Stock as of December 31, 2015. As trustee for the benefit of Milton Hershey School, Hershey Trust Company held 60,612,012 shares of the Class B Stock as of December 31, 2015, and was entitled to cast approximately 80% of all of the votes entitled to be cast on matters requiring the vote of both classes of our common stock voting together. Hershey Trust Company, as trustee for the benefit of Milton Hershey School, or any successor trustee, or Milton Hershey School, as appropriate, must approve any issuance of shares of Common Stock or other action that would result in it not continuing to have voting control of our Company.

**Noncontrolling Interests in Subsidiaries**

We currently own a 50% controlling interest in Lotte Shanghai Food Company (“LSFC”), a joint venture established in 2007 in China for the purpose of manufacturing and selling product to the venture partners.

At December 31, 2014, we owned a 51% controlling interest in Hershey do Brasil under a cooperative agreement with Pandurata Netherlands B.V. (“Bauducco”), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. At the end of 2014, per the terms of the prevailing quotaholder’s agreement, Bauducco provided notice of its intent to sell its 49% interest to us at an amount equal to fair value.

Because the noncontrolling interest held by Bauducco was redeemable as a result of the put right, the balance sheet presentation of the noncontrolling interest during 2015 was revised to be reflected as a redeemable noncontrolling interest. The balance was increased in the first three quarters of 2015 by a total of \$33,915, in order to reflect the balance at its redemption value based on the internal valuation for the business. The offset of this adjustment was recorded to additional paid in capital. We purchased the remaining 49% interest in Hershey do Brasil in September.

A roll-forward showing the 2015 activity relating to the noncontrolling interests and redeemable noncontrolling interest follows:

	<b>Noncontrolling Interests</b>	<b>Redeemable Noncontrolling Interest</b>
Balance, December 31, 2014	\$ 64,468	\$ —
Reclassification from Total Equity to Redeemable Noncontrolling Interest	(13,428)	13,428
Net income (loss) attributable to noncontrolling interests (1)	577	(4,393)
Other comprehensive loss - foreign currency translation adjustments	(2,152)	(2,334)
Adjustment to redemption value	—	33,915
Other	—	(2,346)
Purchase of redeemable noncontrolling interest	—	(38,270)
Balance, December 31, 2015	<u>\$ 49,465</u>	<u>\$ —</u>

(1) Amounts are not considered significant and are presented within selling, marketing and administrative expenses.

**13. COMMITMENTS AND CONTINGENCIES**

We enter into certain obligations for the purchase of raw materials. These obligations are primarily in the form of forward contracts for the purchase of raw materials from third-party brokers and dealers. These contracts minimize the effect of future price fluctuations by fixing the price of part or all of these purchase obligations. Total obligations consisted of fixed price contracts for the purchase of commodities and unpriced contracts that were valued using market prices as of December 31, 2015.

The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. We mitigate the variability of these costs to the extent that we have entered into commodities futures contracts or other commodity derivative instruments to hedge our costs for those periods. Increases or decreases in market prices are offset by gains or losses on commodities futures contracts or other commodity derivative instruments. Taking delivery of and making payments for the specific commodities for use in the manufacture of finished goods satisfies

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our obligations under the forward purchase contracts. For each of the three years in the period ended December 31, 2015, we satisfied these obligations by taking delivery of and making payment for the specific commodities.

As of December 31, 2015, we had entered into purchase agreements with various suppliers. Subject to meeting our quality standards, the purchase obligations covered by these agreements were as follows as of December 31, 2015:

In millions of dollars	2016	2017	2018	2019
Purchase obligations	\$ 1,343.1	\$ 880.0	\$ 87.9	\$ 22.4

We have commitments under various lease obligations. Future minimum payments under lease obligations with a remaining term in excess of one year were as follows as of December 31, 2015:

In millions of dollars	2016	2017	2018	2019	2020	Thereafter
Future minimum rental payments	\$ 12.6	\$ 9.6	\$ 3.7	\$ 1.2	\$ 0.4	\$ 0.7

Future minimum rental payments reflect commitments under non-cancelable operating leases primarily for offices, retail stores, warehouse and distribution facilities, and certain equipment. Total rent expense for the years ended December 31, 2015, 2014 and 2013 was \$19,754, \$21,423 and \$16,972, respectively, including short-term rentals.

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. Our asbestos management program is compliant with current applicable regulations, which require that we handle or dispose of asbestos in a special manner if such facilities undergo major renovations or are demolished. Costs associated with the removal of asbestos related to the closure of a manufacturing facility under the Next Century program were recorded primarily in 2012 and included in business realignment and impairment charges. The costs associated with the removal of asbestos from the facility were not material. With regard to other facilities, we do not have sufficient information to estimate the fair value of any asset retirement obligations related to these facilities. We cannot specify the settlement date or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected present value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal of significant quantities of asbestos.

