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HERSHEY CO

Form 10-K

February 22, 2019

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

**FORM 10-K**

**x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended December 31, 2018**

**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

23-0691590

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer Identification No.)

19 East Chocolate Avenue, Hershey, PA 17033

(Address of principal executive offices) (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 every Interactive Data File required to be submitted 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 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. "

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 June 29, 2018 (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 \$13,038,400,227. 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 June 29, 2018. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on June 29, 2018 (\$93.06 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—147,906,017 shares, as of February 15, 2019.

Class B Common Stock, one dollar par value—60,613,777 shares, as of February 15, 2019.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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**THE HERSHEY COMPANY**  
**Annual Report on Form 10-K**  
**For the Fiscal Year Ended December 31, 2018**

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## 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.

Hershey is a global confectionery leader known for bringing goodness to the world through chocolate, sweets, mints, gum and other great tasting snacks. We are the largest producer of quality chocolate in North America, a leading snack maker in the United States 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 90 countries worldwide.

#### **Reportable Segments**

Our organizational structure is designed to ensure continued focus on North America, coupled with an emphasis on profitable growth in our focus international markets. Our business is organized around geographic regions, which enables us to build processes for repeatable success in our global markets. As a result, we have defined our operating segments on a geographic basis, as this aligns with how our Chief Operating Decision Maker (“CODM”) manages our business, including resource allocation and performance assessment. Our North America business, which generates approximately 89% of our consolidated revenue, is our only reportable segment. None of our other operating segments meet the quantitative thresholds to qualify as reportable segments; therefore, these operating segments are combined and disclosed below as International and Other.

**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** - International and Other is a combination of all other operating segments that are not individually material, including those geographic regions where we operate outside of North America. We currently have operations and manufacture product in China, Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets of Asia, Latin America, Middle East, Europe, Africa and other regions. This segment also includes our global retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania, New York City, Las Vegas, Niagara Falls (Ontario) 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.

Financial and other information regarding our reportable segments is provided in our Management's Discussion and Analysis and Note 12 to the Consolidated Financial Statements.

#### **Business Acquisitions**

In October 2018, we completed the acquisition of Pirate Brands, which includes the *Pirate's Booty*, *Smart Puffs* and *Original Tings* brands, from B&G Foods, Inc. Pirate Brands offers baked, trans fat free and gluten free snacks and is available in a wide range of food distribution channels in the United States.

In January 2018, we completed the acquisition of all of the outstanding shares of Amplify Snack Brands, Inc. (“Amplify”), a publicly traded company based in Austin, Texas that owns several popular better-for-you snack brands such as *SkinnyPop*, *Oatmega* and *Paqui*. The acquisition enables us to capture more consumer snacking occasions by creating a broader portfolio of brands.

In April 2016, we completed the acquisition of all of the outstanding shares of Ripple Brand Collective, LLC, a privately held company based in Congers, New York that owns the *barkTHINS* mass premium chocolate snacking brand. The acquisition was undertaken in order to broaden our product offerings in the premium and portable snacking categories.



## Products and Brands

Our principal product 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, popcorn and protein bars and cookies.

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*, *barkTHINS*, *Cadbury*, *Good & Plenty*, *Heath*, *Kit Kat*®, *Lancaster*, *Payday*, *Rolo*®, *Twizzlers*, *Whoppers* and *York*. We also offer premium chocolate products, primarily in the United States, 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, toppings and sundae syrups sold under the *Hershey's*, *Reese's* and *Heath* brands, as well as *Hershey's* and *Reese's* chocolate spreads, snack bites and mixes, *Krave* meat snack products, *Popwell* half-popped corn snacks, ready-to-eat *SkinnyPop* popcorn, baked and trans fat free *Pirate's Booty* snacks and other better-for-you snack brands such as *Oatmega* and *Paqui*.

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 *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 2018, approximately 28% 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.

In 2016, we established a trading company in Switzerland that performs all aspects of cocoa procurement, including price risk management, physical supply procurement and sustainable sourcing oversight. The trading company was implemented to optimize the supply chain for our cocoa requirements, with a strategic focus on gaining real time access to cocoa market intelligence. It also provides us with the ability to recruit and retain world class commodities traders and procurement professionals and enables enhanced collaboration with commodities trade groups, the global cocoa community and sustainable sourcing resources.

We also use substantial quantities of sugar, Class II and IV dairy products, 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 confectionery 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. In recent years, we have also experienced increased competition from other snack items, which has pressured confectionery category growth.

#### **Working Capital, 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. Additional information relating to our cash flows from operations and working capital practices is provided in our Management's Discussion and Analysis.

#### **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 United States 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:

Company	Brand	Location	Requirements
Kraft Foods Ireland Intellectual Property Limited/Cadbury UK Limited	<i>York</i> <i>Peter Paul</i> <i>Almond Joy</i>	Worldwide	None
Cadbury UK Limited	<i>Peter Paul</i> <i>Mounds</i> <i>Cadbury</i> <i>Caramello</i>	United States	Minimum sales requirement exceeded in 2018
Société des Produits Nestlé SA	<i>Kit Kat®</i> <i>Rolo®</i>	United States	Minimum unit volume sales exceeded in 2018
Iconic IP Interests, LLC	<i>Good &amp; Plenty</i> <i>Heath</i> <i>Jolly Rancher</i> <i>Milk Duds</i> <i>Payday</i> <i>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 our 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

Beyond ordinary course operating and capital expenditures we make to comply with environmental laws and regulations, we have made a number of commitments to protect and reduce our impact on the environment in recent years, including efforts to protect forests and forested habitats and reduce emissions across our supply chain. The annual operating and capital expenditures associated with these ordinary course payments and additional commitments are not material with respect to our results of operations, capital expenditures or competitive position.



## **Employees**

As of December 31, 2018, we employed approximately 14,930 full-time and 1,490 part-time employees worldwide. Collective bargaining agreements covered approximately 5,780 employees. During 2019, agreements will be negotiated for certain employees at three facilities outside of the United States, comprising approximately 67% 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 16.1% for 2018, 16.7% for 2017 and 16.7% for 2016. The percentage of total long-lived assets outside of the United States was 21.7% as of December 31, 2018 and 25.2% as of December 31, 2017.

## **Sustainability**

The Hershey Company's commitment to sustainability started with our founder's belief in responsible citizenship. He was a purpose-driven leader who believed we could use chocolate to create goodness in the world. This belief resulted in strong investment in local communities and the establishment of the Milton Hershey School for disadvantaged kids. We continue that legacy today through our sustainability strategy "The Shared Goodness Promise" by operating the business with sustainable practices, sourcing ingredients responsibly, protecting our environment, making a difference in our communities and helping kids globally reach their full potential. To learn more about our sustainability goals, progress and initiatives, you can access our full Sustainability Report at [https://www.thehersheycompany.com/en\\_us/shared-goodness/csr-reports.html](https://www.thehersheycompany.com/en_us/shared-goodness/csr-reports.html).

## **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 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 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 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, freight, 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 sustainable 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 but not limited to, trends relating to store trips and the impact of the growing digital 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 28% of our total net sales in 2018. 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 has 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 71% 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;

Operational and/or financial instability of key suppliers, and other vendors or service providers; and

Suboptimal production planning which could impact our ability to cost-effectively meet product demand.

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.

We completed the acquisitions of Amplify Snack Brands, Inc. and Pirate Brands in January 2018 and October 2018, respectively. While we believe significant operating synergies can be obtained in connection with these acquisitions, achievement of these synergies will be driven by our ability to successfully leverage Hershey's resources, expertise, capability-building, distribution locations and customer base. In addition, the acquisitions of Amplify and Pirate Brands are important steps in our journey to expand our breadth in snacking, as they should enable us to bring scale and category management capabilities to a key sub-segment of the warehouse snack aisle. If we are unable to successfully couple Hershey's scale and expertise in brand building with Amplify and Pirate Brands' existing operations, it may impact our ability to expand our snacking footprint at our desired pace.

***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, broad political instability, 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 international operations may not achieve projected growth objectives, which could adversely impact our overall business and results of operations.***

In 2018, 2017 and 2016, respectively, we derived approximately 16%, 17% and 17% of our net sales from customers located outside of the United States. Additionally, approximately 22% of our total long-lived assets were located outside of the United States as of December 31, 2018. As part of our strategy, we have made investments outside of the United States, particularly in Canada, China, Malaysia, Mexico, Brazil and India. 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 are regularly the target of attempted cyber and other security threats. Therefore, we continuously monitor and update our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. 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 have been subject to cyber attacks and other security breaches, these incidents did not have a significant impact on our business operations. We believe our security technology tools and processes provide adequate measures of protection against security breaches and in reducing cybersecurity risks. Nevertheless, despite continued vigilance in these areas, 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. This in turn could have a negative impact on our financial condition and results or operations. In addition, the cost to remediate any damages to our information technology systems suffered as a result of a cyber attack could be significant.

***We might not be able to hire, engage and retain the talented global workforce we need to drive our growth strategies.***

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 new or existing senior management positions as vacancies arise, 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.

***We may not fully realize the expected costs savings and/or operating efficiencies associated with our strategic initiatives or restructuring programs, which may have an adverse impact on our business.***

We depend on our ability to evolve and grow, and as changes in our business environment occur, we may adjust our business plans by introducing new strategic initiatives or restructuring programs to meet these changes. Recently introduced strategic initiatives include our efforts to continue to expand our presence in digital commerce, to transform our manufacturing, commercial and corporate operations through digital technologies and to enhance our data analytics capabilities to develop new commercial insights. If we are not able to capture our share of the expanding digital commerce market, if we do not adequately leverage technology to improve operating efficiencies or if we are unable to develop the data analytics capabilities needed to generate actionable commercial insights, our business performance may be impacted, which may negatively impact our financial condition and results of operations.

Additionally, from time to time we implement business realignment activities to support key strategic initiatives designed to maintain long-term sustainable growth, such as the Margin for Growth Program we commenced in the first quarter of 2017. These programs are intended to increase our operating effectiveness and efficiency, to reduce our

costs and/or to generate savings that can be reinvested in other areas of our business. We cannot guarantee that we will

be able to successfully implement these strategic initiatives and restructuring programs, that we will achieve or sustain the intended benefits under these programs, or that the benefits, even if achieved, will be adequate to meet our long-term growth and profitability expectations, which could in turn adversely affect our business.

***Complications with the design or implementation of our new enterprise resource planning system could adversely impact our business and operations.***

We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of a multi-year implementation of a new global enterprise resource planning (“ERP”) system. This ERP system will replace our existing operating and financial systems. The ERP system is designed to accurately maintain the Company’s financial records, enhance operational functionality and provide timely information to the Company’s management team related to the operation of the business. The ERP system implementation process has required, and will continue to require, the investment of significant personnel and financial resources. We may not be able to successfully implement the ERP system without experiencing delays, increased costs and other difficulties. If we are unable to successfully design and implement the new ERP system as planned, our financial positions, results of operations and cash flows could be negatively impacted. Additionally, if we do not effectively implement the ERP system as planned or the ERP system does not operate as intended, the effectiveness of our internal control over financial reporting could be adversely affected or our ability to assess those controls adequately could be delayed.

**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
	Hazleton, 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
	Kennesaw, Georgia	Distribution	Lease
	New York, New York	Retail	Lease
Canada	Brantford, Ontario	Distribution	Own <sup>(1)</sup>
Mexico	Monterrey, Mexico	Manufacturing—confectionery products	Own
	El Salto, Mexico	Manufacturing—confectionery products and pantry items	Own
Malaysia	Johor, Malaysia	Manufacturing—confectionery products	Own

(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.

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 regularly improve our facilities to incorporate the latest technologies. The largest facilities are located in Hershey, Lancaster and Hazleton, Pennsylvania; Monterrey and El Salto, Mexico; and Stuarts Draft,

Virginia. The U.S., Canada and Mexico facilities in the table above primarily support our North America segment, while the Malaysia facility primarily serve our International and Other segment. As discussed in Note 12 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 trade regulation, product liability, advertising, contracts, environmental issues, patent and trademark matters, labor and employment matters and tax. While it is not feasible to predict or determine the outcome of such proceedings and claims with certainty, in our opinion these matters, both individually and in the aggregate, are not expected to have a material effect on our financial condition, results of operations or cash flows.

**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 15, 2019, their ages are set forth below.

Name	Age	Positions Held During the Last Five Years
Damien Atkins (1)	48	Senior Vice President, General Counsel and Secretary (August 2018)
Michele G. Buck	57	President and Chief Executive Officer (March 2017); Executive Vice President, Chief Operating Officer (June 2016); President, North America (May 2013); Senior Vice President, Chief Growth Officer (September 2011)
Javier H. Idrovo	51	Chief Accounting Officer (August 2015); Senior Vice President, Finance and Planning (September 2011)
Patricia A. Little (2)	58	Senior Vice President, Chief Financial Officer (March 2015)
Terence L. O'Day	69	Senior Vice President, Chief Product Supply and Technology Officer (March 2017); Senior Vice President, Chief Supply Chain Officer (May 2013); Senior Vice President, Global Operations (December 2008)
Todd W. Tillemans (3)	57	President, U.S. (April 2017)
Kevin R. Walling	53	Senior Vice President, Chief Human Resources Officer (June 2011)
Mary Beth West (4)	56	Senior Vice President, Chief Growth Officer (May 2017)

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There are no family relationships among any of the above-named officers of our Company.

Mr. Atkins was elected Senior Vice President, General Counsel and Secretary effective August 13, 2018. Prior to joining our Company he was General Counsel and Corporate Secretary at Panasonic Corporation of North America, Inc. (May 2015) and Senior Vice President, Deputy General Counsel (Corporate) and Chief Compliance Officer at AOL, Inc. (July 2010).

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 at Kelly Services, Inc. (July 2008). On August 16, 2018, Ms. Little informed the Company of her intention to retire on a date to be determined in spring 2019. The Company has initiated a search to identify Ms. Little's replacement.

Mr. Tillemans was elected President, U.S. effective April 3, 2017. Prior to joining our Company he was President, Customer Development U.S. at Unilever N.V. (December 2012).

Ms. West was elected Senior Vice President, Chief Growth Officer effective May 1, 2017. Prior to joining our Company she was Executive Vice President, Chief Customer and Marketing Officer at J.C. Penney (June 2015) and Executive Vice President, Chief Category and Marketing Officer at Mondelez Global Inc. (October 2012).

Our Executive Officers are generally elected each year at the organization meeting of the Board in May.

## **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, 2018, was \$107.18. There were 26,532 stockholders of record of our Common Stock and 6 stockholders of record of our Class B Stock as of December 31, 2018.

We paid \$562.5 million in cash dividends on our Common Stock and Class B Stock in 2018 and \$526.3 million in 2017. The annual dividend rate on our Common Stock in 2018 was \$2.756 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 18 to the Consolidated Financial Statements.

On January 29, 2019, our Board declared a quarterly dividend of \$0.722 per share of Common Stock payable on March 15, 2019, to stockholders of record as of February 22, 2019. It is the Company's 357th consecutive quarterly Common Stock dividend. A quarterly dividend of \$0.656 per share of Class B Stock also was declared.

#### **Unregistered Sales of Equity Securities and Use of Proceeds**

None.

#### **Issuer Purchases of Equity Securities**

In January 2016, our Board approved a \$500 million share repurchase authorization. This program was completed in the first quarter of 2018. In October 2017, our Board approved an additional \$100 million share repurchase authorization, to commence after the existing 2016 authorization was completed. As of December 31, 2018, approximately \$60 million remained available for repurchases of our Common Stock under this program. The share repurchase program does not have an expiration date. In July 2018, our Board approved an additional \$500 million share repurchase authorization (excluded from amount above). This program is to commence after the existing 2017 authorization is completed and is to be utilized at management's discretion.

In August 2017, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the Milton Hershey School Trust (the "Trust"), pursuant to which the Company agreed to purchase 1,500,000 shares of the Company's common stock from the Trust at a price equal to \$106.01 per share, for a total purchase price of \$159 million.

In November 2018, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the Trust, pursuant to which the Company agreed to purchase 450,000 shares of the Company's common stock from the Trust at a price equal to \$106.30 per share, for a total purchase price of \$47.8 million.

### 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, 2013 in stock or index, including reinvestment of dividends.

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Company/Index	December 31,					
	2013	2014	2015	2016	2017	2018
The Hershey Company	\$100	\$109	\$96	\$114	\$128	\$124
S&P 500 Index	\$100	\$114	\$115	\$129	\$157	\$150
S&P 500 Packaged Foods Index	\$100	\$112	\$131	\$143	\$145	\$118

*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)**

	2018	2017	2016	2015	2014
<b>Summary of Operations</b>					
Net Sales	\$ 7,791,069	7,515,426	7,440,181	7,386,626	7,421,768
Cost of Sales (1)	\$ 4,215,744	4,060,050	4,270,642	4,000,071	4,085,602
Selling, Marketing and Administrative (1)	\$ 1,874,829	1,885,492	1,891,305	1,945,361	1,900,970
Goodwill, Long-Lived & Intangible Asset Impairment Charges	\$ 57,729	208,712	4,204	280,802	15,900
Business Realignment Costs (1)	\$ 19,103	47,763	18,857	84,628	29,721
Interest Expense, Net	\$ 138,837	98,282	90,143	105,773	83,532
Provision for Income Taxes	\$ 239,010	354,131	379,437	388,896	459,131
Net Income Attributable to The Hershey Company	\$ 1,177,562	782,981	720,044	512,951	846,912
Net Income Per Share:					
—Basic—Common Stock	\$ 5.76	3.79	3.45	2.40	3.91
—Diluted—Common Stock	\$ 5.58	3.66	3.34	2.32	3.77
—Basic—Class B Stock	\$ 5.24	3.44	3.15	2.19	3.54
—Diluted—Class B Stock	\$ 5.22	3.44	3.14	2.19	3.52
Weighted-Average Shares Outstanding:					
—Basic—Common Stock	149,379	151,625	153,519	158,471	161,935
—Basic—Class B Stock	60,614	60,620	60,620	60,620	60,620
—Diluted—Common Stock	210,989	213,742	215,304	220,651	224,837
Dividends Paid on Common Stock	\$ 412,491	387,466	369,292	352,953	328,752
Per Share	\$ 2.756	2.548	2.402	2.236	2.040
Dividends Paid on Class B Stock	\$ 151,789	140,394	132,394	123,179	111,662
Per Share	\$ 2.504	2.316	2.184	2.032	1.842
Depreciation	\$ 231,012	211,592	231,735	197,054	176,312
Amortization	\$ 64,132	50,261	70,102	47,874	35,220
Advertising	\$ 479,908	541,293	521,479	561,644	570,223
<b>Year-End Position and Statistics</b>					
Capital Additions (including software)	\$ 328,601	257,675	269,476	356,810	370,789
Total Assets	\$ 7,703,020	5,553,726	5,524,333	5,344,371	5,622,870
Short-term Debt and Current Portion of Long-term Debt	\$ 1,203,316	859,457	632,714	863,436	635,501
Long-term Portion of Debt	\$ 3,254,280	2,061,023	2,347,455	1,557,091	1,542,317
Stockholders' Equity	\$ 1,407,266	931,565	827,687	1,047,462	1,519,530
Full-time Employees	14,930	15,360	16,300	19,060	20,800
<b>Stockholders' Data</b>					
Outstanding Shares of Common Stock and Class B Stock at Year-end	209,729	210,861	212,260	216,777	221,045
Market Price of Common Stock at Year-end	\$ 107.18	113.51	103.43	89.27	103.93
Price Range During Year (high)	\$ 114.06	115.96	113.89	110.78	108.07
Price Range During Year (low)	\$ 89.54	102.87	83.32	83.58	88.15

In accordance with ASU No. 2017-07, the non-service cost components of net periodic benefit cost relating to the Company's pension and other post retirement benefit plans have been reclassified to the Other (income) expense, net caption for the years ended December 31, 2017, 2016 and 2015 to conform to the 2018 presentation. Other (income) expense, net is not presented above.



**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:

Business Model and Growth Strategy

Overview

Non-GAAP Information

Consolidated Results of Operations

Segment Results

Financial Condition

Critical Accounting Policies and Estimates

**BUSINESS MODEL AND GROWTH STRATEGY**

We are the largest producer of quality chocolate in North America, a leading snack maker in the United States and a global leader in chocolate and non-chocolate confectionery known for bringing goodness to the world through chocolate, sweets, mints, gum and other great tasting snacks. We market, sell and distribute our products under more than 80 brand names in approximately 90 countries worldwide. We report our operations through two segments: North America and International and Other.