***Legal contingencies***

In 2007, the Competition Bureau of Canada began an inquiry into alleged violations of the Canadian *Competition Act* in the sale and supply of chocolate products sold in Canada between 2002 and 2008 by members of the confectionery industry, including Hershey Canada, Inc. The U.S. Department of Justice also notified the Company in 2007 that it had opened an inquiry, but has not requested any information or documents.

Subsequently, 13 civil lawsuits were filed in Canada and 91 civil lawsuits were filed in the United States against the Company. The lawsuits were instituted on behalf of direct purchasers of our products as well as indirect purchasers that purchase our products for use or for resale. Several other chocolate and confectionery companies were named as defendants in these lawsuits as they also were the subject of investigations and/or inquiries by the government entities referenced above. The cases sought recovery for losses suffered as a result of alleged conspiracies in restraint of trade in connection with the pricing practices of the defendants.

The Canadian civil cases were settled in 2012. Hershey Canada, Inc. reached a settlement agreement with the Competition Bureau of Canada through their Leniency Program with regard to an inquiry into alleged violations of the Canadian *Competition Act* in the sale and supply of chocolate products sold in Canada by members of the confectionery industry. On June 21, 2013, Hershey Canada, Inc. pleaded guilty to one count of price fixing related to communications with competitors in Canada in 2007 and paid a fine of approximately \$4.0 million. Hershey Canada, Inc. had promptly reported the conduct to the Competition Bureau, cooperated fully with its investigation and did not implement the planned price increase that was the subject of the 2007 communications.

With regard to the U.S. lawsuits, the Judicial Panel on Multidistrict Litigation assigned the cases to the U.S. District Court for the Middle District of Pennsylvania (the "District Court"). Plaintiffs sought actual and treble damages against the Company and other defendants based on an alleged overcharge for certain, or in some cases all, chocolate products sold in the U.S. between December 2002 and December 2007, and certain plaintiff groups alleged damages

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that extended beyond the alleged conspiracy period. The lawsuits had been proceeding on different scheduling tracks for different groups of plaintiffs.

On February 26, 2014, the District Court granted summary judgment to the Company in the cases brought by the direct purchaser plaintiffs that had not sought class certification as well as those that had been certified as a class. The direct purchaser plaintiffs appealed the District Court's decision to the United States Court of Appeals for the Third Circuit ("Third Circuit") in May 2014. On September 15, 2015, the Third Circuit affirmed the District Court's summary judgment decision.

The remaining plaintiff groups - the putative class plaintiffs that purchased product indirectly for resale, the putative class plaintiffs that purchased product indirectly for use, and direct purchaser Associated Wholesale Grocers, Inc. - dismissed their cases with prejudice, subject to reinstatement if the Third Circuit were to reverse the District Court's summary judgment decision. The District Court entered judgment closing the case on April 17, 2014.

We currently have no material pending legal proceedings, other than ordinary routine litigation incidental to our business.

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**14. EARNINGS PER SHARE**

We compute basic earnings per share for Common Stock and Class B common stock using the two-class method. The Class B common stock is convertible into Common Stock on a share-for-share basis at any time. The computation of diluted earnings per share for Common Stock assumes the conversion of Class B common stock using the if-converted method, while the diluted earnings per share of Class B common stock does not assume the conversion of those shares.

We compute basic and diluted earnings per share based on the weighted-average number of shares of Common Stock and Class B common stock outstanding as follows:

For the years ended December 31,	2015		2014		2013	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Basic earnings per share:						
Numerator:						
Allocation of distributed earnings (cash dividends paid)	\$ 352,953	\$ 123,179	\$ 328,752	\$ 111,662	\$ 294,979	\$ 98,822
Allocation of undistributed earnings	27,324	9,495	303,801	102,697	319,883	106,786
Total earnings—basic	\$ 380,277	\$ 132,674	\$ 632,553	\$ 214,359	\$ 614,862	\$ 205,608
Denominator (shares in thousands):						
Total weighted-average shares—basic	158,471	60,620	161,935	60,620	163,549	60,627
Earnings Per Share—basic	\$ 2.40	\$ 2.19	\$ 3.91	\$ 3.54	\$ 3.76	\$ 3.39
Diluted earnings per share:						
Numerator:						
Allocation of total earnings used in basic computation	\$ 380,277	\$ 132,674	\$ 632,553	\$ 214,359	\$ 614,862	\$ 205,608
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	132,674	—	214,359	—	205,608	—
Reallocation of undistributed earnings	—	(69)	—	(1,071)	—	(1,461)
Total earnings—diluted	\$ 512,951	\$ 132,605	\$ 846,912	\$ 213,288	\$ 820,470	\$ 204,147
Denominator (shares in thousands):						
Number of shares used in basic computation	158,471	60,620	161,935	60,620	163,549	60,627
Weighted-average effect of dilutive securities:						
Conversion of Class B common stock to Common shares outstanding	60,620	—	60,620	—	60,627	—
Employee stock options	1,335	—	1,920	—	2,476	—
Performance and restricted stock options	225	—	362	—	551	—
Total weighted-average shares—diluted	220,651	60,620	224,837	60,620	227,203	60,627
Earnings Per Share—diluted	\$ 2.32	\$ 2.19	\$ 3.77	\$ 3.52	\$ 3.61	\$ 3.37