We believe we have a set of differentiated capabilities that when integrated, can create advantage in the marketplace. Our focus on the following key elements of our strategy should enable us to deliver top-tier growth and industry-leading shareholder returns.

*Reignite Core Confection and Expand Breadth in Snacking.* We are taking actions to deepen our consumer connections, deliver meaningful innovation and reinvent the shopping experience, while also pursuing opportunities to diversify our portfolio and establish a strong presence across the broader snacking continuum.

Our products frequently play an important role in special meaningful moments among family and friends.

Seasons are an important part of our business model and for consumers, they are highly anticipated, cherished special times, centered around traditions. For us, it's an opportunity for our brands to be part of many connections during the year when family and friends gather.

Innovation is an important lever in this variety seeking category and we are leveraging work from our proprietary demand landscape analytical tool to shape our future innovation and make it more impactful. We are becoming more disciplined in our focus on platform innovation, which should enable sustainable growth over time and significant extensions to our core.

Through our shopper insights work, we are currently collaborating with our retail partners on in-aisle strategies that we believe will breathe life into the center of the store and transform the shopping experience by improving paths to purchase, stopping power, navigation, engagement and conversion. We have also responded to the changing retail environment by investing in digital commerce capabilities.

To expand our breadth in snacking, we are focused on expanding the boundaries of our core confection brands to capture new snacking occasions and increasing our exposure into new snack categories through acquisitions. Our expansion into snacking is being fueled by the recent acquisitions of Amplify and Pirate Brands in January 2018 and October 2018, respectively.



*Reallocate Resources to Expand Margins and Fuel Growth.* We are focused on ensuring that we efficiently allocate our resources to the areas with the highest potential for profitable growth. We believe this will enable margin expansion and position us within the top quartile of operating income margin relative to our peers. We have reset our international investment, while holding fast to our belief that our targeted emerging market strategy will deliver long-term, profitable growth. The uncertain macroeconomic environment in many of these markets is expected to continue and we aim to ensure our investments in these international markets are appropriate relative to the size of the opportunity. We have heightened our selling, marketing and administrative expense discipline in an effort to make improvements to our cost structure without jeopardizing topline growth. Our expectation is that advertising and related marketing expense will grow roughly in line with sales. We will continue to optimize our cost of goods sold through pricing activities and programs like network supply chain optimization and lean manufacturing.

*Strengthen Capabilities & Leverage Technology for Commercial Advantage.* In order to generate actionable insights, we must acquire, integrate, access and utilize vast sources of the right data in an effective manner. We are working to leverage our advanced analytical techniques to gain a deep understanding of consumers, our customers, our shoppers, our end-to-end supply chain, our retail environment and key economic drivers at both a macro and precision level. In addition, we are in the process of transforming our enterprise resource planning system, which will enable employees to work more efficiently and effectively.

## OVERVIEW

The Overview presented below is an executive-level summary highlighting the key trends and measures on which the Company's management focuses in evaluating its financial condition and operating performance. Certain earnings and performance measures within the Overview include financial information determined on a non-GAAP basis, which aligns with how management internally evaluates the Company's results of operations, determines incentive compensation, and assesses the impact of known trends and uncertainties on the business. A detailed reconciliation of the non-GAAP financial measures referenced herein to their nearest comparable GAAP financial measures follows this summary. For a detailed analysis of the Company's operations prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), referred to as "reported" herein, refer to the discussion and analysis in the Consolidated Results of Operations.

In 2018, we made strong progress on our strategic initiatives, including strengthening our U.S. core confection business, expanding our snacks portfolio to capture incremental consumer occasions and optimizing the product portfolio across various international markets. We continued to generate solid operating cash flow, totaling approximately \$1.6 billion in 2018, which affords the Company significant financial flexibility.

In January 2018, we completed the acquisition of all of the outstanding shares of Amplify Snack Brands, Inc. ("Amplify"), previously a publicly traded company based in Austin, Texas that owns several popular better-for-you snack brands such as *SkinnyPop*, *Oatmega*, *Paqui* and *Tyrrells*. Amplify's anchor brand, *SkinnyPop*, is a market-leading ready-to-eat popcorn brand and is available in a wide range of food distribution channels in the United States. The business enables us to capture more consumer snacking occasions by contributing a new portfolio of brands. On July 5, 2018, we sold the Tyrrells business in order to focus on the U.S. growth opportunities.

In October 2018, we completed the acquisition of Pirate Brands, which includes the *Pirate's Booty*, *Smart Puffs* and *Original Tings* brands, from B&G Foods, Inc. Pirate Brands offers baked, trans fat free and gluten free snacks and is available in a wide range of food distribution channels in the United States.

Our full year 2018 net sales totaled \$7,791.1 million, an increase of 3.7%, versus \$7,515.4 million for the comparable period of 2017. Excluding a 0.2% impact from unfavorable foreign exchange rates, our net sales increased 3.9%. Net sales growth was driven primarily by the revenue contributions from Amplify and Pirate Brands.

Our reported gross margin was 45.9% for the full year 2018, a decrease of 10 basis points compared to the full year 2017. Our 2018 non-GAAP gross margin was 44.0%, a decrease of 160 basis points compared to the full year 2017 due to higher freight and logistics costs, unfavorable mix and additional plant costs related to new production lines.





Our full year 2018 reported operating profit and reported operating profit margin totaled \$1,623.7 million and 20.8%, respectively, compared to full year 2017 reported operating profit and reported operating profit margin of \$1,313.4 million and 17.5%, respectively. From a non-GAAP perspective, full year 2018 adjusted operating profit and adjusted operating profit margin totaled \$1,607.1 million and 20.6%, respectively, compared to full year 2017 adjusted operating profit and adjusted operating profit margin of \$1,556.5 million and 20.7%, respectively. The decrease in our adjusted operating profit margin was primarily due to lower non-GAAP gross margin.

Our full year 2018 reported net income and reported EPS-diluted totaled \$1,177.6 million and \$5.58, respectively, compared to full year 2017 reported net income and reported EPS-diluted of \$783.0 million and \$3.66, respectively. From a non-GAAP perspective, full year 2018 adjusted net income was \$1,130.1 million, an increase of 12.8% versus adjusted net income of \$1,001.5 million in 2017. Our adjusted EPS-diluted for the full year 2018 was \$5.36 compared to \$4.69 for the same period of 2017, an increase of 14.3%. The increases in our adjusted net income and adjusted EPS-diluted in 2018 compared to 2017 were primarily due to slightly lower selling, marketing and administrative expenses, as well as a lower 2018 tax rate as a result of U.S. tax reform, partially offset by unfavorable gross profit.

## **NON-GAAP INFORMATION**

### **Comparability of Certain Financial Measures**

The comparability of certain of our financial measures is impacted by unallocated mark-to-market (gains) losses on commodity derivatives, pension settlement charges relating to company-directed initiatives, costs associated with business realignment activities, costs relating to the integration of acquisitions, impairment of long-lived assets, the one-time impact of U.S. tax reform, the gain realized on the sale of a trademark and the gain recorded upon settlement of a liability in conjunction with the purchase of the remaining 20% of the outstanding shares of Shanghai Golden Monkey Food Joint Stock Co., Ltd. ("SGM").

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 internally by management in evaluating results of operations and determining incentive compensation, 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.

### **Explanatory Note**

In conjunction with the adoption of ASU 2017-07, *Compensation-Retirement Benefits (Topic 715)*, in the first quarter of 2018, the Company elected to discontinue its practice of excluding the non-service related components of its net periodic benefit cost in deriving its non-GAAP financial measures, with a minor exception. Historically, the Company excluded from its non-GAAP results the following components relating to its pension benefit plans: interest cost, expected return on plan assets, amortization of net loss (gain), and settlement and curtailment charges. The Company did not historically exclude from its non-GAAP results the non-service related components relating to its other post retirement benefit plans. Starting with the first quarter of 2018, the Company will continue to exclude from its non-GAAP results the portion of pension settlement and/or curtailment charges relating to Company-directed initiatives, such as significant business realignment events and benefit plan terminations or amendments. As a result of this change, the non-GAAP reconciliations presented for the years ended December 31, 2017 and 2016 that follow have been revised to conform to this updated presentation. The revision in the Company's determination of non-GAAP earnings resulted in a reduction of \$0.07 to adjusted earnings per share-diluted from \$4.76 to \$4.69 for 2017 and a reduction of \$0.08 to adjusted earnings per share-diluted from \$4.41 to \$4.33 for 2016.

**Reconciliation of Certain Non-GAAP Financial Measures****Consolidated results****In thousands except per share data****For the years ended December 31,****2018      2017      2016**

Reported gross profit	\$3,575,325	\$3,455,376	\$3,169,539
Derivative mark-to-market (gains) losses	(168,263 )	(35,292 )	163,238
Business realignment activities	11,323	5,147	58,106
Acquisition-related costs	6,194	—	—
Non-GAAP gross profit	\$3,424,579	\$3,425,231	\$3,390,883
Reported operating profit	\$1,623,664	\$1,313,409	\$1,255,173
Derivative mark-to-market (gains) losses	(168,263 )	(35,292 )	163,238
Business realignment activities	51,827	69,359	93,902
Acquisition-related costs	44,829	311	6,480
Long-lived and intangible asset impairment charges	57,729	208,712	4,204
Gain on sale of licensing rights	(2,658 )	—	—
Non-GAAP operating profit	\$1,607,128	\$1,556,499	\$1,522,997
Reported provision for income taxes	\$239,010	\$354,131	\$379,437
Derivative mark-to-market (gains) losses*	(15,778 )	(4,746 )	20,500
Business realignment activities*	12,961	18,337	13,957
Acquisition-related costs*	9,105	118	2,456
Pension settlement charges relating to Company-directed initiatives*	1,347	4,148	5,181
Long-lived and intangible asset impairment charges*	15,875	23,292	1,157
Impact of U.S. tax reform	7,754	(32,467 )	—
Gain on sale of licensing rights*	(1,203 )	—	—
Non-GAAP provision for income taxes	\$269,071	\$362,813	\$422,688
Reported net income	\$1,177,562	\$782,981	\$720,044
Derivative mark-to-market (gains) losses	(152,485 )	(30,546 )	142,738
Business realignment activities	38,866	51,022	79,945
Acquisition-related costs	35,724	193	4,024
Pension settlement charges relating to Company-directed initiatives	4,108	6,796	8,488
Long-lived and intangible asset impairment charges	41,854	185,420	3,047
Impact of U.S. tax reform	(7,754 )	32,467	—
Noncontrolling interest share of business realignment and impairment charges	(6,348 )	(26,795 )	—
Settlement of SGM liability	—	—	(26,650 )
Gain on sale of licensing rights	(1,455 )	—	—
Non-GAAP net income	\$1,130,072	\$1,001,538	\$931,636



	<b>For the years ended December 31,</b>		
	<b>2018</b>	<b>2017</b>	<b>2016</b>
Reported EPS - Diluted	\$5.58	\$3.66	\$3.34
Derivative mark-to-market (gains) losses	(0.72 )	(0.14 )	0.66
Business realignment activities	0.18	0.25	0.38
Acquisition-related costs	0.18	—	0.02
Pension settlement charges relating to Company-directed initiatives	0.02	0.02	0.04
Long-lived and intangible asset impairment charges	0.20	0.87	0.01
Impact of U.S. tax reform	(0.04 )	0.15	—
Noncontrolling interest share of business realignment and impairment charges	(0.03 )	(0.12 )	—
Settlement of SGM liability	—	—	(0.12 )
Gain on sale of licensing rights	(0.01 )	—	—
Non-GAAP EPS - Diluted	\$5.36	\$4.69	\$4.33

\* The tax effect for each adjustment is determined by calculating the tax impact of the adjustment on the Company's quarterly effective tax rate.

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>2018</b>	<b>2017</b>	<b>2016</b>
As reported gross margin	45.9 %	46.0 %	42.6 %
Non-GAAP gross margin (1)	44.0 %	45.6 %	45.6 %
As reported operating profit margin	20.8 %	17.5 %	16.9 %
Non-GAAP operating profit margin (2)	20.6 %	20.7 %	20.5 %
As reported effective tax rate	17.0 %	31.9 %	34.5 %
Non-GAAP effective tax rate (3)	19.2 %	26.7 %	31.3 %

(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:

#### Mark-to-market (gains) losses on commodity derivatives

The mark-to-market (gains) losses on commodity derivatives are recorded as unallocated and excluded from adjusted results until such time as the related inventory is sold, at which time the corresponding (gains) losses are reclassified from unallocated to segment income. Since we often purchase commodity contracts to price inventory requirements in future years, we make this adjustment to facilitate the year-over-year comparison of cost of sales on a basis that matches the derivative gains and losses with the underlying economic exposure being hedged for the period. For the years ended December 31, 2018, 2017 and 2016, the net adjustment recognized within unallocated was a gain of \$168.3 million, a gain of \$35.3 million and a loss of \$163.2 million, respectively. See Note 12 to the Consolidated Financial Statements for more information.



Business realignment activities

We periodically undertake restructuring and cost reduction activities as part of ongoing efforts to enhance long-term profitability. For the years ended December 31, 2018, 2017 and 2016, we incurred \$51.8 million, \$69.4 million and \$93.9 million, respectively, of pre-tax costs related to business realignment activities. See Note 8 to the Consolidated Financial Statements for more information.

Acquisition-related costs

For the year ended December 31, 2018, we incurred expenses totaling \$44.8 million related to the acquisitions of Amplify and Pirate Brands. This primarily includes legal and consultant fees, as well as severance and other costs relating to the integration of the businesses. For the years ended December 31, 2017 and 2016, we incurred expenses totaling \$0.3 million and \$6.5 million, respectively, related to integration of the 2016 acquisition of Ripple Brand Collective, LLC, as we incorporated this business into our operating practices and information systems.

Pension settlement charges related to Company-directed initiatives

In 2018, settlement charges in our hourly defined benefit plan were triggered by lump sum withdrawals by employees retiring or leaving the Company under a voluntary separation plan included within the Operational Optimization Program (as defined below). In 2017, settlement charges were triggered in the pension plan benefiting our employees in Puerto Rico as a result of lump sum distributions and the purchase of annuity contracts relating to the termination of this plan. In 2016, settlement charges in our hourly defined benefit plan were triggered by lump sum withdrawals by employees retiring or leaving the Company under a voluntary separation plan included within the 2015 Productivity Initiative (as defined below).

Long-lived and intangible asset impairment charges

For the year ended December 31, 2018, we incurred \$57.7 million of pre-tax long-lived asset impairment charges to adjust the long-lived asset values of certain disposal groups, including the SGM and Tyrrells businesses, the Lotte Shanghai Foods Co., Ltd. joint venture and other assets. These charges represent the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts realized or to be realized upon completion of the sales, over the sales values less costs to sell for the respective businesses. The fair values of the disposal groups were supported by the sales prices paid by third-party buyers or estimated sales prices based on marketing of the disposal group, when the sale has not yet been completed. For the year ended December 31, 2017, we incurred \$208.7 million of pre-tax long-lived asset impairment charges related to certain business realignment activities. This included a write-down of certain intangible assets that had been recognized in connection with the 2014 SGM acquisition and a write-down of property, plant and equipment. For the year ended December 31, 2016, in connection with our 2016 annual impairment testing of other indefinite lived assets, we recognized a trademark impairment charge of \$4.2 million primarily resulting from plans to discontinue a brand sold in India.

Impact of U.S. tax reform

During the fourth quarter of 2018, we recorded a net benefit of \$7.8 million as a measurement period adjustment to the one-time mandatory tax on previously deferred earnings of non-U.S. subsidiaries, recorded in connection with the enactment of U.S. tax reform in December 2017. During the fourth quarter of 2017, we recorded a net charge of \$32.5 million, which included the estimated impact of the one-time mandatory tax on previously deferred earnings of non-U.S. subsidiaries offset in part by the benefit from revaluation of net deferred tax liabilities based on the new lower corporate income tax rate.

Noncontrolling interest share of business realignment and impairment charges

Certain of the business realignment and impairment charges recorded in connection with the Margin for Growth Program related to Lotte Shanghai Foods Co., Ltd., a joint venture in which we own a 50% controlling interest. Therefore, we have also adjusted for the portion of these charges included within the loss attributed to the non-controlling interest.





Settlement of SGM liability

In the fourth quarter of 2015, we reached an agreement with the SGM selling shareholders to reduce the originally-agreed purchase price for the remaining 20% of SGM, and we completed the purchase on February 3, 2016. In the first quarter of 2016, we recorded a \$26.7 million gain relating to the settlement of the SGM liability, representing the net carrying amount of the recorded liability in excess of the cash paid to settle the obligation for the remaining 20% of the outstanding shares.

Gain on sale of licensing rights

During the second quarter of 2018, we recorded a \$2.7 million gain on the sale of licensing rights for a non-core trademark relating to a brand marketed outside of the U.S.

**Constant Currency Net Sales Growth**

We present certain percentage changes in net sales on a constant currency basis, which excludes the impact of foreign currency exchange. This measure is used internally by management in evaluating results of operations and determining incentive compensation. We believe that this measure provides useful information to investors because it provides transparency to underlying performance in our net sales by excluding the effect that foreign currency exchange rate fluctuations have on the year-to-year comparability given volatility in foreign currency exchange markets.

To present this information for historical periods, current period net sales for entities reporting in other than the U.S. dollar are translated into U.S. dollars at the average monthly exchange rates in effect during the comparable period of the prior fiscal year, rather than at the actual average monthly exchange rates in effect during the current period of the current fiscal year. As a result, the foreign currency impact is equal to the current year results in local currencies multiplied by the change in average foreign currency exchange rate between the current fiscal period and the comparable period of the prior fiscal year.

The following tables set forth a reconciliation between reported and constant currency growth rates for the years ended December 31, 2018 and 2017:

	For the Year Ended December 31, 2018					
	Percentage Change as Reported		Impact of Foreign Currency Exchange		Percentage Change on Constant Currency Basis	
North America segment						
Canada	2.4	%	(0.3)	)%	2.7	%
Total North America segment	4.2	%	(0.1)	)%	4.3	%
International and Other segment						
Mexico	4.3	%	(1.9)	)%	6.2	%
Brazil	(4.7)	)%	(13.1)	)%	8.4	%
India	21.5	%	(4.8)	)%	26.3	%
China	(20.5)	)%	1.0	%	(21.5)	)%
Total International and Other segment	(0.5)	)%	(1.8)	)%	1.3	%
Total Company	3.7	%	(0.2)	)%	3.9	%



**For the Year Ended December  
31, 2017**

	Percentage Change as Reported		Impact of Foreign Currency Exchange		Percentage Change on Constant Currency Basis	
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North America segment

Canada	6.3	%	2.1	%	4.2	%
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Total North America segment	1.3	%	0.1	%	1.2	%
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International and Other segment

Mexico	9.7	%	(1.1)	)%	10.8	%
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Brazil	19.9	%	9.4	%	10.5	%
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India	17.0	%	3.2	%	13.8	%
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China	(18.1)	)%	(0.8)	)%	(17.3)	)%
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Total International and Other segment	(1.4)	)%	0.6	%	(2.0)	)%
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Total Company	1.0	%	0.2	%	0.8	%
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**CONSOLIDATED RESULTS OF OPERATIONS**

				Percent Change			
For the years ended December 31,	2018	2017	2016	2018 vs 2017		2017 vs 2016	
In millions of dollars except per share amounts							
Net Sales	\$ 7,791.1	\$ 7,515.4	\$ 7,440.2	3.7	%	1.0	%
Cost of Sales	4,215.7	4,060.0	4,270.6	3.8	%	(4.9)	%)
Gross Profit	3,575.4	3,455.4	3,169.6	3.5	%	9.0	%
Gross Margin	45.9	% 46.0	% 42.6				
SM&A Expense	1,874.8	1,885.5	1,891.3	(0.6)	)%	(0.3)	)%
SM&A Expense as a percent of net sales	24.1	% 25.1	% 25.4				
Long-Lived and Intangible Asset Impairment Charges	57.7	208.7	4.2	(72.3)	)%	NM	
Business Realignment Costs	19.1	47.8	18.9	(60.0)	)%	153.3	%
Operating Profit	1,623.8	1,313.4	1,255.2	23.6	%	4.6	%
Operating Profit Margin	20.8	% 17.5	% 16.9				
Interest Expense, Net	138.8	98.3	90.2	41.3	%	9.0	%
Other (Income) Expense, Net	74.8	104.4	65.6	(28.4)	)%	59.4	%
Provision for Income Taxes	239.0	354.1	379.4	(32.5)	)%	(6.7)	)%
Effective Income Tax Rate	17.0	% 31.9	% 34.5				
Net Income Including Noncontrolling Interest	1,171.2	756.6	720.0	54.8	%	5.1	%
Less: Net Loss Attributable to Noncontrolling Interest	(6.5)	) (26.4)	) —	NM		NM	
Net Income Attributable to The Hershey Company	\$ 1,177.7	\$ 783.0	\$ 720.0	50.4	%	8.7	%
Net Income Per Share—Diluted	\$ 5.58	\$ 3.66	\$ 3.34	52.5	%	9.6	%

Note: Percentage changes may not compute directly as shown due to rounding of amounts presented above.

NM = not meaningful.

**Net Sales***2018 compared with 2017*

Net sales increased 3.7% in 2018 compared with 2017, reflecting a benefit from the recent Amplify and Pirate Brands acquisitions of 3.6% and a volume increase of 1.3%, partially offset by unfavorable price realization of 1.0% and an unfavorable impact from foreign currency exchange rates of 0.2%. Excluding the unfavorable impact from foreign currency exchange rates, our net sales increased 3.9%. Consolidated volumes increased due to the acquisitions of Amplify and Pirate Brands, as well as solid performance in select international markets, which more than offset the volume reduction resulting from the sale of SGM in July 2018. The net increase in volume was partially offset by unfavorable net price realization, which was primarily attributed to incremental trade promotional expense in the North America segment in support of 2018 programming.

*2017 compared with 2016*

Net sales increased 1.0% in 2017 compared with 2016, reflecting favorable price realization of 0.7%, a benefit from acquisitions of 0.3%, and a favorable impact from foreign currency exchange rates of 0.2%, partially offset by a volume decrease of 0.2%. Excluding foreign currency, our net sales increased 0.8% in 2017. The favorable net price realization was attributed to lower levels of trade promotional spending in both the North America and International and Other segments versus the prior year. Consolidated volume decreased as a result of lower sales volume in the International and Other segment, primarily attributed to our China business and the softness in the modern trade channel coupled with a focus on optimizing our product offerings. These volume decreases were partially offset by

higher sales volume in North America, specifically from 2017 innovation and new launches, including *Hershey's Cookie Layer Crunch*, *Hershey's Gold* and *Hershey's* and *Reese's* Popped Snack Mix and Chocolate Dipped Pretzels.

**Key U.S. Marketplace Metrics**

For the full year 2018, our total U.S. retail takeaway, including Amplify, increased 0.3% in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores), which includes candy, mint, gum, salty snacks, snack bars, meat snacks and grocery items. Our U.S. candy, mint and gum ("CMG") consumer takeaway was in line with prior year, resulting in a CMG market share loss of approximately 36 basis points due to the timing of innovation and promotional activity relative to our competitors.

The CMG consumer takeaway and market share information reflect 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 Information Resources, Incorporated ("IRI"), the Company's market insights and analytics provider, and provide a means to assess our retail takeaway and market position relative to the overall category.

**Cost of Sales and Gross Margin**

*2018 compared with 2017*

Cost of sales increased 3.8% in 2018 compared with 2017. The increase was driven by higher sales volume, higher freight and logistics costs and additional plant costs. These drivers were partially offset by an incremental \$125.1 million favorable impact from marking-to-market our commodity derivative instruments intended to economically hedge future years' commodity purchases and supply chain productivity,

Gross margin decreased by 10 basis points in 2018 compared with 2017. The decrease was primarily due to the higher freight and logistics costs, unfavorable product mix, additional plant costs related to new production lines, and incremental trade promotional expense. These factors were partially offset by the favorable year-over-year mark-to-market impact from commodity derivative instruments and supply chain productivity.

*2017 compared with 2016*

Cost of sales decreased 4.9% in 2017 compared with 2016. The reduction was driven by lower commodity costs coupled with an incremental \$116.0 million favorable impact from marking-to-market our commodity derivative instruments intended to economically hedge future years' commodity purchases, a \$53.0 million decrease in business realignment costs, and supply chain productivity and cost savings initiatives. These benefits were offset in part by higher freight and warehousing costs and unfavorable manufacturing variances.

Gross margin increased by 340 basis points in 2017 compared with 2016. Lower commodity costs coupled with the favorable year-over-year mark-to-market impact from commodity derivative instruments, lower business realignment costs, and supply chain productivity contributed to the improvement in gross margin. However, higher supply chain costs and unfavorable product mix partially offset the increase in gross margin.

**Selling, Marketing and Administrative**

*2018 compared with 2017*

Selling, marketing and administrative ("SM&A") expenses decreased \$10.7 million or 0.6% in 2018. Total advertising and related consumer marketing expenses declined 10.9% due mainly to spend optimization and shifts relating to our emerging brands, as well as reductions in agency and production fees. Selling, marketing and administrative expenses, excluding advertising and related consumer marketing, increased approximately 6.2% in 2018 due to incremental expenses from Amplify and Pirate Brands and higher expenses related to the multi-year implementation of our enterprise resource planning system, which more than offset reductions in our base spending from the Margin for Growth Program.

*2017 compared with 2016*

SM&A expenses decreased \$5.8 million or 0.3% in 2017. Advertising and related consumer marketing expense remaining consistent with 2016 levels, as higher spending by the North America segment was offset by reduced spending by the International and Other segment. While 2017 SM&A benefited from costs savings and efficiency initiatives, lower business realignment costs, and lower acquisition integration costs, these savings were offset in part by higher costs related to acquisition due diligence activities and the implementation of our new enterprise resource planning system.

**Long-Lived and Intangible Asset Impairment Charges**

In 2018, we recorded impairment charges totaling \$57.7 million to adjust the long-lived asset values within certain disposal groups, including the SGM and Tyrrells businesses, the Lotte Shanghai Foods Co., Ltd. joint venture and other assets. These charges represent the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts realized or to be realized upon completion of the sales, over the sales values less costs to sell for the respective businesses. The fair values of the disposal groups were supported by the sales prices paid by third-party buyers or estimated sales prices based on marketing of the disposal group, when the sale has not yet been completed. The sales of SGM and Tyrrells were both completed in July 2018.

In 2017, in connection with the Margin for Growth Program and our initiative to optimize the manufacturing operations supporting our China business, we tested our China long-lived asset group for impairment. Our assessment indicated that the carrying value of the asset group was not recoverable, and as a result, the impairment loss was allocated to the asset group's long-lived assets. We recorded long-lived asset impairment charges totaling \$106.0 million to write-down distributor relationship and trademark intangible assets that had been recognized in connection with the 2014 SGM acquisition and wrote-down property, plant and equipment by \$102.7 million.

In 2016, in connection with the annual impairment testing of indefinite lived intangible assets, we recognized a trademark impairment charge of \$4.2 million, primarily resulting from plans to discontinue a brand sold 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 Activities**

We are currently pursuing several business realignment activities designed to increase our efficiency and focus our business behind key growth strategies. Costs recorded for business realignment activities during 2018, 2017 and 2016 are as follows:

For the years ended December 31,	2018	2017	2016
In millions of dollars			
Margin for Growth Program:			
Severance	\$15.4	\$32.6	\$—
Accelerated depreciation	9.1	6.9	—
Other program costs	30.9	16.4	—
Operational Optimization Program:			
Severance	—	13.8	17.9
Gain on sale of facilities	(6.6 )	—	—
Accelerated depreciation	—	—	48.6
Other program costs	2.9	(0.3 )	21.8
2015 Productivity Initiative:			
Other program costs	—	—	5.6
Total	\$51.8	\$69.4	\$93.9

Costs associated with business realignment activities are classified in our Consolidated Statements of Income as described in Note 8 to the Consolidated Financial Statements.

*Margin for Growth Program*

In the first quarter 2017, the Company's Board of Directors ("Board") unanimously approved several initiatives under a single program designed to drive continued net sales, operating income and earnings per-share diluted growth over the next several years. This program is focused on improving global efficiency and effectiveness, optimizing the Company's supply chain, streamlining the Company's operating model and reducing administrative expenses to generate long-term savings.

We originally estimated that the Margin for Growth Program would result in total pre-tax charges of \$375 million to \$425 million, to be incurred from 2017 to 2019. The majority of the initiatives relating to the program have been executed, with the final initiatives to be completed over approximately the next nine months. To date, we have incurred pre-tax charges to execute the program totaling \$336 million. This includes long-lived asset impairment charges of \$209 million related to the operations supporting our China business as noted below, as well as the \$16 million incremental impairment charge resulting from the sale of SGM (see Note 7). In addition to the impairment charges, we have incurred employee separation costs of \$48 million and other business realignment costs of \$63 million. We expect the remaining spending on this program to be minimal in 2019, bringing total estimated project costs to approximately \$340 million to \$355 million. The cash portion of the total program charges is estimated to be \$97 million to \$110 million. The Company reduced its global workforce by approximately 15% as a result of this program, with a majority of the reductions coming from hourly headcount positions outside of the United States. During 2018, we recognized total costs associated with the Margin for Growth Program of \$55 million. These charges included employee severance, largely relating to initiatives to improve the cost structure of our China business and to further streamline our corporate operating model, as well as non-cash, asset-related incremental depreciation expense as part of optimizing the global supply chain. In addition, we incurred other program costs, which relate primarily to third-party charges in support of our initiative to improve global efficiency and effectiveness. During 2017, we recognized total costs associated with the Margin for Growth Program of \$56 million. The 2017 charges are consistent in nature to the 2018 activity.

The program included an initiative to optimize the manufacturing operations supporting our China business. When the program was approved in 2017, we deemed this to be a triggering event requiring us to test our China long-lived asset group for impairment by first determining whether the carrying value of the asset group was recovered by our current estimates of future cash flows associated with the asset group. Because this assessment indicated that the carrying value was not recoverable, we calculated an impairment loss as the excess of the asset group's carrying value over its fair value. The resulting impairment loss was allocated to the asset group's long-lived assets. Therefore, as a result of this testing, during the first quarter of 2017, we recorded impairment charges totaling \$209 million, with \$106 million representing the portion of the impairment loss that was allocated to the distributor relationship and trademark intangible assets that had been recognized in connection with the 2014 SGM acquisition and \$103 million representing the portion of the impairment loss that was allocated to property, plant and equipment. These impairment charges are recorded in the long-lived asset impairment charges caption within the Consolidated Statements of Operations.

*Operational Optimization Program*

In the second quarter of 2016, we commenced a program (the "Operational Optimization Program") to optimize our production and supply chain network, which included select facility consolidations. The program encompassed the transition of our China chocolate and SGM operations into a united *Golden Hershey* platform, including the integration of the China sales force, as well as workforce planning efforts and the consolidation of production within certain facilities in China and North America.

During 2018, we incurred pre-tax costs totaling \$3 million, relating primarily to third-party charges in support of our initiative to optimize our production and supply chain network. In addition, we completed the sale of select China facilities in 2018 that had been taken out of service in connection with the Operational Optimization Program resulting in a gain of \$7 million. During 2017 and 2016, we incurred pre-tax costs totaling \$14 million and \$88 million respectively, including non-cash asset-related incremental depreciation costs in 2016, employee related costs, costs to

consolidate and relocate production, and third party costs incurred to execute these activities. This program was completed in 2018.



### *2015 Productivity Initiative*

In mid-2015, we initiated a 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 was undertaken 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 of 2015, resulting in a net reduction of approximately 300 positions, with the majority of the departures taking place by the end of 2015. The 2015 Productivity Initiative was completed during the third quarter 2016. Final costs incurred in 2016 relating to this program totaled \$5,609.

### **Operating Profit and Operating Profit Margin**

#### *2018 compared with 2017*

Operating profit increased 23.6% in 2018 compared with 2017 due primarily to higher gross profit, lower impairment charges and business realignment costs, and lower SM&A in the 2018 period. Operating profit margin increased to 20.8% in 2018 from 17.5% in 2017 driven by these same factors.

#### *2017 compared with 2016*

Operating profit increased 4.6% in 2017 compared with 2016 due primarily to higher gross profit and slightly lower SM&A expenses, as discussed previously. Operating profit margin increased to 17.5% in 2017 from 16.9% in 2016 driven by the improvement in gross margin.

### **Interest Expense, Net**

#### *2018 compared with 2017*

Net interest expense was \$40.6 million higher in 2018 than in 2017. The increase was due to higher levels of commercial paper issued to fund the Amplify acquisition and higher interest rates on our short-term debt, as well as incremental interest on \$1.2 billion of notes issued in May 2018.

#### *2017 compared with 2016*

Net interest expense was \$8.1 million higher in 2017 than in 2016. The increase was due to higher levels of long-term debt outstanding and higher interest rates on commercial paper during the 2017 period, as well as a decreased benefit from the fixed to floating swaps.

### **Other (Income) Expense, Net**

#### *2018 compared with 2017*

Other (income) expense, net totaled expense of \$74.8 million in 2018 versus expense of \$104.4 million 2017. The decrease in the net expense was primarily due to lower non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans during 2018, as well as lower write-downs on equity investments qualifying for federal historic and energy tax credits.

#### *2017 compared with 2016*

Other (income) expense, net totaled expense of \$104.4 million in 2017 versus expense of \$65.6 million in 2016. In 2017 we recognized a \$66.2 million write-down on equity investments qualifying for federal historic and energy tax credits, compared to a \$43.5 million write down in 2016. In 2017, the non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans totaled \$38.8 million compared to \$49.4 million in 2016. Additionally, 2016 was offset by an extinguishment gain of \$26.7 million related to the settlement of the SGM liability.

## **Income Taxes and Effective Tax Rate**

### *2018 compared with 2017*

Our effective income tax rate was 17.0% for 2018 compared with 31.9% for 2017. Relative to the 21% statutory rate, the 2018 effective tax rate was impacted by a favorable foreign rate differential and investment tax credits, which were partially offset by the impact of state taxes. The 2017 effective rate, relative to the previous statutory rate of 35%, benefited from a favorable foreign rate differential, investment tax credits and the benefit of ASU 2016-09 for the accounting of employee share-based payments, which were partially offset by the impact of U.S. tax reform and non-benefited costs resulting from the Margin for Growth Program.

### *2017 compared with 2016*

Our effective income tax rate was 31.9% for 2017 compared with 34.5% for 2016. Relative to the statutory rate, the 2017 effective tax rate was impacted by a favorable foreign rate differential relating to foreign operations and cocoa procurement, investment tax credits and the benefit of ASU 2016-09 for the accounting of employee share-based payments, which were partially offset by the impact of U.S. tax reform and non-benefited costs resulting from the Margin for Growth Program. The 2016 effective rate benefited from the impact of non-taxable income related to the settlement of the SGM liability and investment tax credits.

## **Net Income attributable to The Hershey Company and Earnings Per Share-diluted**

### *2018 compared with 2017*

Net income increased \$394.6 million, or 50.4%, while EPS-diluted increased \$1.92, or 52.5%, in 2018 compared with 2017. The increase in both net income and EPS-diluted was driven primarily by 2018 higher gross profit, lower impairment charges and business realignment costs, lower SM&A, and lower income taxes, which were partly offset by higher interest expense, as noted above. Our 2018 EPS-diluted also benefited from lower weighted-average shares outstanding as a result of share repurchases, including both current year and prior year repurchases from the Milton Hershey School Trust (the "Trust"), as well as current year repurchases pursuant to our Board-approved repurchase programs.

### *2017 compared with 2016*

Net income increased \$62.9 million, or 8.7%, while EPS-diluted increased \$0.32, or 9.6%, in 2017 compared with 2016. The increase in both net income and EPS-diluted were driven by higher gross profit, lower SM&A and lower income taxes, partly offset by the long-lived asset impairment charges and higher write-downs relating to tax credit investments, as noted above. Our 2017 EPS-diluted also benefited from lower weighted-average shares outstanding as a result of share repurchases, including a current year repurchase from the Trust and prior year repurchases pursuant to our Board-approved repurchase programs.

## **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, unallocated mark-to-market gains and losses on commodity derivatives, business realignment and impairment charges, acquisition-related costs and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are largely managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the CODM and used for resource allocation and 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 directly attributable to our ongoing segment operations. For further information, see the Non-GAAP Information section of this MD&A.



Our segment results, including a reconciliation to our consolidated results, were as follows:

For the year ended December 31, In millions of dollars	2018	2017	2016
Net Sales:			
North America	\$6,901.6	\$6,621.2	\$6,533.0
International	889.5	894.3	907.2
Other	71.1	71.1	71.1
Total	\$7,791.1	\$7,515.4	\$7,440.2

Segment Income (Loss):			
North America	\$2,020.1	\$2,044.2	\$2,040.5
International	71.8	11.5	(29.1 )
Other	71.1	71.1	71.1
Total	\$2,093.0	2,055.7	2,011.4

Unallocated corporate expense	486.8	499.2	488.3
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(1) Unallocated mark-to-market (gains) losses on	(168.3 )	(35.3 )	163.2
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commodity derivatives (2) Long-lived and intangible asset	57.8	208.7	4.2
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impairment charges associated with	51.8	69.4	93.9
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business  
realignment  
activities

Acquisition-related costs	44.8 0.3	6.5
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Gain on sale of	(2.7)	—
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licensing  
costs

Operating profit	1,623.7 1,313.4	1,255.3
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Interest expense, net	98.3	90.2
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Other (income) expense, net	74.8 104.4	65.6
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Income before income taxes	\$1,410.1	\$1,110.7
		\$1,099.5

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.

(1) Net (gains) losses on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative (gains) losses. See Note 12 to the Consolidated Financial Statements.

## 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 88.6%, 88.1% and 87.8% of our net sales in 2018, 2017 and 2016, respectively.

North America results for the years ended December 31, 2018, 2017 and 2016 were as follows:

				Percent Change	
For the years ended December 31,	2018	2017	2016	2018 vs 2017	2017 vs 2016
In millions of dollars					
Net sales	\$6,901.6	\$6,621.2	\$6,533.0	4.2 %	1.3 %
Segment income	2,020.1	2,044.2	2,040.5	(1.2)%	0.2 %
Segment margin	29.3	% 30.9	% 31.2	%	

### 2018 compared with 2017

Net sales of our North America segment increased \$280.4 million or 4.2% in 2018 compared to 2017, which includes a 4.6% benefit from the Amplify and Pirate Brands acquisitions. Excluding the Amplify and Pirate Brands acquisitions, our North America segment net sales decreased 0.4%. Net price realization declined 1.3% due to incremental trade promotional expense in support of 2018 programming, partially offset by volume increases of 0.9% due to innovation, specifically driven by *Reese's Outrageous* bars and *Hershey's Gold*.

Our North America segment income decreased \$24.1 million or 1.2% in 2018 compared to 2017, primarily due to higher trade promotional expense, higher logistics costs, unfavorable sales mix and additional plant costs, as well as incremental SM&A expense, including amortization expense, from the Amplify and Pirate Brands acquisitions. These higher expenses more than offset reductions in advertising and related consumer marketing expense, which declined 11.2% versus the 2017 period, with the reduction driven by spend optimization and shifts relating to our emerging brands, as advertising and related consumer marketing on our core U.S. brands increased during the year.

### 2017 compared with 2016

Net sales of our North America segment increased \$88.2 million or 1.3% in 2017 compared to 2016, driven by increased volume of 0.5% due to a longer Easter season, as well as 2017 innovation, specifically, *Hershey's Cookie Layer Crunch*, and the launch of *Hershey's Gold* and *Hershey's* and *Reese's* Popped Snack Mix and Chocolate Dipped Pretzels. Additionally, the barkTHINS brand acquisition contributed 0.3%. Net price realization increased by 0.4% due to decreased levels of trade promotional spending. Excluding the favorable impact of foreign currency exchange rates of 0.1%, the net sales of our North America segment increased by approximately 1.2%.

Our North America segment income increased \$3.7 million or 0.2% in 2017 compared to 2016, driven by higher gross profit, partially offset by investments in greater levels of advertising expense and go-to-market capabilities, as well as unfavorable manufacturing variances and higher freight and warehousing costs.