The earnings per share calculations for the years ended December 31, 2015, December 31, 2014 and December 31, 2013 excluded 2,660, 1,510 and 1,757 stock options, respectively, that would have been antidilutive.



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**15. SUPPLEMENTAL BALANCE SHEET INFORMATION**

The components of certain Consolidated Balance Sheet accounts are as follows:

December 31,	2015	2014
<b>Inventories:</b>		
Raw materials	\$ 353,451	\$ 377,620
Goods in process	67,745	63,916
Finished goods	534,983	531,608
Inventories at FIFO	956,179	973,144
Adjustment to LIFO	(205,209)	(172,108)
Total inventories	<u>\$ 750,970</u>	<u>\$ 801,036</u>
<b>Property, plant and equipment:</b>		
Land	\$ 96,666	\$ 95,913
Buildings	1,084,958	1,031,050
Machinery and equipment	2,886,723	2,863,559
Construction in progress	448,956	338,085
Property, plant and equipment, gross	4,517,303	4,328,607
Accumulated depreciation	(2,276,843)	(2,176,706)
Property, plant and equipment, net	<u>\$ 2,240,460</u>	<u>\$ 2,151,901</u>
<b>Other assets:</b>		
Pension	\$ —	\$ 25
Capitalized software, net	68,004	63,252
Income tax receivable	1,428	1,568
Other non-current assets	85,934	71,281
Total other assets	<u>\$ 155,366</u>	<u>\$ 136,126</u>
<b>Accrued liabilities:</b>		
Payroll, compensation and benefits	\$ 215,638	\$ 225,439
Advertising and promotion	337,945	326,647
Due to SGM shareholders	72,025	98,884
Other	231,359	162,543
Total accrued liabilities	<u>\$ 856,967</u>	<u>\$ 813,513</u>
<b>Other long-term liabilities:</b>		
Post-retirement benefits liabilities	\$ 231,412	\$ 268,850
Pension benefits liabilities	122,681	114,923
Other	114,625	142,230
Total other long-term liabilities	<u>\$ 468,718</u>	<u>\$ 526,003</u>

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**16. QUARTERLY DATA (Unaudited)**

Summary quarterly results were as follows:

Year 2015	First	Second	Third <sup>(b)</sup>	Fourth <sup>(b)</sup>
Net sales	\$1,937,800	\$1,578,825	\$1,960,779	\$1,909,222
Gross profit	900,843	735,408	868,706	877,718
Net income (loss)	244,737	(99,941)	140,266	227,889
Common stock:				
Net income (loss) per share—Basic <sup>(a)</sup>	1.14	(0.47)	0.66	1.08
Net income (loss) per share—Diluted	1.10	(0.47)	0.64	1.04
Dividends paid per share	0.535	0.535	0.583	0.583
Class B common stock:				
Net income (loss) per share—Basic <sup>(a)</sup>	1.04	(0.42)	0.60	0.98
Net income (loss) per share—Diluted <sup>(a)</sup>	1.03	(0.42)	0.60	0.98
Dividends paid per share	0.486	0.486	0.530	0.530
Market price—common stock:				
High	110.78	101.74	94.31	97.07
Low	98.52	87.86	85.13	83.58

Year 2014	First	Second	Third	Fourth
Net sales	\$1,871,813	\$1,578,350	\$1,961,578	\$2,010,027
Gross profit	871,490	717,474	860,137	887,065
Net income	252,495	168,168	223,741	202,508
Common stock:				
Net income per share—Basic <sup>(a)</sup>	1.16	0.78	1.03	0.94
Net income per share—Diluted	1.11	0.75	1.00	0.91
Dividends paid per share	0.485	0.485	0.535	0.535
Class B common stock:				
Net income per share—Basic	1.04	0.70	0.94	0.85
Net income per share—Diluted	1.03	0.70	0.94	0.85
Dividends paid per share	0.435	0.435	0.486	0.486
Market price—common stock:				
High	108.07	104.11	96.93	106.64
Low	95.54	96.02	88.15	91.09

- (a) Quarterly income per share amounts do not total to the annual amount due to changes in weighted-average shares outstanding during the year, as well as the impact of excluding dilutive securities in the period in which there was a net loss.
- (b) The Company identified a material weakness in its internal control over financial reporting related to hedge accounting compliance for cocoa commodity derivatives. As a result, hedge accounting treatment for cocoa commodity derivatives was disallowed for the third and fourth quarters of 2015; therefore the impact of changes in fair value of the cocoa commodity futures outstanding during these periods should have been recorded within cost of sales as incurred, instead of deferred within AOCI. Such gains (losses) totaled \$(23,358) for the third quarter of 2015 and an essentially offsetting amount for the fourth quarter of 2015. The amounts presented above for the third and fourth quarters of 2015 reflect the impact of reclassifying these gains (losses) deferred within AOCI to cost of sales for the respective periods.

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**Item 9A. CONTROLS AND PROCEDURES**

**(a) Evaluation of Disclosure Controls and Procedures**

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the “Exchange Act”)) designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms, and such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company’s disclosure controls and procedures as of December 31, 2015. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2015, solely due to a material weakness in our internal control over financial reporting related to hedge accounting compliance for cocoa commodity derivatives as described in the Management Report on Internal Control over Financial Reporting that follows.

**(b) Management Report on Internal Control over Financial Reporting**

The management of The Hershey Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f) and 15d-15(f). The Company’s internal control system is designed to provide reasonable assurance to the Company’s management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

To assess the effectiveness of internal control over financial reporting, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission’s 2013 Framework. Because of the deficiency described below, management concluded that, as of December 31, 2015, there was a material weakness in the Company’s internal control over financial reporting and, therefore, the Company did not maintain effective internal control over financial reporting as of December 31, 2015.

Management has identified a material weakness in its internal control over financial reporting that existed as of December 31, 2015, solely related to its accounting for cocoa derivative financial instruments pursuant to the provisions of FASB ASC Topic 815, *Derivatives and Hedging* (ASC 815). This material weakness arose in the quarter ended October 4, 2015, and was the result of changes the Company made in the third quarter of fiscal 2015 to its hedging program and related controls. Specifically, the control designed to monitor compliance with the Company’s hedge documentation did not operate as designed during the third and fourth quarters of fiscal 2015. As a result, instances of non-compliance with our hedging program related to cocoa derivatives occurred and were not detected timely and, therefore, we did not meet the technical requirements to qualify for cash flow hedge accounting treatment under ASC 815.

This material weakness resulted in an immaterial error in cost of goods sold and accumulated other comprehensive income in the Company’s financial statements as of and for the quarter ended October 4, 2015. For details of the quarterly impact, please refer to Note 16, *Quarterly Data*. In light of this material weakness, prior to filing this Annual Report on Form 10-K, we completed additional procedures and analysis designed to ensure the reliability of our financial reporting. Based on such procedures and analysis, we concluded that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented in conformity with U.S. GAAP.

The Company's independent registered public accounting firm, KPMG LLP, has audited the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, which report is included in Item 8 of this Form 10-K.

**(c) Remediation Plan for Material Weaknesses in Internal Control Over Financial Reporting**

The Company previously announced its intention, effective January 1, 2016, to no longer designate its existing or future purchases of commodity derivatives, including cocoa derivatives, as cash flow hedges and will not elect to qualify for hedge accounting treatment. As a result, the controls associated with monitoring compliance with ASC 815 to qualify for hedge accounting are no longer relevant for our commodity hedges; therefore, there is no need for remediation of the material weakness.

**(d) Changes in Internal Control Over Financial Reporting**

Except for the matters noted in (c) above, there were no other changes in our internal control over financial reporting during the fourth quarter of 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. OTHER INFORMATION**

None.

## PART III

### **Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information regarding executive officers of the Company required by Item 401 of SEC Regulation S-K is incorporated herein by reference from the disclosure included under the caption “SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT” at the end of Part I of this Annual Report on Form 10-K.

The information required by Item 401 of SEC Regulation S-K concerning the directors and nominees for director of the Company, together with a discussion of the specific experience, qualifications, attributes and skills that led the Board to conclude that the director or nominee should serve as a director at this time, will be located in the Proxy Statement in the section entitled “PROPOSAL NO. 1 – ELECTION OF DIRECTORS,” which information is incorporated herein by reference.

Information regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and information regarding the status of one or more members of the Audit Committee as an “audit committee financial expert” will be located in the Proxy Statement in the section entitled “MEETINGS AND COMMITTEES OF THE BOARD – Committees of the Board,” which information is incorporated herein by reference.

Reporting of any inadvertent late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, will be located in the Proxy Statement in the section entitled “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE,” which information is incorporated herein by reference.

Information regarding our Code of Ethical Business Conduct applicable to our directors, officers and employees is located in Part I of this Annual Report on Form 10-K, under the heading “Available Information.”