## 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, Las Vegas, Niagara Falls (Ontario) 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 11.4%, 11.9% and 12.2% of our net sales in 2018, 2017 and 2016, respectively. International and Other results for the years ended December 31, 2018, 2017 and 2016 were as follows:

				Percent Change	
For the years ended December 31,	2018	2017	2016	2018 vs 2017	2017 vs 2016
In millions of dollars					
Net sales	\$889.5	\$894.3	\$907.2	(0.5)%	(1.4)%
Segment income (loss)	73.8	11.5	(29.1 )	NM	NM
Segment margin	8.3	% 1.3	% (3.2 )%		

### *2018 compared with 2017*

Net sales of our International and Other segment decreased \$4.8 million or 0.5% in 2018 compared to 2017, reflecting a 4.4% reduction in net sales from the divestiture of SGM and an unfavorable impact from foreign currency exchange rates of 1.8%, partially offset by volume increases of 4.7% and favorable price realization of 1.0%. Excluding the sale of SGM and unfavorable foreign currency exchange rates, our International and Other segment net sales increased 5.7%.

The volume increase was primarily attributed to solid marketplace growth in India, Brazil and Mexico, where constant currency net sales increased by 26.3%, 8.4%, and 6.2%, respectively. The favorable net price realization was driven by decreased levels of trade promotional spending compared to the prior year.

Our International and Other segment generated income of \$73.8 million in 2018 compared to \$11.5 million in 2017, with the improvement primarily resulting from our efforts to drive sustainable gross margin improvements as we executed our Margin for Growth program and optimize the product portfolio across various international markets. Additionally, segment income benefited from continued growth across Mexico, Brazil, India and regional markets.

### *2017 compared with 2016*

Net sales of our International and Other segment decreased \$12.9 million or 1.4% in 2017 compared to 2016, reflecting volume declines of 4.7%, partially offset by favorable price realization of 2.7% and a favorable impact from foreign currency exchange rates of 0.6%. Excluding the unfavorable impact of foreign currency exchange rates, the net sales of our International and Other segment decreased by approximately 2.0%.

The volume decrease is primarily attributed to our China business, driven by softness in the modern trade channel coupled with a focus on optimizing our product offerings. The favorable net price realization was driven by higher prices in select markets, as well as reduced levels of trade promotional spending, which declined significantly compared to the prior year. Constant currency net sales in Mexico and Brazil increased by 10.8% and 10.5%, respectively, driven by solid chocolate marketplace performance. India also experienced constant currency net sales growth of 13.8%.

Our International and Other segment generated income of \$11.5 million in 2017 compared to a loss of \$29.1 million in 2016 due to benefits from reduced trade promotional spending and lower operating expenses in China as a result of our Margin for Growth Program. Additionally, segment income benefited from the improved combined income in Latin America and export markets versus the prior year.

### Unallocated Corporate Expense

Unallocated corporate expense 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.

Unallocated corporate expense totaled \$486.8 million in 2018 as compared to \$499.2 million in 2017 primarily driven by savings from our productivity and cost savings initiatives, partially offset by spending on the multi-year implementation of our enterprise resource planning system. In 2017, unallocated corporate expense increased \$10.9 million from \$488.3 million in 2016. While we realized savings in 2017 from our productivity and cost savings initiatives, these savings were more than offset by higher costs related to the multi-year implementation of our enterprise resource planning system, as well as higher due diligence costs related to merger and acquisition activity.

### 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, repurchases of outstanding shares, the 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, strategic acquisitions and the payment of dividends.

### Cash Flow Summary

The following table is derived from our Consolidated Statement of Cash Flows:

In millions of dollars	2018	2017	2016
Net cash provided by (used in):			
Operating activities	\$1,599.9	\$1,249.5	\$1,013.4
Investing activities	(1,502.9 )	(328.6 )	(595.4 )
Financing activities	116.1	(843.8 )	(464.4 )
Effect of exchange rate changes on cash and cash equivalents	(5.3 )	6.1	(3.1 )
Increase (decrease) in cash and cash equivalents	207.8	83.2	(49.5 )

### Operating activities

Our principal source of liquidity is cash flow from operations. 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 2018 increased \$350.4 million relative to 2017. This increase was driven by the following factors:

Net income adjusted for non-cash charges to operations (including depreciation, amortization, stock-based compensation, deferred income taxes, goodwill, indefinite and long-lived asset charges, write-down of equity investments and other charges) contributed \$257 million of additional cash flow in 2018 relative to 2017.

Incomes taxes generated cash of \$76 million in 2018, compared to a use of cash of \$71 million in 2017. This \$147 million fluctuation was mainly due to the variance in actual tax expense for 2018 relative to the timing of quarterly estimated tax payments, which resulted in a higher taxes payable position at the end of 2018 compared to 2017.

The increase in cash provided by operating activities was partially offset by the following net cash outflows:



Prepaid expenses and other current assets used cash of \$40 million in 2018, compared to cash generated of \$18 million in 2017. This \$58 million fluctuation was mainly driven by the timing of payments on commodity futures. In addition, in 2018, the volume of commodity futures held, which require margin deposits, was higher compared to 2017. We utilize commodity futures contracts to economically manage the risk of future price fluctuations associated with our purchase of raw materials.

Cash provided by operating activities in 2017 increased \$236.1 million relative to 2016. This increase was driven by the following factors:

Net income adjusted for non-cash charges to operations (including depreciation, amortization, stock-based compensation, deferred income taxes, goodwill, indefinite and long-lived asset charges, write-down of equity investments, the gain on settlement of the SGM liability and other charges) contributed \$329 million of additional cash flow in 2017 relative to 2016.

Prepaid expenses and other current assets generated cash of \$18 million in 2017, compared to a use of cash of \$43 million in 2016. This \$61 million fluctuation was mainly driven by the timing of payments on commodity futures. In addition, in 2017, the volume of commodity futures held, which require margin deposits, was lower compared to 2016. We utilize commodity futures contracts to economically manage the risk of future price fluctuations associated with our purchase of raw materials.

The increase in cash provided by operating activities was partially offset by the following net cash outflows: Working capital (comprised of trade accounts receivable, inventory, accounts payable and accrued liabilities) consumed cash of \$131 million in 2017 and \$28 million in 2016. This \$103 million fluctuation was mainly due to a higher year-over-year build up of U.S. inventories to satisfy product requirements and maintain sufficient levels to accommodate customer requirements, coupled with a higher investment in inventory in Mexico and India, driven by volume growth in those markets.

The use of cash for income taxes increased \$70 million, mainly due to the variance in actual tax expense for 2017 relative to the timing of quarterly estimated tax payments, which resulted in a higher prepaid tax position at the end of 2017 compared to 2016.

*Pension and Post-Retirement Activity.* We recorded net periodic benefit costs of \$42.1 million, \$59.7 million and \$72.8 million in 2018, 2017 and 2016, 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 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 \$25.9 million, \$56.4 million and \$41.7 million in 2018, 2017 and 2016, respectively.

### ***Investing activities***

Our principal uses of cash for investment purposes relate to purchases of property, plant and equipment and capitalized software, as well as acquisitions of businesses, partially offset by proceeds from sales of property, plant and equipment. We used cash of \$1,502.9 million for investing activities in 2018 compared to \$328.6 million in 2017, with the increase driven by two business acquisitions in 2018 compared to no business acquisition activity in 2017. We used cash of \$595.4 million for investing activities in 2016, with the increases versus 2017 primarily driven by a business acquisition in 2016.

Primary investing activities include the following:

*Capital spending.* Capital expenditures, including capitalized software, primarily to support capacity expansion, innovation and cost savings, were \$328.6 million in 2018, \$257.7 million in 2017 and \$269.5 million in 2016. Our 2018 expenditures were higher compared to 2017 and 2016 as a result of increased U.S. core chocolate brand capacity expansion and investments in our enterprise resource planning system implementation. We expect 2019 capital expenditures, including capitalized software, to approximate \$330 million to \$350 million.

*Proceeds from sales of property, plant and equipment and other long-lived assets.* During 2018, we generated \$49.8 million of proceeds from the sale of property, plant and equipment and other long-lived assets. This included sales of select China facilities that were taken out of operation in connection with the Operational Optimization Program. Proceeds from the sale of these facilities totaled \$27.5 million, resulting in a gain of \$6.6 million. Additionally, we sold licensing rights for a non-core trademark relating to a brand marketed outside of the U.S. for \$13.0 million, resulting in a gain of \$2.7 million.

*Proceeds from the sales of businesses.* In July 2018, we sold the Tyrrells and SGM businesses. Collectively, the proceeds from the sales of these businesses, net of cash divested, totaled approximately \$167.0 million. We had no divestiture activity in the comparable 2017 or 2016 periods.

*Business acquisitions.* In 2018, we spent \$915 million to acquire Amplify and \$423 million to acquire Pirate Brands. We had no acquisition activity in 2017. In 2016, we spent \$285.4 million to acquire Ripple Brand Collective, LLC.

*Investments in partnerships qualifying for tax credits.* We make investments in partnership entities that in turn make equity investments in projects eligible to receive federal historic and energy tax credits. We invested approximately \$52.6 million in 2018, \$78.6 million in 2017 and \$44.3 million in 2016 in projects qualifying for tax credits.

### **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. Financing activities in 2018 increased cash by \$116.1 million, compared to cash used of \$843.8 million in 2017. We used cash of \$464.4 million for financing activities in 2016, primarily to fund dividend payments and share repurchases, partially offset by incremental borrowings.

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 2018, we generated cash flow of \$645.8 million through the issuance of short-term commercial paper, partially offset by a reduction in short-term foreign bank borrowings. We utilized the proceeds from the issuance of commercial paper to fund the Amplify acquisition and repay Amplify's outstanding debt owed under its existing credit agreement. A portion of the commercial paper borrowings used to fund the Amplify acquisition were subsequently refinanced with the proceeds of new notes issued during the second quarter of 2018, as discussed below. In 2017, we used \$81.4 million to reduce commercial paper borrowings and short-term foreign borrowings. In 2016, we generated cash flow of \$275.6 million through short-term commercial paper borrowings, partially offset by payments in short-term foreign borrowings.

*Long-term debt borrowings and repayments.* In 2018, we issued \$350 million of 2.90% Notes due in 2020, \$350 million of 3.10% Notes due in 2021 and \$500 million of 3.375% Notes due in 2023. Proceeds from the issuance of the Notes, net of discounts and issuance costs, totaled \$1,193.8 million. In 2018, we repaid \$300 million of 1.60% Notes due in 2018 upon their maturity. Additionally, in 2018, we repaid a portion of the commercial paper borrowings that had been used to fund the Amplify acquisition. In 2017, we had minimal incremental long-term borrowings and no repayment activity. In 2016, we used \$500 million to repay long-term debt. Additionally, in 2016, we issued \$500 million of 2.30% Notes due in 2026 and \$300 million of 3.375% Notes due in 2046.

*Tax receivable obligation.* In connection with the Amplify acquisition, the Company agreed to make payments to the counterparty of a tax receivable agreement. In 2018, we paid \$72.0 million to settle the tax receivable obligation.

*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 \$247.5 million in 2018, which included a privately negotiated repurchase transaction with Hershey Trust Company, as trustee for the Trust, to purchase 450 thousand shares for \$47.8 million. We used cash for total share repurchases of \$300.3 million in 2017, which included a privately negotiated repurchase transaction with Hershey Trust Company, as trustee for the Trust, to purchase 1.5 million shares for \$159.0 million. We used cash for total share repurchases of \$592.6 million in 2016, which included purchases pursuant to authorized programs of \$420.2 million to purchase 4.6 million shares. As of December 31, 2018, approximately \$60 million remained available under the \$100 million share repurchase authorization approved by the Board in October 2017. In July 2018, our Board approved an additional \$500 million share repurchase authorization, which is to commence after the existing 2017 authorization is completed and is to be utilized at management's discretion.

*Dividend payments.* Total dividend payments to holders of our Common Stock and Class B Common Stock were \$562.5 million in 2018, \$526.3 million in 2017 and \$499.5 million in 2016. Dividends per share of Common Stock increased 8.2% to \$2.756 per share in 2018 compared to \$2.548 per share in 2017, while dividends per share of Class B Common Stock increased 8.1% in 2018.

*Proceeds from the exercise of stock options, including tax benefits.* We received \$63.3 million from employee exercises of stock options, net of employee taxes withheld from share-based awards in 2018 and 2017, respectively, and \$94.8 million in 2016. Variances are driven primarily by the number of shares exercised and the share price at the date of grant.

• *Other.* In February 2016, we used \$35.8 million to purchase the remaining 20% of the outstanding shares of SGM.

### **Liquidity and Capital Resources**

At December 31, 2018, our cash and cash equivalents totaled \$588.0 million. At December 31, 2017, our cash and cash equivalents totaled \$380.2 million. Our cash and cash equivalents at the end of 2018 increased \$207.8 million compared to the 2017 year-end balance as a result of the sources of net cash outlined in the previous discussion. Approximately 75% of the balance of our cash and cash equivalents at December 31, 2018 was held by subsidiaries domiciled outside of the United States. The Company recognized the one-time U.S. repatriation tax due under U.S. tax reform and, as a result, repatriation of these amounts would not be subject to additional U.S. federal income tax but would be subject to applicable withholding taxes in the relevant jurisdiction. Our intent is to reinvest funds earned outside of the United States to finance foreign operations and investments, and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations. 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 \$4.5 billion at December 31, 2018 and \$2.9 billion at December 31, 2017. Our total debt increased in 2018 mainly due to the additional Notes issued mid-year, which were used to repay a portion of the commercial paper borrowings that had been used to fund the Amplify acquisition and repay Amplify's outstanding debt owed under its existing credit agreement.

As a source of short-term financing, we maintain a \$1.4 billion unsecured revolving credit facility. As of December 31, 2018, the termination date of this agreement is November 2020. We may use these funds for general corporate purposes, including commercial paper backstop and business acquisitions. As of December 31, 2018, we had \$315 million of available capacity under the agreement. 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, 2018.

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, 2018, we had available capacity of \$273 million under these lines of credit.

Furthermore, we have a current shelf registration statement filed with the SEC 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 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 trust established by Milton S. and Catherine S. Hershey that has as its sole beneficiary Milton Hershey School, maintains voting control over The Hershey Company. In addition, three representatives of Hershey Trust Company currently serve as members of the Company's Board. In performing their responsibilities on the Company's Board, these representatives may from time to time exercise influence with regard to the ongoing business decisions of our Board or management. Hershey Trust Company, as trustee for the Trust, in its role as controlling stockholder of the Company, has indicated it intends to retain its controlling interest in The Hershey Company. The Company's 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 Trust, 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 Hershey Trust Company, as trustee for the Trust, 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, that 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, 2018:

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 notes (excluding capital leases obligations)	\$3,178.3	\$—	\$1,134.7	\$750.0	\$1,293.6
Interest expense (1)	763.5	114.9	180.8	125.5	342.3
Operating lease obligations (2)	293.4	38.0	40.9	28.9	185.6
Capital lease obligations (3)	194.8	7.0	9.2	8.9	169.7
Minimum pension plan funding obligations (4)	8.8	1.4	2.9	3.0	1.5
Unconditional purchase obligations (5)	2,375.0	1,495.9	878.4	0.7	—
Total obligations	\$6,813.8	\$1,657.2	\$2,246.9	\$917.0	\$1,992.7

(1) Includes the net interest payments on fixed rate debt associated with long-term notes.

(2) Includes the minimum rental commitments under non-cancelable operating leases primarily for offices, retail stores, warehouses and distribution facilities.

(3) Includes the minimum rental commitments (including interest expense) under non-cancelable capital leases primarily for offices and warehouse facilities, as well as vehicles.

(4) 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 10 to the Consolidated Financial Statements.

(5) 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, 2018. The amounts presented in the table do not include items already recorded in accounts payable or accrued liabilities at year-end 2018, 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. 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 9 to the Consolidated Financial Statements for more information.

### **Recent Accounting Pronouncements**

Information on recently adopted and issued accounting standards is included in Note 1 to the Consolidated Financial Statements.

### **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:

<sup>1</sup>Accrued Liabilities for Trade Promotion Activities

<sup>1</sup>Pension and Other Post-Retirement Benefits Plans

<sup>1</sup>Goodwill and Other Intangible Assets

<sup>1</sup>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 the 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. The estimated costs of these programs are reasonably likely to change in future periods 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. During 2018, 2017, and 2016, actual annual promotional costs have not deviated from the estimated amount by more than 3%. Our trade promotion and consumer incentive accrued liabilities totaled \$171.4 million and \$173.7 million at December 31, 2018 and 2017, respectively.

#### **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. Our related accounting policies, accounting balances and plan assumptions are discussed in Note 10 to the Consolidated Financial Statements.

#### *Pension Plans*

Changes in certain assumptions could significantly affect pension expense and benefit obligations, particularly the estimated long-term rate of return on plan assets and the discount rates used to calculate such obligations:



Long-term rate of return on plan assets. The expected long-term rate of return is evaluated on an annual basis. We consider a number of factors when setting assumptions with respect to the long-term rate of return, including current and expected asset allocation and historical and expected returns on the plan asset categories. Actual asset allocations are regularly reviewed and periodically rebalanced to the targeted allocations when considered appropriate. Investment gains or losses represent the difference between the expected return estimated using the long-term rate of return and the actual return realized. For 2019, we increased the expected return on plan assets assumption to 6.0% from the 5.8% assumption used during 2018. The historical average return (compounded annually) over the 20 years prior to December 31, 2018 was approximately 6.0%.

As of December 31, 2018, our primary plans had cumulative unrecognized investment and actuarial losses of approximately \$348 million. We amortize the unrecognized net actuarial gains and losses in excess of the corridor amount, which is the greater of 10% of a respective plan's projected benefit obligation or the fair market value of plan assets. These unrecognized net losses may increase future pension expense if not offset by (i) actual investment returns that exceed the expected long-term rate of investment returns, (ii) other factors, including reduced pension liabilities arising from higher discount rates used to calculate pension obligations or (iii) other actuarial gains when actual plan experience is favorable as compared to the assumed experience. A 100 basis point decrease or increase in the long-term rate of return on pension assets would correspondingly increase or decrease annual net periodic pension benefit expense by approximately \$10 million.

Discount rate. Prior to December 31, 2017, the service and interest cost components of net periodic benefit cost were determined utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. Beginning in 2018, we elected to utilize a full yield curve approach in the estimation of service and interest costs by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We made this change to provide a more precise measurement of service and interest costs by improving the correlation between the projected cash flows to the corresponding spot rates along the yield curve. This change does not affect the measurement of our pension and other post-retirement benefit liabilities but generally results in lower benefit expense in periods when the yield curve is upward sloping, which was the case in 2018. We accounted for this change as a change in accounting estimate and, accordingly, accounted for it on a prospective basis starting in 2018.

A 100 basis point decrease (increase) in the weighted-average pension discount rate would increase (decrease) annual net periodic pension benefit expense by approximately \$5 million and the December 31, 2018 pension liability would increase by approximately \$87 million or decrease by approximately \$75 million, respectively.

Pension expense for defined benefit pension plans is expected to be approximately \$30 million in 2019. Pension expense beyond 2019 will depend on future investment performance, our contributions to the pension trusts, changes in discount rates and various other factors related to the covered employees in the plans.

#### *Other Post-Employment Benefit Plans*

Changes in significant assumptions could affect consolidated expense and benefit obligations, particularly the discount rates used to calculate such obligations and the healthcare cost trend rate:

Discount rate. The determination of the discount rate used to calculate the benefit obligations of the OPEB plans is discussed in the pension plans section above. A 100 basis point decrease (increase) in the discount rate assumption for these plans would not be material to the OPEB plans' consolidated expense and the December 31, 2018 benefit liability would increase by approximately \$22 million or decrease by approximately \$19 million, respectively.

Healthcare cost trend rate. The healthcare cost trend rate is based on a combination of inputs including our recent claims history and insights from external advisers regarding recent developments in the healthcare marketplace, as well as projections of future trends in the marketplace. See Note 10 to the Consolidated Financial Statements for disclosure of the effects of a one percentage point change in the healthcare cost trend rate.





### **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 test goodwill for impairment by performing either a qualitative or quantitative assessment. If we choose to perform a qualitative assessment, we evaluate economic, industry and company-specific factors in assessing the fair value of the related reporting unit. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative test is then performed. Otherwise, no further testing is required. For those reporting units tested using a quantitative approach, 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, impairment is indicated, requiring recognition of a goodwill impairment charge for the differential (up to the carrying value of goodwill). We test individual indefinite-lived intangible assets by comparing the estimated fair values 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.