### **Item 11. EXECUTIVE COMPENSATION**

Information regarding the compensation of each of our named executive officers, including our Chief Executive Officer, will be located in the Proxy Statement in the section entitled “COMPENSATION DISCUSSION & ANALYSIS,” which information is incorporated herein by reference. Information regarding the compensation of our directors will be located in the Proxy Statement in the section entitled “NON-EMPLOYEE DIRECTOR COMPENSATION,” which information is incorporated herein by reference.

The information required by Item 407(e)(4) of SEC Regulation S-K will be located in the Proxy Statement in the section entitled “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION,” which information is incorporated herein by reference.

The information required by Item 407(e)(5) of SEC Regulation S-K will be located in the Proxy Statement in the section entitled “Compensation Committee Report,” which information is incorporated herein by reference.

### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information concerning ownership of our voting securities by certain beneficial owners, individual nominees for director, the named executive officers, including persons serving as our Chief Executive Officer and Chief Financial Officer, and directors and executive officers as a group, will be located in the Proxy Statement in the section entitled “SHARE OWNERSHIP OF DIRECTORS, MANAGEMENT AND CERTAIN BENEFICIAL OWNERS,” which information is incorporated herein by reference.

Information regarding all of the Company’s equity compensation plans will be located in the Proxy Statement in the section entitled “EQUITY COMPENSATION PLAN INFORMATION,” which information is incorporated herein by reference.

**Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Information regarding transactions with related persons will be located in the Proxy Statement in the section entitled “CERTAIN TRANSACTIONS AND RELATIONSHIPS,” which information is incorporated herein by reference. Information regarding director independence will be located in the Proxy Statement in the section entitled “CORPORATE GOVERNANCE – Director Independence,” which information is incorporated herein by reference.

**Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information regarding “Principal Accounting Fees and Services,” including the policy regarding pre-approval of audit and non-audit services performed by our Company’s independent auditors, will be located in the Proxy Statement in the section entitled “INFORMATION ABOUT OUR INDEPENDENT AUDITORS,” which information is incorporated herein by reference.

## PART IV

### **Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

#### **Item 15(a)(1): Financial Statements**

The audited consolidated financial statements of The Hershey Company and its subsidiaries and the Report of Independent Registered Public Accounting Firm thereon, as required to be filed, are located under Item 8 of this Annual Report on Form 10-K.

#### **Item 15(a)(2): Financial Statement Schedule**

Schedule II—Valuation and Qualifying Accounts (see page 102) for The Hershey Company and its subsidiaries for the years ended December 31, 2015, 2014 and 2013 is filed as required by Item 15(c).

We omitted other schedules because they are not applicable or the required information is set forth in the consolidated financial statements or notes thereto.

#### **Item 15(a)(3): Exhibits**

The information called for by this Item is incorporated by reference from the Exhibit Index included in this Annual Report on Form 10-K.





**THE HERSHEY COMPANY AND SUBSIDIARIES**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**For the Years Ended December 31, 2015, 2014 and 2013**

Description	Balance at Beginning of Period	Additions		Deductions from Reserves	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
<b>In thousands of dollars</b>					
<b>For the year ended December 31, 2015</b>					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$ 15,885	\$ 172,622	\$ —	\$ (155,869)	\$ 32,638
Valuation allowance on net deferred taxes (b)	147,223	59,832	—	—	207,055
Inventory obsolescence reserve (c)	11,748	32,434	—	(21,550)	22,632
Total allowances deducted from assets	<u>\$ 174,856</u>	<u>\$ 264,888</u>	<u>\$ —</u>	<u>\$ (177,419)</u>	<u>\$ 262,325</u>
<b>For the year ended December 31, 2014</b>					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$ 14,329	\$ 153,652	\$ —	\$ (152,096)	\$ 15,885
Valuation allowance on net deferred taxes (b)	87,159	60,064	—	—	147,223
Inventory obsolescence reserve (c)	564	24,660	—	(13,476)	11,748
Total allowances deducted from assets	<u>\$ 102,052</u>	<u>\$ 238,376</u>	<u>\$ —</u>	<u>\$ (165,572)</u>	<u>\$ 174,856</u>
<b>For the year ended December 31, 2013</b>					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$ 15,246	\$ 154,874	\$ —	\$ (155,791)	\$ 14,329
Valuation allowance on net deferred taxes (b)	74,021	13,138	—	—	87,159
Inventory obsolescence reserve (c)	9,264	17,446	—	(26,146)	564
Total allowances deducted from assets	<u>\$ 98,531</u>	<u>\$ 185,458</u>	<u>\$ —</u>	<u>\$ (181,937)</u>	<u>\$ 102,052</u>

(a) Includes allowances for doubtful accounts, anticipated discounts and write-offs of uncollectible accounts receivable.

(b) Includes adjustments to the valuation allowance for deferred tax assets that we do not expect to realize.