At December 31, 2018, the net book value of our goodwill totaled \$1,801.1 million and related to four reporting units. Based on our most recent quantitative testing, all of our reporting units had a percentage of excess fair value over carrying value of 100% or more. Therefore, as it relates to our 2018 annual testing performed at the beginning of the fourth quarter, we tested all four reporting units using a qualitative assessment and determined that no quantitative testing was deemed necessary. There were no other events or circumstances that would indicate that impairment may exist.

In February 2017, we commenced the Margin for Growth Program which includes an initiative to optimize the manufacturing operations supporting our China business. We deemed this to be a triggering event requiring us to test our China long-lived asset group for impairment by first determining whether the carrying value of the asset group was recovered by our current estimates of future cash flows associated with the asset group. Because this assessment indicated that the carrying value was not recoverable, we calculated an impairment loss as the excess of the asset group's carrying value over its fair value. The resulting impairment loss was allocated to the asset group's long-lived assets. Therefore, as a result of this testing, during the first quarter of 2017, we recorded an impairment charge totaling \$105.9 million representing the portion of the impairment loss that was allocated to the distributor relationship and trademark intangible assets that had been recognized in connection with the 2014 SGM acquisition.

In 2016, in connection with our annual impairment testing of indefinite lived intangible assets, we recognized a trademark impairment charge of \$4.2 million, primarily resulting from plans to discontinue a brand sold in India.

## 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 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**

The total notional amount of interest rate swaps outstanding at December 31, 2018 and 2017 was \$350 million. The notional amount relates to fixed-to-floating interest rate swaps which convert a comparable amount of fixed-rate debt to variable rate debt at December 31, 2018 and 2017. A hypothetical 100 basis point increase in interest rates applied to this now variable-rate debt as of December 31, 2018 would have increased interest expense by approximately \$3.5 million for the full year 2018 and 2017, respectively.

We consider our current risk related to market fluctuations in interest rates on our remaining debt portfolio, excluding fixed-rate debt converted to variable rates 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, 2018 and December 31, 2017 by approximately \$121 million and \$134 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.

In order to manage interest rate exposure, in previous years we utilized interest rate swap agreements to protect against unfavorable interest rate changes relating to forecasted debt transactions. These swaps, which were settled upon issuance of the related debt, were designated as cash flow hedges and the gains and losses that were deferred in other comprehensive income are being recognized as an adjustment to interest expense over the same period that the hedged interest payments affect earnings. During 2016, we had one interest rate swap agreement in a cash flow hedging relationship with a notional amount of \$500 million, which was settled in connection with the issuance of debt in August 2016, resulting in a payment of approximately \$87 million which is reflected as an operating cash flow within the Consolidated Statement of Cash Flows.

### 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 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 12 months.

A summary of foreign currency forward exchange contracts and the corresponding amounts at contracted forward rates is as follows:

December 31,	2018 Contract Amount	Primary Currencies	2017 Contract Amount	Primary Currencies
<b>In millions of dollars</b>				
Foreign currency forward exchange contracts to purchase foreign currencies	\$33.4	Euros British pound Canadian dollars	\$19.5	Euros Canadian dollars
Foreign currency forward exchange contracts to sell foreign currencies	\$51.8	Brazilian reals Japanese yen	\$158.2	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, 2018 and 2017, the net fair value of these instruments was an asset of \$2.5 million and a liability of \$1.0 million, respectively. Assuming an unfavorable 10% change in year-end foreign currency exchange rates, the fair value of these instruments would have declined by \$4.5 million and \$19.7 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:

- ¹Commodity market fluctuations;
- ¹Foreign currency exchange rates;
- ¹Imbalances between supply and demand;
- ¹The effect of weather on crop yield;
- ¹Speculative influences;
- ¹Trade agreements among producing and consuming nations;
- ¹Supplier compliance with commitments;
- ¹Political unrest in producing countries; and
- ¹Changes 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, dairy futures liquidity is not as developed as many of the other commodities futures markets and, therefore, it can be 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 2018, average cocoa futures contract prices increased compared with 2017 and traded in a range between \$0.88 and \$1.23 per pound, based on the Intercontinental Exchange futures contract. Cocoa production was higher during the 2017 to 2018 crop year and slightly outpaced the increase in global demand, which led to a small rebuild in global cocoa stocks over the past year. At the beginning of the year, cocoa prices rallied sharply before declining in the second half due to increased supply relative to 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)

	2018	2017	2016	2015	2014
Annual Average	\$1.06	\$0.91	\$1.29	\$1.40	\$1.36
High	1.23	0.99	1.38	1.53	1.45
Low	0.88	0.87	1.03	1.28	1.25

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 2018, prices for fluid dairy milk ranged from a low of \$0.13 per pound to a high of \$0.15 per pound, on a Class IV milk basis. Fluid dairy milk prices were lower than 2017, driven by higher U.S. inventories.





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. United States delivered east coast refined sugar prices traded in a range from \$0.38 to \$0.40 per pound during 2018.

Peanut prices in the United States ranged from a from a low of \$0.45 per pound to a high of \$0.50 per pound. Lower planted acreage and unfavorable weather conditions during harvest in the key U.S. peanut growing regions resulted in an estimated 26% smaller crop versus the 2017 crop. Almond prices began the year at \$2.89 per pound and closed the year at \$2.98 per pound, driven by record shipments and lower than expected yields for the 2018 crop.

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 \$693.5 million as of December 31, 2018 and \$405.3 million as of December 31, 2017. At the end of 2018, 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 2018 by \$71.6 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 2018 and 2017 financial statements have been audited by Ernst & Young LLP, an independent registered public accounting firm. The 2016 financial statements have been audited by KPMG LLP, an independent registered public accounting firm. Ernst & Young LLP's reports on our financial statements and internal controls over financial reporting as of December 31, 2018 are included herein.

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. Ernst & Young LLP and the internal auditors both have full and free access to the Audit Committee, with and without the presence of management.

/s/ MICHELE G. BUCK    /s/ PATRICIA A. LITTLE

Michele G. Buck

*Chief Executive Officer*

*(Principal Executive Officer)*

Patricia A. Little

*Chief Financial Officer*

*(Principal Financial Officer)*

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of The Hershey Company

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of The Hershey Company (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for the years ended December 31, 2018 and 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for the years ended December 31, 2018 and 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 22, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ ERNST & YOUNG LLP

We have served as the Company's auditor since 2016.

Philadelphia, Pennsylvania  
February 22, 2019

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and the Board of Directors of The Hershey Company

### **Opinion on Internal Control over Financial Reporting**

We have audited The Hershey Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, The Hershey Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Amplify Snack Brands, Inc. or Pirate Brands (collectively, "the Acquired Companies") which are included in the 2018 consolidated financial statements of the Company and constituted 28.2% of total assets as of December 31, 2018 and 4.0% of net sales for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the Acquired Companies.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for the years ended December 31, 2018 and 2017, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

### **Basis for Opinion**

The Company's management is responsible 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's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### **Definition and Limitations of Internal Control Over Financial Reporting**

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.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania  
February 22, 2019

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
The Hershey Company:

We have audited the accompanying consolidated statements of income, comprehensive income, cash flows and stockholders' equity of The Hershey Company and subsidiaries (the "Company") for the year ended December 31, 2016. In connection with our audit of the consolidated financial statements, we also have audited the related consolidated financial statement schedule for the year ended December 31, 2016. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of operations and the cash flows of The Hershey Company and subsidiaries for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related consolidated financial statement schedule for the year ended December 31, 2016, 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.

/s/ KPMG LLP

New York, New York

February 21, 2017, except for the classification adjustments to the Consolidated Statements of Cash Flows related to the adoption of Accounting Standards Update 2016-09, *Compensation --Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, described in Note 1, as to which the date is February 27, 2018 and the classification adjustments related to the adoption of Accounting Standards Update 2017-07, *Compensation-Retirement Benefits (Topic 715)*, described in Note 1, as to which the date is May 25, 2018.



**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(in thousands, except per share amounts)

<b>For the years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Net sales</b>	\$7,791,069	\$7,515,426	\$7,440,181
Cost of sales	4,215,744	4,060,050	4,270,642
<b>Gross profit</b>	3,575,325	3,455,376	3,169,539
Selling, marketing and administrative expense	1,874,829	1,885,492	1,891,305
Long-lived and intangible asset impairment charges	57,729	208,712	4,204
Business realignment costs	19,103	47,763	18,857
<b>Operating profit</b>	1,623,664	1,313,409	1,255,173
Interest expense, net	138,837	98,282	90,143
Other (income) expense, net	74,766	104,459	65,549
<b>Income before income taxes</b>	1,410,061	1,110,668	1,099,481
Provision for income taxes	239,010	354,131	379,437
<b>Net income including noncontrolling interest</b>	1,171,051	756,537	720,044
Less: Net loss attributable to noncontrolling interest	(6,511 )	(26,444 )	—
<b>Net income attributable to The Hershey Company</b>	\$1,177,562	\$782,981	\$720,044
<b>Net income per share—basic:</b>			
Common stock	\$5.76	\$3.79	\$3.45
Class B common stock	\$5.24	\$3.44	\$3.15
<b>Net income per share—diluted:</b>			
Common stock	\$5.58	\$3.66	\$3.34
Class B common stock	\$5.22	\$3.44	\$3.14
<b>Dividends paid per share:</b>			
Common stock	\$2.756	\$2.548	\$2.402
Class B common stock	\$2.504	\$2.316	\$2.184

See Notes to Consolidated Financial Statements.

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(in thousands)

	For the years ended December 31,								
	2018			2017			2016		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
<b>Net income including noncontrolling interest</b>			\$ 1,171,051			\$ 756,537			\$ 720,044
<b>Other comprehensive income (loss), net of tax:</b>									
Foreign currency translation adjustments:									
Foreign currency translation gains (losses) during period	\$(31,143 )	\$—	(31,143 )	\$ 19,616	\$—	19,616	\$(13,041 )	\$—	(13,041 )
Reclassification to earnings due to the sale of businesses	25,131	—	25,131	—	—	—	—	—	—
Pension and post-retirement benefit plans:									
Net actuarial gain (loss) and prior service cost	(39,724 )	10,120	(29,604 )	28,718	(10,883 )	17,835	20,304	(7,776 )	12,528
Reclassification of tax effects relating to U.S. tax reform	—	(36,535 )	(36,535 )	—	—	—	—	—	—
Reclassification to earnings	40,421	(9,986 )	30,435	46,305	(26,497 )	19,808	56,604	(21,653 )	34,951
Cash flow hedges:									
Gains (losses) on cash flow hedging derivatives	5,822	(86 )	5,736	(4,931 )	73	(4,858 )	(52,708 )	18,701	(34,007 )
Reclassification of tax effects relating to U.S. tax reform	—	(11,121 )	(11,121 )	—	—	—	—	—	—
Reclassification to earnings	5,573	(2,677 )	2,896	14,434	(3,853 )	10,581	(16,482 )	7,524	(8,958 )
<b>Total other comprehensive income (loss), net of tax</b>	\$ 6,080	\$(50,285 )	(44,205 )	\$ 104,142	\$(41,160 )	62,982	\$(5,323 )	\$(3,204 )	(8,527 )
<b>Total comprehensive income including noncontrolling interest</b>			\$ 1,126,846			\$ 819,519			\$ 711,517
Comprehensive loss attributable to noncontrolling interest			(7,682 )			(25,604 )			(3,664 )
<b>Comprehensive income attributable to The Hershey Company</b>			\$ 1,134,528			\$ 845,123			\$ 715,181

**See Notes to Consolidated Financial Statements.**

**THE HERSHEY COMPANY**  
**CONSOLIDATED BALANCE SHEETS**  
(in thousands, except share data)

<b>December 31,</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$587,998	\$380,179
Accounts receivable—trade, net	594,145	588,262
Inventories	784,879	752,836
Prepaid expenses and other	272,159	280,633
Total current assets	2,239,181	2,001,910
<b>Property, plant and equipment, net</b>	2,130,294	2,106,697
<b>Goodwill</b>	1,801,103	821,061
<b>Other intangibles</b>	1,278,292	369,156
<b>Other assets</b>	252,984	251,879
<b>Deferred income taxes</b>	1,166	3,023
Total assets	\$7,703,020	\$5,553,726
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$502,314	\$523,229
Accrued liabilities	679,163	676,134
Accrued income taxes	33,773	17,723
Short-term debt	1,197,929	559,359
Current portion of long-term debt	5,387	300,098
Total current liabilities	2,418,566	2,076,543
<b>Long-term debt</b>	3,254,280	2,061,023
<b>Other long-term liabilities</b>	446,048	438,939
<b>Deferred income taxes</b>	176,860	45,656
Total liabilities	6,295,754	4,622,161
<b>Stockholders' equity:</b>		
The Hershey Company stockholders' equity		
Preferred stock, shares issued: none in 2018 and 2017	—	—
Common stock, shares issued: 299,287,967 in 2018 and 299,281,967 in 2017	299,287	299,281
Class B common stock, shares issued: 60,613,777 in 2018 and 60,619,777 in 2017	60,614	60,620
Additional paid-in capital	982,205	924,978
Retained earnings	7,032,020	6,371,082
Treasury—common stock shares, at cost: 150,172,840 in 2018 and 149,040,927 in 2017	(6,618,625 )	(6,426,877 )
Accumulated other comprehensive loss	(356,780 )	(313,746 )
Total—The Hershey Company stockholders' equity	1,398,721	915,338
Noncontrolling interest in subsidiary	8,545	16,227
Total stockholders' equity	1,407,266	931,565
Total liabilities and stockholders' equity	\$7,703,020	\$5,553,726

**See Notes to Consolidated Financial Statements.**

**THE HERSHEY COMPANY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(in thousands)**

<b>For the years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Operating Activities</b>			
Net income including noncontrolling interest	\$ 1,171,051	\$ 756,537	\$ 720,044
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	295,144	261,853	301,837
Stock-based compensation expense	49,286	51,061	54,785
Deferred income taxes	36,255	18,582	(38,097 )
Impairment of long-lived and intangible assets (see Notes 3 and 7)	57,729	208,712	4,204
Write-down of equity investments	50,329	66,209	43,482
Gain on settlement of SGM liability (see Note 2)	—	—	(26,650 )
Other	37,278	77,291	51,375
Changes in assets and liabilities, net of business acquisitions and divestitures:			
Accounts receivable—trade, net	8,585	(6,881 )	21,096
Inventories	(12,746 )	(71,404 )	13,965
Prepaid expenses and other current assets	(39,899 )	18,214	(42,955 )
Accounts payable and accrued liabilities	(100,252 )	(52,960 )	(63,467 )
Accrued income taxes	75,568	(71,027 )	(937 )
Contributions to pension and other benefit plans	(25,864 )	(56,433 )	(41,697 )
Other assets and liabilities	(2,471 )	49,761	16,443
Net cash provided by operating activities	1,599,993	1,249,515	1,013,428
<b>Investing Activities</b>			
Capital additions (including software)	(328,601 )	(257,675 )	(269,476 )
Proceeds from sales of property, plant and equipment and other long-lived assets	49,759	7,609	3,651
Proceeds from sales of businesses, net of cash and cash equivalents divested	167,048	—	—
Equity investments in tax credit qualifying partnerships	(52,641 )	(78,598 )	(44,255 )
Business acquisitions, net of cash and cash equivalents acquired	(1,338,459 )	—	(285,374 )
Net cash used in investing activities	(1,502,894 )	(328,664 )	(595,454 )
<b>Financing Activities</b>			
Net increase (decrease) in short-term debt	645,805	(81,426 )	275,607
Long-term borrowings	1,199,845	954	792,953
Repayment of long-term debt	(910,844 )	—	(500,000 )
Repayment of tax receivable obligation	(72,000 )	—	—
Payment of SGM liability (see Note 2)	—	—	(35,762 )
Cash dividends paid	(562,521 )	(526,272 )	(499,475 )
Repurchase of common stock	(247,500 )	(300,312 )	(592,550 )
Exercise of stock options	63,323	63,288	94,831
Net cash provided by (used in) financing activities	116,108	(843,768 )	(464,396 )
Effect of exchange rate changes on cash and cash equivalents	(5,388 )	6,129	(3,140 )
Increase (decrease) in cash and cash equivalents	207,819	83,212	(49,562 )
Cash and cash equivalents, beginning of period	380,179	296,967	346,529
Cash and cash equivalents, end of period	\$ 587,998	\$ 380,179	\$ 296,967
<b>Supplemental Disclosure</b>			
Interest paid	\$ 132,486	\$ 101,874	\$ 90,951
Income taxes paid	118,842	351,832	425,539

**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, 2016</b>	\$ —	\$299,281	\$60,620	\$783,877	\$5,897,603	\$(5,672,359)	\$(371,025)	\$49,465	\$1,047,462
Net income					720,044				720,044
Other comprehensive loss							(4,863)	(3,664)	(8,527)
Dividends (including dividend equivalents):									
Common Stock, \$2.402 per share					(369,292)				(369,292)
Class B Common Stock, \$2.184 per share					(132,394)				(132,394)
Stock-based compensation				54,429					54,429
Exercise of stock options and incentive-based transactions				31,551		80,934			112,485
Repurchase of common stock						(592,550)			(592,550)
Loss of noncontrolling interests								(3,970)	(3,970)
<b>Balance, December 31, 2016</b>	—	299,281	60,620	869,857	6,115,961	\$(6,183,975)	\$(375,888)	41,831	827,687
Net income (loss)					782,981			(26,444)	756,537
Other comprehensive income							62,142	840	62,982
Dividends (including dividend equivalents):									
Common Stock, \$2.548 per share					(387,466)				(387,466)
Class B Common Stock, \$2.316 per share					(140,394)				(140,394)
Stock-based compensation				49,243					49,243
Exercise of stock options and incentive-based transactions				5,878		57,410			63,288
Repurchase of common stock						(300,312)			(300,312)
<b>Balance, December 31, 2017</b>	—	299,281	60,620	924,978	6,371,082	\$(6,426,877)	\$(313,746)	16,227	931,565
Net income (loss)					1,177,562			(6,511)	1,171,051
Other comprehensive income (loss)							4,622	(1,171)	3,451
Dividends (including dividend equivalents):									
Common Stock, \$2.756 per share					(412,491)				(412,491)
Class B Common Stock, \$2.504 per share					(151,789)				(151,789)
Conversion of Class B Common Stock into Common Stock		6	(6)						—
Stock-based compensation				49,656					49,656
Exercise of stock options and incentive-based transactions				7,571		55,752			63,323
Repurchase of common stock						(247,500)			(247,500)
Reclassification of tax effects relating to U.S. tax reform					47,656		(47,656)		—
<b>Balance, December 31, 2018</b>	\$ —	\$299,287	\$60,614	\$982,205	\$7,032,020	\$(6,618,625)	\$(356,780)	\$8,545	\$1,407,266

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*, *Kisses*, *Jolly Rancher* and *Ice Breakers*, which are marketed, sold and distributed in approximately 90 countries worldwide. Hershey’s structure is designed to ensure continued focus on North America, coupled with an emphasis on profitable growth in our focus international markets. 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 12.

**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 in 2016 was not considered significant and was recorded within selling, marketing and administrative expense in the Consolidated Statements of Income. See Note 13 for additional information on our noncontrolling interest. We use the equity method of accounting when we have a 20% to 50% interest in other companies and exercise significant influence. In addition, we use the equity method of accounting for our investments in partnership entities which make equity investments in projects eligible to receive federal historic and energy tax credits. See Note 9 for additional information on our equity investments in partnership entities qualifying for tax credits.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“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**

The majority of our revenue contracts represent a single performance obligation related to the fulfillment of customer orders for the purchase of our products, including chocolate, sweets, mints and other grocery and snack offerings. Net sales reflect the transaction prices for these contracts based on our selling list price which is then reduced by estimated costs for trade promotional programs, consumer incentives, and allowances and discounts associated with aged or potentially unsaleable products. We recognize revenue at the point in time that control of the ordered product(s) is transferred to the customer, which is typically upon delivery to the customer or other customer-designated delivery point. Amounts billed and due from our customers are classified as accounts receivables on the balance sheet and require payment on a short-term basis.

Our trade promotional programs and consumer incentives are used to promote our products and include, but are not limited to, discounts, coupons, rebates, in-store display incentives, and volume-based incentives. The estimated costs



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

associated with these programs and incentives are based upon our analysis of the programs offered, expectations regarding customer and consumer participation, historical sales and payment trends, and our experience with payment patterns associated with similar programs offered in the past. The estimated costs of these programs are reasonably likely to change in future periods 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. During 2018, 2017 and 2016, actual promotional costs have not deviated from the estimated amount by more than 3%. The Company's unsettled portion remaining in accrued liabilities at year-end for these activities was \$171,449 and \$173,669 at December 31, 2018 and 2017, respectively.