(c) Includes adjustments to the inventory reserve, disposals and write-offs of obsolete inventory.

## EXHIBIT INDEX

Exhibit Number	Description
2.1	Share Purchase Agreement by and among Shanghai Golden Monkey Food Joint Stock Co., Ltd., various shareholders thereof and Hershey Netherlands B.V., a wholly-owned subsidiary of the Company, as of December 18, 2013, incorporated by reference from Exhibit 2.1 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.
3.1	The Company's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2005.
3.2	The Company's By-laws, as amended and restated as of April 1, 2015, are incorporated by reference from Exhibit 3.1 to the Company's Current Report on Form 8-K filed April 2, 2015.
4.1	<p>The Company has issued certain long-term debt instruments, no one class of which creates indebtedness exceeding 10% of the total assets of the Company and its subsidiaries on a consolidated basis. These classes consist of the following:</p> <ol style="list-style-type: none"> <li>1) 5.450% Notes due 2016</li> <li>2) 1.500% Notes due 2016</li> <li>3) 1.600% Notes due 2018</li> <li>4) 4.125% Notes due 2020</li> <li>5) 8.8% Debentures due 2021</li> <li>6) 2.625% Notes due 2023</li> <li>7) 3.200% Notes due 2025</li> <li>8) 7.2% Debentures due 2027</li> <li>9) Other Obligations</li> </ol> <p>The Company undertakes to furnish copies of the agreements governing these debt instruments to the Securities and Exchange Commission upon its request.</p>
10.1(a)	Kit Kat and Rolo License Agreement (the "License Agreement") between the Company and Rowntree Mackintosh Confectionery Limited is incorporated by reference from Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1980.
10.1(b)	Amendment to the License Agreement is incorporated by reference from Exhibit 19 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 1988.
10.1(c)	Assignment of the License Agreement by Rowntree Mackintosh Confectionery Limited to Société des Produits Nestlé SA as of January 1, 1990 is incorporated by reference from Exhibit 19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.
10.2	Peter Paul/York Domestic Trademark & Technology License Agreement between the Company and Cadbury Schweppes Inc. (now Kraft Foods Ireland Intellectual Property Limited) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Company's Current Report on Form 8-K dated September 8, 1988.
10.3	Cadbury Trademark & Technology License Agreement between the Company and Cadbury Limited (now Cadbury UK Limited) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Company's Current Report on Form 8-K dated September 8, 1988.
10.4(a)	Trademark and Technology License Agreement between Huhtamäki and the Company dated December 30, 1996, is incorporated by reference from Exhibit 10 to the Company's Current Report on Form 8-K filed February 26, 1997.
10.4(b)	Amended and Restated Trademark and Technology License Agreement between Huhtamäki and the Company is incorporated by reference from Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.

- 10.5(a) Five Year Credit Agreement dated as of October 14, 2011, among the Company and the banks, financial institutions and other institutional lenders listed on the respective signature pages thereof (“Lenders”), Bank of America, N.A., as administrative agent for the Lenders, JPMorgan Chase Bank, N.A., as syndication agent, Citibank, N.A. and PNC Bank, National Association, as documentation agents, and Bank of America Merrill Lynch, J.P. Morgan Securities LLC, Citigroup Global Markets, Inc. and PNC Capital Markets LLC, as joint lead arrangers and joint book managers, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed October 20, 2011.
- 10.5(b) Amendment No. 1 to Credit Agreement dated as of November 12, 2013, among the Company, the banks, financial institutions and other institutional lenders who are parties to the Five Year Credit Agreement and Bank of America, N.A., as agent, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013.
- 10.6(a) Master Innovation and Supply Agreement between the Company and Barry Callebaut, AG, dated July 13, 2007, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 19, 2007.
- 10.6(b) First Amendment to Master Innovation and Supply Agreement between the Company and Barry Callebaut, AG, dated April 14, 2011, is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 2011.
- 10.7 Supply Agreement for Monterrey, Mexico, between the Company and Barry Callebaut, AG, dated July 13, 2007, is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed July 19, 2007.
- 10.8 The Company's Equity and Incentive Compensation Plan, amended and restated February 22, 2011, and approved by our stockholders on April 28, 2011, is incorporated by reference from Appendix B to the Company's proxy statement filed March 15, 2011.<sup>+</sup>
- 10.9 Form of Notice of Award of Restricted Stock Units.\*<sup>+</sup>
- 10.10 Form of Notice of Special Award of Restricted Stock Units is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 16, 2011.<sup>+</sup>
- 10.11 Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 24, 2012.<sup>+</sup>
- 10.12 Form of Notice of Award of Performance Stock Units is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 24, 2012.<sup>+</sup>
- 10.13 The Long-Term Incentive Program Participation Agreement is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 18, 2005.<sup>+</sup>
- 10.14 The Company's Deferred Compensation Plan, Amended and Restated as of June 27, 2012, is incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.<sup>+</sup>
- 10.15(a) The Company's Supplemental Executive Retirement Plan, Amended and Restated as of October 2, 2007, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.<sup>+</sup>
- 10.15(b) First Amendment to the Company's Supplemental Executive Retirement Plan, Amended and Restated as of October 2, 2007, is incorporated by reference from Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.<sup>+</sup>
- 10.16 The Company's Compensation Limit Replacement Plan, Amended and Restated as of January 1, 2009, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.<sup>+</sup>
- 10.17 The Company's Executive Benefits Protection Plan (Group 3A), Amended and Restated as of June 27, 2012, is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.<sup>+</sup>
- 10.18 The Company's Executive Benefits Protection Plan (Group 3), Amended and Restated as of June 27, 2012.\*<sup>+</sup>