We also recognize a minor amount of royalty income (less than 1% of our consolidated net sales) from sales-based licensing arrangements, pursuant to which revenue is recognized as the third-party licensee sales occur. Shipping and handling costs incurred to deliver product to the customer are recorded within cost of sales. Sales, value add, and other taxes we collect concurrent with revenue producing activities are excluded from revenue.

The majority of our products are confectionery or confectionery-based and, therefore, exhibit similar economic characteristics, as they are based on similar ingredients and are marketed and sold through the same channels to the same customers. In connection with our recent acquisitions, we have expanded our portfolio of snacking products, which also exhibit similar economic characteristics to our confectionery products and are sold through the same channels to the same customers. See Note 12 for revenues reported by geographic segment, which is consistent with how we organize and manage our operations, as well as product line net sales information.

In 2018, 2017 and 2016, approximately 28%, 29% and 25%, 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 costs, administrative and other indirect overhead costs, amortization of capitalized software and intangible assets and depreciation of administrative facilities. Research and development costs, charged to expense as incurred, totaled \$38,521 in 2018, \$45,850 in 2017 and \$47,268 in 2016. Advertising expense is also charged to expense as incurred and totaled \$479,908 in 2018, \$541,293 in 2017 and \$521,479 in 2016. Prepaid advertising expense was \$594 and \$56 as of December 31, 2018 and 2017, 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.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)****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 McLane Company, Inc. and Target Corporation, two customers served principally by our North America segment. As of December 31, 2018, McLane Company, Inc. accounted for approximately 26% of our total accounts receivable. 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 for bad debts and anticipated discounts of \$24,610 and \$41,792 at December 31, 2018 and 2017, 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, 2018, approximately 60% 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 were valued at the lower of first-in, first-out (“FIFO”) cost or net realizable value. LIFO cost of inventories valued using the LIFO method was \$466,911 as of December 31, 2018 and \$443,492 as of December 31, 2017. The adjustment to LIFO, as shown in Note 17, approximates the excess of replacement cost over the stated LIFO inventory value. The net impact of LIFO acquisitions and liquidations was not material to 2018, 2017 or 2016.

**Property, Plant and Equipment**

Property, plant and equipment is 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. At December 31, 2018 and December 31, 2017, property, plant and equipment included assets under capital lease arrangements with net book values totaling \$110,249 and \$116,843, respectively. Total depreciation expense for the years ended December 31, 2018, 2017 and 2016 was \$231,012, \$211,592 and \$231,735, respectively, and included depreciation on assets recorded under capital lease arrangements. 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 \$126,379 and \$104,881 at December 31, 2018 and 2017, respectively. We amortize software costs using the straight-line method over the expected life of the software,

generally 3 to 7 years. Accumulated amortization of capitalized software was \$316,710 and \$296,042 as of

**THE HERSHEY COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(amounts in thousands, except share data or if otherwise indicated)**

December 31, 2018 and 2017, 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.

**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 test goodwill for impairment by performing either a qualitative or quantitative assessment. If we choose to perform a qualitative assessment, we evaluate economic, industry and company-specific factors in assessing the fair value of the related reporting unit. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative test is then performed. Otherwise, no further testing is required. For those reporting units tested using a quantitative approach, 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, impairment is indicated, requiring recognition of a goodwill impairment charge for the differential (up to the carrying value of goodwill). We test individual indefinite-lived intangible assets by comparing the estimated fair values 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. The weighted-average amortization period for our finite-lived intangible assets is approximately 27 years, which is primarily driven by recently acquired trademarks. If certain events or changes in operating conditions indicate that the carrying value of these assets, or related asset groups, 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 have designated it and it qualified as part of a hedging relationship, as noted below:



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

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.

Cash flows related to the derivative instruments we use to manage interest, commodity or other currency exposures are classified as operating activities.

**Recent Accounting Pronouncements*****Recently Adopted Accounting Pronouncements***

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. This ASU permits a company to reclassify the income tax effects of the 2017 Tax Cuts and Jobs Act ("U.S. tax reform") on items within AOCI to retained earnings. We adopted the provisions of this ASU in the first quarter of 2018. We elected to reclassify the income tax effects of U.S. tax reform from items in AOCI as of January 1, 2018 so that the tax effects of items within AOCI are reflected at the appropriate tax rate. The impact of the reclassification resulted in a \$47,656 decrease to AOCI and a corresponding increase to retained earnings.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation-Retirement Benefits (Topic 715)*. This ASU requires an employer to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if presented, or disclosed separately. In addition, only the service cost component may be eligible for capitalization where applicable. The amendments should be applied on a retrospective basis. We adopted the provisions of this ASU in the first quarter of 2018, with retrospective adjustment to the comparative periods determined using the previously disclosed service cost and other costs from our prior year pension and other post-retirement benefit plan footnote. As a result, the following amounts were reclassified for the the years ended December 31, 2017 and 2016 to correspond to the current year presentation:

	<b>2017</b>	<b>2016</b>
Reclassified from:		
Cost of sales	\$10,857	\$11,648
Selling, marketing and administrative expense	27,911	24,073
Business realignment costs	—	13,669
Reclassified to Other (income) expense, net	\$38,768	\$49,390

The adoption of this ASU had no impact on our consolidated balance sheets or statements of cash flows.



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (ASC Topic 606), which replaces numerous requirements in U.S. GAAP, including industry-specific requirements, and provides companies with a single revenue recognition model for recognizing revenue from contracts with customers. On January 1, 2018, we adopted the requirements of ASC Topic 606 and the amendments related thereto and applied the new requirements to all of our contracts using the modified retrospective method. Upon completing our implementation assessment of ASC Topic 606, we concluded that no adjustment was required to the opening balance of retained earnings at the date of initial application. The comparative information was not restated and continues to be reported under the accounting standards in effect for those periods. Additional disclosures required by ASC Topic 606 are presented within the aforementioned Revenue Recognition policy disclosure.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This ASU requires the income tax consequences of intra-entity transfers of assets other than inventory to be recognized when the intra-entity transfer occurs rather than deferring recognition of income tax consequences until the transfer was made with an outside party. We adopted the provisions of this ASU in the first quarter of 2018. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. We adopted the provisions of this ASU in the first quarter of 2017. This update principally affects the recognition of excess tax benefits and deficiencies and the cash flow classification of share-based compensation-related transactions. These classification requirements were adopted retrospectively to the Consolidated Statement of Cash Flows. As a result, for the year ended December 31, 2017, the impact resulted in a \$24,901 increase in net cash flow from operating activities and a corresponding \$24,901 decrease in net cash flow from financing activities. For the year ended December 31, 2016, the impact resulted in a \$29,953 increase in net cash flow from operating activities and a corresponding \$29,953 decrease in net cash flow from financing activities.

***Recently Issued Accounting Pronouncements Not Yet Adopted***

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This ASU will require lessees to recognize most leases on their balance sheets as lease liabilities with corresponding right-of-use (“ROU”) assets. Recognition, measurement and presentation of expenses will depend on classification as a finance or operating lease. The Company adopted the standard as of January 1, 2019, using a modified retrospective approach and applying the standard’s transition provisions at January 1, 2019, the effective date.

We elected the package of practical expedients permitted under the transition guidance, which among other things, allows us to carryforward the historical lease classification. In addition, we elected to combine the lease and non-lease components for the asset categories comprising the majority of our leases and are making an accounting policy election to exclude from balance sheet reporting those leases with initial terms of 12 months or less.

We have implemented new controls and processes, as well as new software functionality, to enable the preparation of financial information as necessitated by the new standard. We estimate that adoption of the standard will result in recognition of operating lease ROU assets and lease liabilities of approximately \$230,000 and \$220,000, respectively, with the difference largely due to prepaid and deferred rent that will be reclassified to the ROU asset value. In addition, we expect to derecognize a build-to-suit arrangement in accordance with the transition requirements, which will result in an adjustment to retained earnings of approximately \$7,000. We do not expect adoption of the standard to materially affect our consolidated net income or cash flows.

In August 2017, the FASB issued ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*, which amends ASC 815. The purpose of this ASU is to better align accounting rules with a company’s risk management activities and financial reporting for hedging relationships, better reflect economic results of hedging in financial statements, simplify hedge accounting requirements and improve the disclosures of hedging arrangements. The amendment should be applied using the modified retrospective transition method. ASU 2017-12 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted. We intend to adopt the provisions of this ASU in the first quarter



of 2019. We believe the adoption of the new standard will not have a material impact on our consolidated financial statements.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting*. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with accounting for employee share-based compensation. ASU 2018-07 is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods, with early adoption permitted but no earlier than an entity's adoption date of ASC Topic 606. The new guidance is required to be applied retrospectively with the cumulative effect recognized at the date of initial application. We will adopt the provisions of this ASU in the first quarter of 2019. Adoption of the new standard is not expected to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We are currently evaluating the effect that ASU 2018-13 will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-14, *Compensation—Retirement Benefits—Defined Benefit Plans—General (Topic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans*, which modifies the disclosure requirements for defined benefit pension plans and other post-retirement plans. ASU 2018-14 is effective for annual periods beginning after December 15, 2020, with early adoption permitted. The amendments in this ASU should be applied on a retrospective basis to all periods presented. We are currently evaluating the effect that ASU 2018-14 will have on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently evaluating the effect that ASU 2018-15 will have on our consolidated financial statements and related disclosures.

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**

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 acquisition is allocated to the assets acquired and liabilities assumed.

In conjunction with acquisitions noted below, we used various valuation techniques to determine fair value of the assets acquired, with the primary techniques being discounted cash flow analysis, relief-from-royalty, and a form of the multi-period excess earnings valuation approaches, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Under these valuation approaches, we are required to make estimates and assumptions about sales, operating margins, growth rates, royalty rates and discount rates based on budgets, business plans, economic projections, anticipated future cash flows and marketplace data.



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**2018 Activity**Pirate Brands

On October 17, 2018, we completed the acquisition of Pirate Brands, which includes the *Pirate's Booty*, *Smart Puffs* and *Original Tings* brands, from B&G Foods, Inc. Pirate Brands offers baked, trans fat free and gluten free snacks and is available in a wide range of food distribution channels in the United States. Pirate Brands is expected to generate annualized net sales of approximately \$90,000 in 2019. The purchase consideration for Pirate Brands totaled \$423,002 and consisted of short-term borrowings and cash on hand. Acquisition-related costs for the Pirate Brands acquisition were immaterial.

The acquisition has been accounted for as a purchase and, accordingly, Pirate Brands' results of operations have been included within the North America segment results in our consolidated financial statements since the date of acquisition. The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Inventories	\$4,663
Plant, property and equipment, net	48
Goodwill	129,991
Other intangible assets	289,300
Accrued liabilities	(1,000 )
Net assets acquired	\$423,002

The purchase price allocation presented above has been finalized as of the end of the fourth quarter of 2018.

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets). The goodwill derived from this acquisition is expected to be deductible for tax purposes and reflects the value of leveraging the Company's resources to expand the distribution locations and customer base for the Pirate Brands' products.

Other intangible assets includes trademarks valued at \$272,000 and customer relationships valued at \$17,300. Trademarks were assigned estimated useful lives of 45 years and customer relationships were assigned estimated useful lives ranging from 16 to 18 years.

Amplify Snack Brands, Inc.

On January 31, 2018, we completed the acquisition of all of the outstanding shares of Amplify Snack Brands, Inc. ("Amplify"), previously a publicly traded company based in Austin, Texas that owns several popular better-for-you snack brands such as *SkinnyPop*, *Oatmega* and *Paqui*. Amplify's anchor brand, *SkinnyPop*, is a market-leading ready-to-eat popcorn brand and is available in a wide range of food distribution channels in the United States. Total consideration of \$968,781 included payment of \$12.00 per share for Amplify's outstanding common stock (for a total of \$907,766), as well as payment of Amplify's transaction related expenses, including accelerated equity compensation, consultant fees and other deal costs. The business enables us to capture more consumer snacking occasions by contributing a new portfolio of brands.



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

The acquisition has been accounted for as a purchase and, accordingly, Amplify's results of operations have been included within the North America segment results in our consolidated financial statements since the date of acquisition. The purchase consideration, net of cash acquired totaling \$53,324, was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Accounts receivable	\$41,152
Other current assets	35,509
Plant, property and equipment, net	71,093
Goodwill	939,388
Other intangible assets	682,000
Other non-current assets	1,049
Accounts payable	(32,394 )
Accrued liabilities	(109,565 )
Current debt	(610,836 )
Other current liabilities	(2,931 )
Non-current deferred income taxes	(93,859 )
Non-current liabilities	(5,149 )
Net assets acquired	\$915,457

In connection with the acquisition, the Company agreed to pay in full all outstanding debt owed by Amplify under its existing credit agreement as of January 31, 2018, as well as the amount due under Amplify's existing tax receivable obligation. The Company funded the acquisition and repayment of the acquired debt utilizing proceeds from the issuance of commercial paper.

During 2018, we recorded measurement period adjustments totaling \$27,001, the majority of which related to an increase in the final valuation of the assumed tax receivable obligation. The purchase price allocation has been finalized as of the end of the fourth quarter of 2018.

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets) and is not expected to be deductible for tax purposes. The goodwill that resulted from the acquisition is attributable primarily to cost-reduction synergies as Amplify leverages Hershey's resources, expertise and capability-building.

Other intangible assets includes trademarks valued at \$648,000 and customer relationships valued at \$34,000. Trademarks were assigned estimated useful lives ranging from 28 to 38 years and customer relationships were assigned estimated useful lives ranging from 14 to 18 years.

The Company incurred acquisition-related costs of \$20,577 related to the acquisition of Amplify, the majority of which were incurred during the first quarter of 2018. Acquisition-related costs consisted primarily of legal fees, consultant fees, valuation fees and other deal costs and are recorded in the selling, marketing and administrative expense caption within the Consolidated Statements of Operations.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**2016 Activity****Ripple Brand Collective, LLC**

On April 26, 2016, we completed the acquisition of all of the outstanding shares of Ripple Brand Collective, LLC, a privately held company that owned the *barkTHINS* mass premium chocolate snacking brand. The *barkTHINS* brand is largely sold in the United States in take-home resealable packages and is available in the club channel, as well as select natural and conventional grocers.

The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Goodwill	\$128,110
Trademarks	91,200
Other intangible assets	60,900
Other assets, primarily current assets, net of cash acquired totaling \$674	12,375
Current liabilities	(7,211 )
Net assets acquired	\$285,374

Goodwill was 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 *barkTHINS* products. Acquired trademarks were assigned estimated useful lives of 27 years, while other intangibles, including customer relationships and covenants not to compete, were assigned estimated useful lives ranging from 2 to 14 years. The recorded goodwill, trademarks and other intangibles are expected to be deductible for tax purposes.

**Shanghai Golden Monkey**

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 complemented our traditional China chocolate business that has historically been primarily distributed through Tier 1 or hypermarket channels.

On February 3, 2016, we completed the purchase of the remaining 20% of the outstanding shares of SGM for cash consideration totaling \$35,762, pursuant to a new agreement entered into during the fourth quarter of 2015 with the selling SGM shareholders which revised the originally-agreed purchase price for these shares. For accounting purposes, we treated the acquisition as if we had acquired 100% at the initial acquisition date in 2014 and financed the payment for the remaining 20% of the outstanding shares. Therefore, the cash settlement of the liability for the purchase of these remaining shares is reflected within the financing section of the Consolidated Statements of Cash Flows.

The final settlement also resulted in an extinguishment gain of \$26,650 representing the net carrying amount of the recorded liability in excess of the cash paid to settle the obligation for the remaining 20% of the outstanding shares. This gain is recorded within non-operating other (income) expense, net within the Consolidated Statements of Income. In July 2018, we sold the SGM business. Refer to Note 6 and Note 7 for further discussion regarding the divestiture of SGM.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**3. GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying value of goodwill by reportable segment for the years ended December 31, 2018 and 2017 are as follows:

	North America	International and Other	Total
Goodwill	\$797,163	\$ 377,529	\$1,174,692
Accumulated impairment loss	(4,973 )	(357,375 )	(362,348 )
Balance at January 1, 2017	792,190	20,154	812,344
Foreign currency translation	7,739	978	8,717
Balance at December 31, 2017	799,929	21,132	821,061
Acquired during the period (see Note 2)	1,069,379	—	1,069,379
Purchase price allocation adjustments (see Note 2)	27,001	—	27,001
Divested during the period (see Note 7)	(98,379 )	—	(98,379 )
Foreign currency translation	(15,085 )	(2,874 )	(17,959 )
Balance at December 31, 2018	\$1,782,845	\$ 18,258	\$1,801,103

We had no goodwill impairment charges in 2018, 2017 or 2016.

The following table provides the gross carrying amount and accumulated amortization for each major class of intangible asset:

December 31,	2018 Gross Carrying Amount	Accumulated Amortization	2017 Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Trademarks	\$1,173,770	\$ (60,995 )	\$277,473	\$ (37,510 )
Customer-related	163,860	(33,516 )	128,182	(34,659 )
Patents	16,306	(15,772 )	17,009	(15,975 )
Total	1,353,936	(110,283 )	422,664	(88,144 )

Intangible assets not subject to amortization:

Trademarks	34,639	34,636
Total other intangible assets	\$1,278,292	\$369,156

As discussed in Note 8, in February 2017, we commenced the Margin for Growth Program which included an initiative to optimize the manufacturing operations supporting our China business. We deemed this to be a triggering event requiring us to test our China long-lived asset group for impairment by first determining whether the carrying value of the asset group was recovered by our current estimates of future cash flows associated with the asset group. Because this assessment indicated that the carrying value was not recoverable, we calculated an impairment loss as the excess of the asset group's carrying value over its fair value. The resulting impairment loss was allocated to the asset group's long-lived assets. Therefore, as a result of this testing, during the first quarter of 2017, we recorded an impairment charge totaling \$105,992 representing the portion of the impairment loss that was allocated to the distributor relationship and trademark intangible assets that had been recognized in connection with the 2014 SGM acquisition.

In connection with our annual impairment testing of indefinite lived intangible assets for 2016, we recognized a trademark impairment charge of \$4,204, primarily resulting from plans to discontinue a brand sold in India.





**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

Total amortization expense for the years ended December 31, 2018, 2017 and 2016 was \$38,555, \$23,376 and \$26,687, respectively.

Amortization expense for the next five years, based on current intangible asset balances, is estimated to be as follows:

Year ending December 31,	2019	2020	2021	2022	2023
Amortization expense	\$44,565	\$43,986	\$43,971	\$43,971	\$43,971

**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 \$1.4 billion unsecured revolving credit facility, which currently expires in November 2020.

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, 2018, we are in compliance with all customary affirmative and negative covenants and the financial covenant 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 \$386,590 at December 31, 2018 and \$440,148 at December 31, 2017. 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 \$113,189 at December 31, 2018 and \$110,684 at December 31, 2017. Commitment fees relating to our revolving credit facility and lines of credit are not material. At December 31, 2018, we had outstanding commercial paper totaling \$1,084,740, at a weighted average interest rate of 2.4%. At December 31, 2017, we had outstanding commercial paper totaling \$448,675, at a weighted average interest rate of 1.4%.

The maximum amount of short-term borrowings outstanding during 2018 and 2017 was \$2,246,485 and \$815,588, respectively. The weighted-average interest rate on short-term borrowings outstanding was 2.5% as of December 31, 2018 and 1.7% as of December 31, 2017.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**Long-term Debt**

Long-term debt consisted of the following:

December 31,	2018	2017
1.60% Notes due 2018 (1)	\$—	\$300,000
2.90% Notes due 2020 (2)	350,000	—
4.125% Notes due 2020	350,000	350,000
3.10% Notes due 2021 (2)	350,000	—
8.8% Debentures due 2021	84,715	84,715
3.375% Notes due 2023 (2)	500,000	—
2.625% Notes due 2023	250,000	250,000
3.20% Notes due 2025	300,000	300,000
2.30% Notes due 2026 (3)	500,000	500,000
7.2% Debentures due 2027	193,639	193,639
3.375% Notes due 2046 (3)	300,000	300,000
Capital lease obligations	101,980	99,194
Net impact of interest rate swaps, debt issuance costs and unamortized debt discounts	(20,667)	(16,427)
Total long-term debt	3,259,667	2,361,121
Less—current portion	5,387	300,098
Long-term portion	\$3,254,280	\$2,061,023

(1) In August 2018, we repaid \$300,000 of 1.60% Notes due in 2018 upon their maturity.