- 10.19 Executive Confidentiality and Restrictive Covenant Agreement, adopted as of February 16, 2009, is incorporated by reference from Exhibit 10.4 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.<sup>+</sup>
- 10.20 Employee Confidentiality and Restrictive Covenant Agreement, amended as of February 18, 2013, is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.<sup>+</sup>
- 10.21(a) Executive Employment Agreement with John P. Bilbrey, dated as of August 7, 2012, is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.<sup>+</sup>
- 10.21(b) First Amendment to Executive Employment Agreement, dated as of November 16, 2015, by and between the Company and John P. Bilbrey is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 19, 2015.<sup>+</sup>
- 10.22 The Company's Directors' Compensation Plan, Amended and Restated as of December 2, 2008, is incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- 12.1 Computation of ratio of earnings to fixed charges statement.\*
- 21.1 Subsidiaries of the Registrant.\*
- 23.1 Consent of Independent Registered Public Accounting Firm.\*
- 31.1 Certification of John P. Bilbrey, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 31.2 Certification of Patricia A. Little, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\*
- 32.1 Certification of John P. Bilbrey, Chief Executive Officer, and Patricia A. Little, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*\*
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase
- 101.LAB XBRL Taxonomy Extension Label Linkbase
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase
- 101.DEF XBRL Taxonomy Extension Definition Linkbase

\* Filed herewith

\*\* Furnished herewith

+ Management contract, compensatory plan or arrangement

## CERTIFICATION

I, John P. Bilbrey, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN P. BILBREY

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**John P. Bilbrey**  
**Chief Executive Officer**  
**February 26, 2016**

## CERTIFICATION

I, Patricia A. Little, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ PATRICIA A. LITTLE

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**Patricia A. Little**  
**Chief Financial Officer**  
**February 26, 2016**

## CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of The Hershey Company (the “Company”) hereby certify that the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2016                                          /s/ JOHN P. BILBREY                      
**John P. Bilbrey**  
**Chief Executive Officer**

Date: February 26, 2016                                          /s/ PATRICIA A. LITTLE                      
**Patricia A. Little**  
**Chief Financial Officer**

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

# Directors and Officers as of March 24, 2016

## DIRECTORS

<i>John P. Bilbrey</i> Chairman of the Board, President and Chief Executive Officer The Hershey Company	<i>Robert F. Cavanaugh</i> Former Chief Executive Officer ValueRock Investment Partners Irvine, CA	<i>Robert M. Malcolm</i> Retired President, Global Marketing, Sales & Innovation Diageo PLC London, UK	<i>Thomas J. Ridge</i> Chairman Ridge Global, LLC Washington, D.C.
<i>James E. Nevels</i> Lead Independent Director The Hershey Company Chairman The Swarthmore Group Philadelphia, PA	<i>Charles A. Davis</i> Chief Executive Officer Stone Point Capital LLC Greenwich, CT	<i>James M. Mead</i> Founder and Managing Director JM Mead, LLC Camp Hill, PA	<i>David L. Shedlarz</i> Retired Vice Chairman Pfizer Inc. New York, NY
<i>Pamela M. Arway</i> Former Executive American Express Company, Inc. New York, NY	<i>Mary Kay Haben</i> Retired President, North America Wm. Wrigley Jr. Company Chicago, IL	<i>Anthony J. Palmer</i> President, Global Brands and Innovation Kimberly-Clark Corporation Dallas, TX	

## COMMITTEES

<b>Audit</b>	<b>Compensation and Executive Organization</b>	<b>Finance and Risk Management</b>	<b>Governance</b>	<b>Executive</b>
Charles A. Davis, Chair Pamela M. Arway James M. Mead James E. Nevels	James M. Mead, Chair Mary Kay Haben Robert M. Malcolm James E. Nevels (ex-officio) Anthony J. Palmer David L. Shedlarz	David L. Shedlarz, Chair Robert F. Cavanaugh Robert M. Malcolm James E. Nevels (ex-officio) Anthony J. Palmer Thomas J. Ridge	Pamela M. Arway, Chair Robert F. Cavanaugh Mary Kay Haben James E. Nevels Thomas J. Ridge	John P. Bilbrey, Chair Pamela M. Arway Charles A. Davis James M. Mead James E. Nevels David L. Shedlarz

## OFFICERS

<i>John P. Bilbrey</i> Chairman of the Board, President and Chief Executive Officer	<i>Patricia A. Little</i> Senior Vice President, Chief Financial Officer	<i>Kevin R. Walling</i> Senior Vice President, Chief Human Resources Officer
<i>Michele G. Buck</i> President, North America	<i>Terence L. O'Day</i> Senior Vice President, Chief Supply Chain Officer	<i>D. Michael Wege</i> Senior Vice President, Chief Administrative Officer
<i>Javier H. Idrovo</i> Vice President, Chief Accounting Officer	<i>Leslie M. Turner</i> Senior Vice President, General Counsel and Secretary	<i>Waheed Zaman</i> Senior Vice President, Chief Knowledge, Strategy and Technology Officer

## STOCKHOLDER INFORMATION

### Transfer Agent and Registrar

*Computershare*

Standard Delivery:

P.O. Box 30170, College Station, TX 77842-3170

Overnight Delivery:

211 Quality Circle, Suite 210,  
College Station, TX 77845

Domestic Holders: (800) 851-4216

Foreign Holders: (201) 680-6578

Hearing Impaired (Domestic): (800) 952-9245

Hearing Impaired (Foreign): (312) 588-4110

[www.computershare.com/investor](http://www.computershare.com/investor)

### Investor Relations Contact / Financial Information

*Mark K. Pogharian*

Vice President, Investor Relations

100 Crystal A Drive

P.O. Box 810

Hershey, PA 17033-0810

(800) 539-0261

[www.thehersheycompany.com](http://www.thehersheycompany.com)

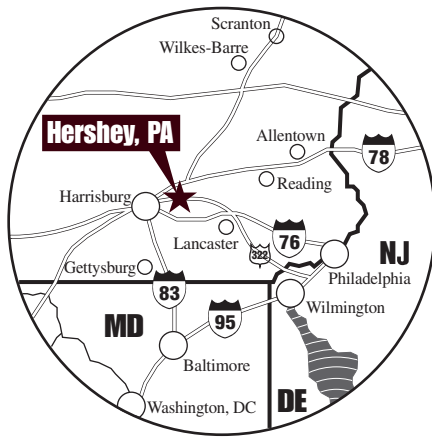


# DIRECTIONS AND GENERAL INFORMATION REGARDING ANNUAL MEETING

May 4, 2016  
10:00 a.m., Eastern Daylight Time

GIANT Center  
550 West Hersheypark Drive  
Hershey, PA

The doors to GIANT Center will open at 8:30 a.m. Please note the only entrance to the meeting will be at the rear entrance of GIANT Center and transportation from the parking area will be available. There will be designated seating for those using wheelchairs or requiring special assistance.



- **Traveling South on I-81**  
Take exit 80 and follow Route 743 South to Hershey. Follow Route 743 South / Hersheypark Drive to GIANT Center. Follow signs for parking.
- **Traveling North on I-81**  
Take exit 77 and follow Route 39 East to Hershey. Continue to GIANT Center. Follow signs for parking.
- **Traveling West on the PA Turnpike (I-76)**  
Take exit 266. Turn left on Route 72 North. Follow Route 72 North to Route 322 West. Follow Route 322 West into Hershey. Stay straight as Route 322 West becomes Hersheypark Drive / Route 39 West. Continue to GIANT Center. Follow signs for parking.
- **Traveling East on PA Turnpike (I-76)**  
Take exit 247. Take I-283 North to exit 3 and follow Route 322 East to Hershey. Take the Hersheypark Drive / Route 39 West exit. Follow Route 39 to GIANT Center. Follow signs for parking.
- **Traveling North on I-83**  
Approaching Harrisburg, follow signs to continue on I-83 North. Follow I-83 North to Route 322 East to Hershey. Take the Hersheypark Drive / Route 39 West exit. Follow Route 39 to GIANT Center. Follow signs for parking.

Everyone will walk through a magnetometer and is subject to further inspection. All handbags and packages will be inspected. Weapons and sharp objects (such as pocketknives and scissors), cell phones, pagers, cameras and recording devices will not be permitted inside the meeting room.

HERSHEY'S CHOCOLATE WORLD Attraction will be open from 9:00 a.m. to 6:00 p.m. on the day of the Annual Meeting and we are offering stockholders a special 25% discount on selected items on that date. You will need to show your admission ticket at HERSHEY'S CHOCOLATE WORLD Attraction on the day of the meeting to receive the special discount.