In May 2018, we issued \$350,000 of 2.90% Notes due in 2020, \$350,000 of 3.10% Notes due in 2021 and \$500,000 of 3.375% Notes due in 2023 (the "2018 Notes"). Proceeds from the issuance of the 2018 Notes, net of discounts and issuance costs, totaled \$1,193,830. The 2018 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 2016, we issued \$500,000 of 2.30% Notes due in 2026 and \$300,000 of 3.375% Notes due in 2046 (the "2016 Notes"). Proceeds from the issuance of the 2016 Notes, net of discounts and issuance costs, totaled \$792,953. The 2016 Notes were issued under a shelf registration statement on Form S-3 filed in June 2015 that registered an indeterminate amount of debt securities.

Additionally, in September 2016, we repaid \$250,000 of 5.45% Notes due in 2016 upon their maturity. In November 2016, we repaid \$250,000 of 1.50% Notes due in 2016 upon their maturity.

Aggregate annual maturities of our long-term Notes (excluding capital lease obligations and net impact of interest rate swaps, debt issuance costs and unamortized debt discounts) are as follows for the years ending December 31:

2019	\$ —
2020	700,000
2021	434,715
2022	—
2023	750,000
Thereafter	1,293,639

Our debt is principally unsecured and of equal priority. None of our debt is convertible into our Common Stock.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**Interest Expense**

Net interest expense consists of the following:

For the years ended December 31,	2018	2017	2016
Interest expense	\$151,950	\$104,232	\$97,851
Capitalized interest	(5,092 )	(4,166 )	(5,903 )
Interest expense	146,858	100,066	91,948
Interest income	(8,021 )	(1,784 )	(1,805 )
Interest expense, net	\$138,837	\$98,282	\$90,143

**5. DERIVATIVE INSTRUMENTS**

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 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. Our open commodity derivative contracts had a notional value of \$693,463 as of December 31, 2018 and \$405,288 as of December 31, 2017.

Derivatives used to manage commodity price risk are not designated for hedge accounting treatment. Therefore, the changes in fair value of these derivatives are recorded as incurred within cost of sales. As discussed in Note 12, we define our segment income to exclude gains and losses on commodity derivatives until the related inventory is sold, at which time the related gains and losses are reflected within segment income. This enables us to continue to align 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.

**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, Japanese yen, British pound, and Brazilian real. We typically utilize foreign currency forward exchange contracts to hedge these exposures for periods ranging from 3 to 12 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 \$29,458 at December 31, 2018 and \$135,962 at December 31, 2017. 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 \$11,072 at December 31, 2018 and \$2,791 at December 31, 2017. 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.



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**Interest Rate Risk**

We 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. We had one interest rate derivative instrument in a fair value hedging relationship with a notional amount of \$350,000 at December 31, 2018 and 2017.

In order to manage interest rate exposure, in previous years we utilized interest rate swap agreements to protect against unfavorable interest rate changes relating to forecasted debt transactions. These swaps, which were settled upon issuance of the related debt, were designated as cash flow hedges and the gains and losses that were deferred in other comprehensive income are being recognized as an adjustment to interest expense over the same period that the hedged interest payments affect earnings. During 2016, we had one interest rate swap agreement in a cash flow hedging relationship with a notional amount of \$500,000, which was settled in connection with the issuance of debt in August 2016, resulting in a payment of approximately \$87,000 which is reflected as an operating cash flow within the Consolidated Statement of Cash Flows.

**Equity Price Risk**

We are exposed to market price changes in certain broad market indices related to our deferred compensation obligations to our employees. To mitigate this risk, we use 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, 2018 and 2017 was \$33,168 and \$25,246, respectively.

The following table presents the classification of derivative assets and liabilities within the Consolidated Balance Sheets as of December 31, 2018 and 2017:

December 31,	2018		2017	
	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
<b>Derivatives designated as cash flow hedging instruments:</b>				
Foreign exchange contracts	\$3,394	\$ 485	\$423	\$ 1,427
<b>Derivatives designated as fair value hedging instruments:</b>				
Interest rate swap agreements	—	4,832	—	1,897
<b>Derivatives not designated as hedging instruments:</b>				
Commodities futures and options (2)	7,230	262	390	3,054
Deferred compensation derivatives	—	4,736	1,581	—
Foreign exchange contracts	70	484	31	—
	7,300	5,482	2,002	3,054
<b>Total</b>	<b>\$10,694</b>	<b>\$ 10,799</b>	<b>\$2,425</b>	<b>\$ 6,378</b>

- (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. As of December 31, 2018, amounts reflected on a net basis in assets were assets of \$63,978 and liabilities of (2)\$57,351, which are 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



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

reflected on a net basis in liabilities at December 31, 2017 were assets of \$48,505 and liabilities of \$50,179. At December 31, 2018 and 2017, the remaining amount reflected in assets and liabilities related to the fair value of other non-exchange traded derivative instruments, respectively.

**Income Statement Impact of Derivative Instruments**

The effect of derivative instruments on the Consolidated Statements of Income for the years ended December 31, 2018 and December 31, 2017 was as follows:

	<b>Non-designated Hedges</b>		<b>Cash Flow Hedges</b>			
	<b>Gains (losses) recognized in income (a)</b>		<b>Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)</b>		<b>Gains (losses) reclassified from accumulated OCI into income (effective portion) (b)</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Commodities futures and options	\$69,379	\$(55,734 )	\$—	\$—	\$—	\$(1,774 )
Foreign exchange contracts	972	(23 )	5,822	(4,931 )	3,906	(3,180 )
Interest rate swap agreements	—	—	—	—	(9,479 )	(9,480 )
Deferred compensation derivatives	(2,173 )	4,497	—	—	—	—
Total	\$68,178	\$(51,260 )	\$5,822	\$(4,931 )	\$(5,573 )	\$(14,434 )

Gains (losses) recognized in income for non-designated commodities futures and options contracts were included (a) 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.

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 (b) inventory or other productive assets. Other gains (losses) for foreign currency forward exchange contracts were included in selling, marketing and administrative expenses. Losses reclassified from AOCI into income for interest rate swap agreements were included in interest expense.

The amount of pretax net losses on derivative instruments, including interest rate swap agreements and foreign currency forward exchange contracts expected to be reclassified into earnings in the next 12 months was approximately \$6,570 as of December 31, 2018. This amount is primarily associated with interest rate swap agreements.

**Fair Value Hedges**

For the years ended December 31, 2018 and 2017, we recognized net incremental interest expense of \$748 and a net benefit to interest expense of \$2,660 relating to our fixed-to-floating interest swap arrangements.

**6. FAIR VALUE MEASUREMENTS**

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.





**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
(amounts in thousands, except share data or if otherwise indicated)

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, 2018 and 2017:

	Assets (Liabilities)		
	Level 1	Level 2	Level 3
	1	2	3
	Total		
<b>December 31, 2018:</b>			
Derivative Instruments:			
Assets:			
Foreign exchange contracts (1)	\$—	\$3,464	\$ —
Commodities futures and options (4)	7,230	—	7,230
Liabilities:			
Foreign exchange contracts (1)	—	969	—
Interest rate swap agreements (2)	—	4,832	—
Deferred compensation derivatives (3)	—	4,736	—
Commodities futures and options (4)	262	—	—
<b>December 31, 2017:</b>			
Assets:			
Foreign exchange contracts (1)	\$—	\$454	\$ —
Deferred compensation derivatives (3)	—	1,581	—
Commodities futures and options (4)	390	—	—
Liabilities:			
Foreign exchange contracts (1)	—	1,427	—
Interest rate swap agreements (2)	—	1,897	—
Commodities futures and options (4)	3,054	—	—

(1) 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.

(2) 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.

(3) The fair value of deferred compensation derivatives is based on quoted prices for market interest rates and a broad market equity index.

(4) The fair value of commodities futures and options contracts is based on quoted market prices.

**Other Financial Instruments**

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair values as of December 31, 2018 and December 31, 2017 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, were as follows:

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

At December 31,	Fair Value		Carrying Value	
	2018	2017	2018	2017
Current portion of long-term debt	\$5,387	\$299,430	\$5,387	\$300,098
Long-term debt	3,228,877	2,113,296	3,254,280	2,061,023
Total	\$3,234,264	\$2,412,726	\$3,259,667	\$2,361,121

**Other Fair Value Measurements**

In addition to assets and liabilities that are recorded at fair value on a recurring basis, GAAP requires that, under certain circumstances, we also record assets and liabilities at fair value on a nonrecurring basis.

In connection with the acquisitions of Amplify in the first quarter of 2018 and Pirate Brands in the fourth quarter of 2018, as discussed in Note 2, we used various valuation techniques to determine fair value, with the primary techniques being discounted cash flow analysis, relief-from-royalty, and a form of the multi-period excess earnings valuation approaches, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. In connection with disposal groups classified as held for sale, as discussed in Note 7, during 2018, we recorded impairment charges totaling \$57,729 to adjust the long-lived asset values within certain disposal groups, including the SGM and Tyrrells businesses, the Lotte Shanghai Foods Co., Ltd. joint venture and other assets. These charges represent the excess of the disposal groups' carrying values, including the related currency translation adjustment amounts realized or to be realized upon completion of the sales, over the sales values less costs to sell for the respective businesses. The fair values of the disposal groups were supported by the sales prices paid by third-party buyers or estimated sales prices based on marketing of the disposal group, when the sale has not yet been completed. The sales of SGM and Tyrrells were both completed in July 2018.

During the first quarter of 2017, as discussed in Note 8, we recorded impairment charges totaling \$105,992 to write down distributor relationship and trademark intangible assets that had been recognized in connection with the 2014 SGM acquisition and wrote down property, plant and equipment by \$102,720. 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 a combination of an estimated market liquidation approach and discounted cash flow analyses based on Level 3 inputs.

**7. ASSETS AND LIABILITIES HELD FOR SALE**

As of December 31, 2018, the following disposal groups have been classified as held for sale, in each case stated at the lower of net book value or estimated sales value less costs to sell:

The Lotte Shanghai Foods Co., Ltd. joint venture, which was taken out of operation and classified as held for sale during the second quarter of 2018. We sold a portion of the joint venture's equipment in the third and fourth quarters of 2018, and expect the sale of the remaining business to be completed by mid-2019.

Other assets, which are predominantly comprised of select Pennsylvania facilities and land that met the held for sale criteria in the third quarter of 2018. We expect these long-lived assets to be sold by the end of 2019.

The amounts classified as assets and liabilities held for sale at December 31, 2018 include the following:

**Assets held for sale,  
included in prepaid  
expenses and other  
assets**

Property, plant and equipment, net	\$	20,905
Other assets	2,516	
	\$	23,421

**Liabilities held for  
sale, included in  
accrued liabilities**

Accounts payable and accrued liabilities	\$	596
	\$	596

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

During 2018, we completed the sale of other disposal groups that had been previously classified as assets and liabilities held for sale, as follows:

In April 2018, we sold the licensing rights for a non-core trademark relating to a brand marketed outside of the United States for sale proceeds of approximately \$13,000, realizing a gain on the sale of \$2,658, which is recorded in the selling, marketing and administrative expense caption within the Consolidated Statements of Operations.

During the second and third quarters of 2018, we sold select China facilities that were taken out of operation and classified as assets held for sale during the first quarter of 2017 in connection with the Operational Optimization Program (as defined in Note 8). Proceeds from the sale of these facilities totaled \$27,468, resulting in a gain on the sale of \$6,562, which is recorded in the business realignment costs caption within the Consolidated Statements of Operations.

In July 2018, we sold the Tyrrells and SGM businesses, both of which were previously classified as held for sale. Total proceeds from the sale of Tyrrells and SGM, net of cash divested, were approximately \$167,048. We recorded impairment charges of \$33,729 to adjust the book values of the disposal groups to the sales value less costs to sell.

**8. BUSINESS REALIGNMENT ACTIVITIES**

We periodically undertake business realignment activities designed to increase our efficiency and focus our business in support of our key growth strategies. Costs recorded in 2018, 2017 and 2016 related to these activities were as follows:

<b>For the years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
<b>Margin for Growth Program:</b>			
Severance	\$15,378	\$32,554	\$—
Accelerated depreciation	9,131	6,873	—
Other program costs	30,940	16,407	—
<b>Operational Optimization Program:</b>			
Severance	—	13,828	17,872
Gain on sale of facilities	(6,562)	—	—
Accelerated depreciation	—	—	48,590
Other program costs	2,940	(303)	21,831
<b>2015 Productivity Initiative:</b>			
Other program costs	—	—	5,609
<b>Total</b>	<b>\$51,827</b>	<b>\$69,359</b>	<b>\$93,902</b>

The costs and related benefits of the Margin for Growth Program relate approximately 60% to the North America segment and 40% to the International and Other segment. The costs and related benefits of the Operational Optimization Program relate approximately 40% to the North America segment and 60% to the International and Other segment. The costs and related benefits to be derived from the 2015 Productivity Initiative relate primarily to the North America segment. However, segment operating results do not include these business realignment expenses because we evaluate segment performance excluding such costs.

**Margin for Growth Program**

In the first quarter 2017, the Company's Board of Directors ("Board") unanimously approved several initiatives under a single program designed to drive continued net sales, operating income and earnings per-share diluted growth over the next several years. This program is focused on improving global efficiency and effectiveness, optimizing the Company's supply chain, streamlining the Company's operating model and reducing administrative expenses to generate long-term savings.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

We originally estimated that the Margin for Growth Program would result in total pre-tax charges of \$375,000 to \$425,000, to be incurred from 2017 to 2019. The majority of the initiatives relating to the program have been executed, with the final initiatives to be completed over approximately the next nine months. To date, we have incurred pre-tax charges to execute the program totaling \$336,295. This includes long-lived asset impairment charges of \$208,712 related to the operations supporting our China business as noted below, as well as the \$16,300 incremental impairment charge resulting from the sale of SGM (see Note 7). In addition to the impairment charges, we have incurred employee separation costs of \$47,932 and other business realignment costs of \$63,351. We expect the remaining spending on this program to be minimal in 2019, bringing total estimated project costs to approximately \$340,000 to \$355,000. The cash portion of the total program charges is estimated to be \$97,000 to \$110,000. The Company reduced its global workforce by approximately 15% as a result of this program, with a majority of the reductions coming from hourly headcount positions outside of the United States.

During 2018, we recognized total costs associated with the Margin for Growth Program of \$55,449. These charges include employee severance, largely relating to initiatives to improve the cost structure of our China business and to further streamline our corporate operating model, as well as non-cash, asset-related incremental depreciation expense as part of optimizing the global supply chain. In addition, we incurred other program costs, which relate primarily to third-party charges in support of our initiative to improve global efficiency and effectiveness. During 2017, we recognized total costs associated with the Margin for Growth Program of \$55,834. The 2017 charges are consistent in nature to the 2018 activity.

The program included an initiative to optimize the manufacturing operations supporting our China business. When the program was approved in 2017, we deemed this to be a triggering event requiring us to test our China long-lived asset group for impairment by first determining whether the carrying value of the asset group was recovered by our current estimates of future cash flows associated with the asset group. Because this assessment indicated that the carrying value was not recoverable, we calculated an impairment loss as the excess of the asset group's carrying value over its fair value. The resulting impairment loss was allocated to the asset group's long-lived assets. Therefore, as a result of this testing, during the first quarter of 2017, we recorded impairment charges totaling \$208,712, with \$105,992 representing the portion of the impairment loss that was allocated to the distributor relationship and trademark intangible assets that had been recognized in connection with the 2014 SGM acquisition and \$102,720 representing the portion of the impairment loss that was allocated to property, plant and equipment. These impairment charges are recorded in the long-lived asset impairment charges caption within the Consolidated Statements of Operations.

**2016 Operational Optimization Program**

In the second quarter of 2016, we commenced a program (the “Operational Optimization Program”) to optimize our production and supply chain network, which included select facility consolidations. The program encompassed the transition of our China chocolate and SGM operations into a united *Golden Hershey* platform, including the integration of the China sales force, as well as workforce planning efforts and the consolidation of production within certain facilities in China and North America.

During 2018, we incurred pre-tax costs totaling \$2,940, relating primarily to third-party charges in support of our initiative to optimize our production and supply chain network. In addition, we completed the sale of select China facilities in 2018 that had been taken out of service in connection with the Operational Optimization Program resulting in a gain of \$6,562. During 2017 and 2016, we incurred pre-tax costs totaling \$13,525 and \$88,293, respectively, including non-cash asset-related incremental depreciation costs in 2016, employee related costs, costs to consolidate, and relocate production, and third party costs incurred to execute these activities. This program was completed in 2018.

**2015 Productivity Initiative**

In mid-2015, we initiated a 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 was undertaken 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 HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

The 2015 Productivity Initiative was executed throughout the third and fourth quarters of 2015, resulting in a net reduction of approximately 300 positions, with the majority of the departures taking place by the end of 2015. The 2015 Productivity Initiative was completed during the third quarter 2016. Final costs incurred in 2016 relating to this program totaled \$5,609.

Costs associated with business realignment activities are classified in our Consolidated Statements of Income as follows:

<b>For the years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Cost of sales	\$ 11,323	\$ 5,147	\$ 58,106
Selling, marketing and administrative expense	21,401	16,449	16,939
Business realignment costs	19,103	47,763	18,857
Costs associated with business realignment activities	\$ 51,827	\$ 69,359	\$ 93,902

The following table presents the liability activity for costs qualifying as exit and disposal costs for the year ended December 31, 2018:

	<b>Total</b>
Liability balance at December 31, 2017	\$38,992
2018 business realignment charges (1)	25,940
Cash payments	(50,996 )
Other, net	669
Liability balance at December 31, 2018 (reported within accrued liabilities)	\$ 14,605

(1) The costs reflected in the liability roll-forward represent employee-related and certain third-party service provider charges. These costs do not include items charged directly to expense, such as accelerated depreciation and amortization and certain of the third-party charges associated with various programs, as those items are not reflected in the business realignment liability in our Consolidated Balance Sheets.

**9. INCOME TAXES**

The components of income (loss) before income taxes were as follows:

<b>For the years ended December 31,</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Domestic	\$ 1,195,645	\$ 1,187,825	\$ 1,395,440
Foreign	214,416	(77,157 )	(295,959 )
Income before income taxes	\$ 1,410,061	\$ 1,110,668	\$ 1,099,481



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

The components of our provision for income taxes were as follows:

For the years ended December 31,	2018	2017	2016
Current:			
Federal	\$ 151,107	\$ 314,277	\$ 391,705
State	38,243	37,628	51,706
Foreign	13,405	(16,356 )	(25,877 )
	202,755	335,549	417,534
Deferred:			
Federal	35,035	19,204	(7,706 )
State	7,572	7,573	(452 )
Foreign	(6,352 )	(8,195 )	(29,939 )
	36,255	18,582	(38,097 )
Total provision for income taxes	\$ 239,010	\$ 354,131	\$ 379,437

**U.S. Tax Cuts and Jobs Act of 2017**

The U.S. Tax Cuts and Jobs Act, enacted in December 2017 ("U.S. tax reform"), significantly changed U.S. corporate income tax laws by, among other things, reducing the U.S. corporate income tax rate to 21% starting in 2018 and creating a territorial tax system with a one-time mandatory tax on previously deferred foreign earnings of U.S. subsidiaries. Under GAAP (specifically, ASC Topic 740), the effects of changes in tax rates and laws on deferred tax balances are recognized in the period in which the new legislation is enacted.

During the fourth quarter of 2017, we recorded a net provisional charge of \$32.5 million, which included the estimated impact of the one-time mandatory tax on previously deferred earnings of non-U.S. subsidiaries offset in part by the benefit from revaluation of net deferred tax liabilities based on the new lower corporate income tax rate. During 2018, we recorded net benefits totaling \$19.5 million as measurement period adjustments to the net provisional charge. The accounting for income tax effects of U.S. tax reform is complete based on additional tax regulations available as of December 31, 2018. Amounts recorded during 2018 and 2017 are reflected within the respective provision for income taxes in the Consolidated Statements of Income.

Additionally, U.S. tax reform subjects a U.S. shareholder to current tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. We have elected to not recognize deferred taxes for temporary differences until such differences reverse as GILTI in future years.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

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 are as follows:

December 31,	2018	2017
Deferred tax assets:		
Post-retirement benefit obligations	\$52,915	\$58,306
Accrued expenses and other reserves	85,180	103,769
Stock-based compensation	30,448	31,364
Derivative instruments	17,423	27,109
Pension	8,921	—
Lease financing obligation	12,284	12,310
Accrued trade promotion reserves	13,670	26,028
Net operating loss carryforwards	161,242	226,142
Capital loss carryforwards	26,670	23,215
Other	9,969	7,748
Gross deferred tax assets	418,722	515,991
Valuation allowance	(239,959 )	(312,148 )
Total deferred tax assets	178,763	203,843
Deferred tax liabilities:		
Property, plant and equipment, net	144,044	132,443
Acquired intangibles	161,003	68,476
Inventories	21,366	20,769
Pension	—	969
Other	28,044	23,819
Total deferred tax liabilities	354,457	246,476
Net deferred tax (liabilities) assets	\$(175,694 )	\$(42,633 )
Included in:		
Non-current deferred tax assets, net	1,166	3,023
Non-current deferred tax liabilities, net	(176,860 )	(45,656 )
Net deferred tax (liabilities) assets	\$(175,694 )	\$(42,633 )

Changes in deferred tax assets for net operating loss carryforwards resulted primarily from the sale of SGM in July 2018. Changes in the valuation allowance resulted primarily from the sale of SGM and the realization of U.S. capital loss carryforwards for which there was previously a valuation allowance. Changes in the deferred tax liabilities for acquired intangibles resulted primarily from the acquisition of Amplify in January 2018.

The valuation allowances as of December 31, 2018 and 2017 were 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.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

The following table reconciles the federal statutory income tax rate with our effective income tax rate:

For the years ended December 31,	2018	2017	2016
Federal statutory income tax rate	21.0 %	35.0 %	35.0 %
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	2.7	2.6	3.4
Qualified production income deduction	—	(2.9 )	(3.8 )
Business realignment and impairment charges	0.6	4.3	0.4
Foreign rate differences	(2.0 )	(4.3 )	3.6
Historic and solar tax credits	(3.5 )	(4.8 )	(3.3 )
U.S. tax reform	(1.4 )	2.9	—
Tax contingencies	0.5	0.5	0.1
Other, net	(0.9 )	(1.4 )	(0.9 )
Effective income tax rate	17.0 %	31.9 %	34.5 %

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

December 31,	2018	2017
Balance at beginning of year	\$42,082	\$36,002
Additions for tax positions taken during prior years	1,174	2,492
Reductions for tax positions taken during prior years	(2,581 )	(1,689 )
Additions for tax positions taken during the current year	61,627	10,018
Settlements	—	(1,481 )
Expiration of statutes of limitations	(4,772 )	(3,260 )
Balance at end of year	\$97,530	\$42,082

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$93,507 as of December 31, 2018 and \$37,587 as of December 31, 2017.

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized a net tax expense of \$1,785 in 2018, a net tax expense of \$795 in 2017 and a net tax benefit of \$75 in 2016 for interest and penalties. Accrued net interest and penalties were \$6,154 as of December 31, 2018 and \$4,966 as of December 31, 2017.

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 Company's major taxing jurisdictions currently include the United States (federal and state), as well as various foreign jurisdictions such as Canada, China, Mexico, Brazil, India, Malaysia and Switzerland. The number of years with open tax audits varies depending on the tax jurisdiction, with 2010 representing the earliest tax year that remains open for examination by certain taxing authorities. The U.S. Internal Revenue Service is examining our U.S. federal income tax returns for 2013, 2014 and 2016.

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately \$9,637 within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

As of December 31, 2018, we had approximately \$550,591 of undistributed earnings of our international subsidiaries. We intend to continue to reinvest earnings outside of the United States for the foreseeable future and, therefore, have



**THE HERSHEY COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(amounts in thousands, except share data or if otherwise indicated)**

not recognized additional tax expense (e.g., foreign withholding taxes due upon repatriation) on these earnings beyond the one-time U.S. repatriation tax due under the 2017 Tax Cuts and Jobs Act.

**Investments in Partnerships Qualifying for Tax Credits**

We invest in partnerships 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 years ended December 31, 2018 and 2017, we recognized investment tax credits and related outside basis difference benefits totaling \$60,111 and \$74,600, respectively, and we wrote-down the equity investment by \$50,329 and \$66,209, respectively, 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.

**10. 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.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**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	
	2018	2017	2018	2017
<b>Change in benefit obligation</b>				
Projected benefit obligation at beginning of year	\$1,117,564	\$1,118,318	\$236,112	\$242,846
Service cost	21,223	20,657	230	263
Interest cost	31,943	40,996	6,923	8,837
Plan amendments	—	(8,473)	—	—
Actuarial (gain) loss	(50,432)	40,768	(10,842)	2,207
Curtailment	(16)	—	—	—
Settlement	(61,268)	(44,978)	—	—
Currency translation and other	(4,674)	6,749	(1,073)	889
Benefits paid	(23,134)	(56,473)	(16,631)	(18,930)
Projected benefit obligation at end of year	1,031,206	1,117,564	214,719	236,112
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	1,086,226	1,023,676	—	—
Actual return on plan assets	(43,118)	121,241	—	—
Employer contributions	9,233	37,503	16,631	18,930
Settlement	(61,268)	(44,978)	—	—
Currency translation and other	(4,078)	5,257	—	—
Benefits paid	(23,134)	(56,473)	(16,631)	(18,930)
Fair value of plan assets at end of year	963,861	1,086,226	—	—
<b>Funded status at end of year</b>	<b>\$(67,345)</b>	<b>\$(31,338)</b>	<b>\$(214,719)</b>	<b>\$(236,112)</b>

**Amounts recognized in the Consolidated Balance Sheets:**

Other assets	\$332	\$14,988	\$—	\$—
Accrued liabilities	(1,298)	(6,916)	(19,553)	(20,792)
Other long-term liabilities	(66,379)	(39,410)	(195,166)	(215,320)
Total	\$(67,345)	\$(31,338)	\$(214,719)	\$(236,112)

**Amounts recognized in Accumulated Other Comprehensive****Income (Loss), net of tax:**

Actuarial net (loss) gain	\$(254,735)	\$(207,659)	\$17,967	\$8,313
Net prior service credit (cost)	32,350	30,994	(812)	(1,174)
Net amounts recognized in AOCI	\$(222,385)	\$(176,665)	\$17,155	\$7,139

The accumulated benefit obligation for all defined benefit pension plans was \$994,278 as of December 31, 2018 and \$1,077,112 as of December 31, 2017.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

Plans with accumulated benefit obligations in excess of plan assets were as follows:

December 31,	2018	2017
Projected benefit obligation	\$ 1,030,382	\$ 711,767
Accumulated benefit obligation	993,892	675,660
Fair value of plan assets	962,705	665,441

**Net Periodic Benefit Cost**

The components of net periodic benefit cost were as follows:

For the years ended December 31,	Pension Benefits			Other Benefits		
	2018	2017	2016	2018	2017	2016
<b>Amounts recognized in net periodic benefit cost</b>						
Service cost	\$21,223	\$20,657	\$23,075	\$230	\$263	\$299
Interest cost	31,943	40,996	41,875	6,923	8,837	9,731
Expected return on plan assets	(58,612 )	(57,370 )	(58,820 )	—	—	—
Amortization of prior service (credit) cost	(7,202 )	(5,822 )	(1,555 )	836	748	575
Amortization of net loss (gain)	26,875	33,648	34,940	—	(1 )	(13 )
Curtailment credit	(299 )	—	—	—	—	—
Settlement loss	20,211	17,732	22,657	—	—	—
Total net periodic benefit cost	\$34,139	\$49,841	\$62,172	\$7,989	\$9,847	\$10,592

**Change in plan assets and benefit obligations recognized in AOCI, pre-tax**

Actuarial net (gain) loss	\$3,715	\$(73,768 )	\$(31,772 )	\$(10,771 )	\$2,139	\$(3,047 )
Prior service (credit) cost	7,198	(2,650 )	(41,517 )	(838 )	(744 )	(572 )
Total recognized in other comprehensive (income) loss, pre-tax	\$10,913	\$(76,418 )	\$(73,289 )	\$(11,609 )	\$1,395	\$(3,619 )
Net amounts recognized in periodic benefit cost and AOCI	\$45,052	\$(26,577 )	\$(11,117 )	\$(3,620 )	\$11,242	\$6,973

Amounts expected to be amortized from AOCI into net periodic benefit cost during 2019 are as follows:

	Pension Plans	Post-Retirement Benefit Plans
Amortization of net actuarial loss	\$ 33,695	\$ 811
Amortization of prior service (credit) cost	\$(7,235 )	\$(384 )

**Assumptions**

The weighted-average assumptions used in computing the year end benefit obligations were as follows:

December 31,	Pension Benefits		Other Benefits	
	2018	2017	2018	2017
Discount rate	4.1 %	3.4 %	4.2 %	3.5 %
Rate of increase in compensation levels	3.6 %	3.8 %	N/A	N/A

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

The weighted-average assumptions used in computing net periodic benefit cost were as follows:

For the years ended December 31,	Pension Benefits			Other Benefits		
	2018	2017	2016	2018	2017	2016
Discount rate	3.4 %	3.8 %	4.0 %	3.5 %	3.8 %	4.0 %
Expected long-term return on plan assets	5.8 %	5.8 %	6.1 %	N/A	N/A	N/A
Rate of compensation increase	3.8 %	3.8 %	3.8 %	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 base the asset return assumption on current and expected asset allocations, as well as historical and expected returns on the plan asset categories.

Prior to December 31, 2017, the service and interest cost components of net periodic benefit cost were determined utilizing a single weighted-average discount rate derived from the yield curve used to measure the plan obligations. Beginning in 2018, we elected to utilize a full yield curve approach in the estimation of service and interest costs by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. We made this change to provide a more precise measurement of service and interest costs by improving the correlation between the projected cash flows to the corresponding spot rates along the yield curve. This change does not affect the measurement of our pension and other post-retirement benefit liabilities but generally results in lower benefit expense in periods when the yield curve is upward sloping, which was the case in 2018. We accounted for this change as a change in accounting estimate and, accordingly, accounted for it on a prospective basis starting in 2018.

For purposes of measuring our post-retirement benefit obligation at December 31, 2018 and December 31, 2017, we assumed a 7.0% annual rate of increase in the per capita cost of covered health care benefits for 2019 and 2018, grading down to 5.0% by 2023. 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	\$ 94	\$ (82 )
Effect on accumulated post-retirement benefit obligation	3,213	(2,833 )

The valuations and assumptions reflect adoption of the Society of Actuaries updated RP-2014 mortality tables with MP-2018 generational projection scales, which we adopted as of December 31, 2018. 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 public equity, fixed income, diversified credit strategies and diversified alternative strategies asset classes. Our target asset allocation for our major domestic pension plans as of December 31, 2018 was as follows:

Asset Class	Target Asset Allocation
Cash	1%
Equity securities	25%
Fixed income securities	49%
Alternative investments, including real estate, listed infrastructure and other	25%



As of December 31, 2018, 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

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

each asset class.

The following table sets forth by level, within the fair value hierarchy (as defined in Note 6), pension plan assets at their fair values as of December 31, 2018:

	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Investments Using NAV as a Practical Expedient (1)	Total
Cash and cash equivalents	\$1,040	\$17,857	\$	—\$664	\$19,561
Equity securities:					
Global all-cap (a)	—	—	—	210,850	210,850
Fixed income securities:					
U.S. government/agency	—	—	—	242,618	242,618
Corporate bonds (b)	—	—	—	117,656	117,656
International government/corporate bonds (d)	—	—	—	29,115	29,115
Diversified credit (e)	—	—	—	94,008	94,008
Alternative investments:					
Global diversified assets (f)	—	—	—	147,661	147,661
Global real estate investment trusts (g)	—	—	—	57,854	57,854
Global infrastructure (h)	—	—	—	44,538	44,538
Total pension plan assets	\$1,040	\$17,857	\$	—\$944,964	\$963,861

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair values as of December 31, 2017:

	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Investments Using NAV as a Practical Expedient (1)	Total
Cash and cash equivalents	\$1,179	\$18,161	\$	—\$730	\$20,070
Equity securities:					
Global all-cap (a)	—	—	—	276,825	276,825
Fixed income securities:					
U.S. government/agency	—	—	—	239,686	239,686
Corporate bonds (b)	—	33,019	—	162,633	195,652
Collateralized obligations (c)	—	40,350	—	34,538	74,888
International government/corporate bonds (d)	—	—	—	32,447	32,447
Alternative investments:					
Global diversified assets (f)	—	—	—	149,030	149,030
Global real estate investment trusts (g)	—	—	—	50,213	50,213
Global infrastructure (h)	—	—	—	47,415	47,415
Total pension plan assets	\$1,179	\$91,530	\$	—\$993,517	\$1,086,226



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy but are included to reconcile to the amounts presented in our Obligations and Funded Status table.

- (a) This category comprises equity funds that primarily track the MSCI World Index or MSCI All Country World Index.
- (b) This category comprises fixed income funds primarily invested in investment grade and high yield bonds.
- (c) This category comprises fixed income funds primarily invested in high quality mortgage-backed securities and other asset-backed obligations.
- (d) This category comprises fixed income funds primarily invested in Canadian and other international bonds.
- (e) This category comprises fixed income funds primarily invested in high yield bonds, loans, securitized debt, and emerging market debt.
- (f) This category comprises diversified funds invested across alternative asset classes.
- (g) This category comprises equity funds primarily invested in publicly traded real estate securities.
- (h) This category comprises equity funds primarily invested in publicly traded listed infrastructure securities.

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, 2018. 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 and Plan Termination**

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 \$9,233 during 2018. In 2017, we made total contributions of \$37,503 to the pension plans. These included contributions totaling \$29,201 to fund payouts from the unfunded supplemental retirement plans and \$6,461 to complete the termination of The Hershey Company Puerto Rico Hourly Pension Plan, which was approved in 2016 by the Compensation and Executive Organization Committee of the Board. For 2019, minimum funding requirements for our pension plans are approximately \$1,445.

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					
	2019	2020	2021	2022	2023	2024-2028
Pension Benefits	\$ 113,395	\$ 95,461	\$ 92,790	\$ 115,509	\$ 92,411	\$ 396,875
Other Benefits	19,582	18,573	17,407	16,595	15,841	68,234



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**Multiemployer Pension Plan**

During 2016, we exited a facility as part of the Operational Optimization Program (see Note 7) and no longer participate in the BCTGM Union and Industry Canadian Pension Plan, a trustee-managed multiemployer defined benefit pension plan. Our obligation during the term of the collective bargaining agreement was limited to remitting the required contributions to the plan and contributions made were not significant during 2015 through 2016.

**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 \$47,959 in 2018, \$46,154 in 2017 and \$43,545 in 2016.

**11. 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:

1Non-qualified stock options (“stock options”);

1Performance stock units (“PSUs”) and performance stock;

1Stock appreciation rights;

1Restricted stock units (“RSUs”) and restricted stock; and

1Other stock-based awards.

As of December 31, 2018, 65.8 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 that they elect to convert into deferred stock units under our Directors’ Compensation Plan.

At the time stock options are exercised or RSUs and PSUs become payable, common stock is issued from our accumulated treasury shares. Dividend equivalents are credited on RSUs on the same date and at the same rate as dividends are paid on Hershey’s common stock. These dividend equivalents are charged to retained earnings. For the periods presented, compensation expense for all types of stock-based compensation programs and the related income tax benefit recognized were as follows:

For the years ended December 31,	2018	2017	2016
Pre-tax compensation expense	\$49,286	\$51,061	\$54,785
Related income tax benefit	9,463	13,684	17,148

Compensation costs for stock compensation plans are primarily included in selling, marketing and administrative expense. As of December 31, 2018, total stock-based compensation cost related to non-vested awards not yet recognized was \$56,547 and the weighted-average period over which this amount is expected to be recognized was approximately 2.1 years.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**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, net of estimated forfeitures.

A summary of activity relating to grants of stock options for the year ended December 31, 2018 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	5,921,062	\$89.06	5.8 years	
Granted	945,220	\$99.93		
Exercised	(1,110,712)	\$68.69		
Forfeited	(361,188)	\$102.20		
Outstanding as of December 31, 2018	5,394,382	\$94.28	5.6 years	\$ 70,398
Options exercisable as of December 31, 2018	3,506,304	\$90.77	4.1 years	\$ 57,789

The weighted-average fair value of options granted was \$15.58, \$15.76 and \$11.46 per share in 2018, 2017 and 2016, 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>2018</b>	<b>2017</b>	<b>2016</b>
Dividend yields	2.4 %	2.4 %	2.4 %
Expected volatility	16.6 %	17.2 %	16.8 %
Risk-free interest rates	2.8 %	2.2 %	1.5 %
Expected term in years	6.6	6.8	6.8

“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 term” 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 \$38,382, \$45,998 and \$73,944 in 2018, 2017 and 2016, respectively. As of December 31, 2018, there was \$13,902 of total unrecognized compensation cost related to non-vested stock option awards granted under the EICP, which we expect to recognize over a weighted-average period of 2.4 years.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

The following table summarizes information about stock options outstanding as of December 31, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/18	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/18	Weighted-Average Exercise Price
\$33.40 - \$90.39	2,079,250	4.2	\$77.54	1,704,705	\$74.72
\$90.40 - \$105.91	1,676,763	7.0	\$102.54	711,683	\$105.12
\$105.92 - \$111.76	1,638,369	5.8	\$107.06	1,089,916	\$106.52
\$33.40 - \$111.76	5,394,382	5.6	\$94.28	3,506,304	\$90.77

**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 PSUs granted, the target award is a combination of a market-based total shareholder return and performance-based components. The performance scores for 2016 through 2018 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 2018, 2017 and 2016, 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 award vesting period based on the grant date fair 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, net of estimated forfeitures.

A summary of activity relating to grants of PSUs and RSUs for the period ended December 31, 2018 is as follows:

Performance Stock Units and Restricted Stock Units	Number of units	Weighted-average grant date fair value for equity awards (per unit)
Outstanding at beginning of year	923,364	\$103.11
Granted	457,315	\$97.86
Performance assumption change	16,961	\$102.71
Vested	(287,101 )	\$103.59
Forfeited	(111,521 )	\$103.48
Outstanding at end of year	999,018	\$101.57

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.



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

For the years ended December 31,	2018	2017	2016
Units granted	457,315	478,044	545,750
Weighted-average fair value at date of grant	\$97.86	\$110.97	\$93.55
Monte Carlo simulation assumptions:			
Estimated values	\$29.17	\$46.85	\$38.02
Dividend yields	2.6 %	2.3 %	2.5 %
Expected volatility	20.4 %	20.4 %	17.0 %

“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 fair value of shares vested totaled \$28,752, \$29,981 and \$22,062 in 2018, 2017 and 2016, respectively.

Deferred PSUs, deferred RSUs and deferred stock units representing directors’ fees totaled 303,855 units as of December 31, 2018. Each unit is equivalent to one share of the Company’s Common Stock.

**12. SEGMENT INFORMATION**

Our organizational structure is designed to ensure continued focus on North America, coupled with an emphasis on profitable growth in our focus international markets. Our business is organized around geographic regions, which enables us to build processes for repeatable success in our global markets. As a result, we have defined our operating segments on a geographic basis, as this aligns with how our Chief Operating Decision Maker (“CODM”) manages our business, including resource allocation and performance assessment. Our North America business, which generates approximately 89% of our consolidated revenue, is our only reportable segment. None of our other operating segments meet the quantitative thresholds to qualify as reportable segments; therefore, these operating segments are combined and disclosed below as International and Other.

**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** - International and Other is a combination of all other operating segments that are not individually material, including those geographic regions where we operate outside of North America. We currently have operations and manufacture product in China, Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets of Asia, Latin America, Middle East, Europe, Africa and other regions. This segment also includes our global retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania, New York City, Las Vegas, Niagara Falls (Ontario) 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, unallocated mark-to-market gains and losses on commodity derivatives, business realignment and impairment charges, acquisition-related costs 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 as well the measure of segment performance used for incentive compensation purposes. Accounting policies associated with our operating segments are generally the same as those described in Note 1.



**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

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, Net sales:	2017	2016
North America	\$6,901,607	\$6,621,173
International	\$89,462	\$94,253
Other	\$7,791,069	\$7,515,426
Total	\$7,791,069	\$7,440,181

Segment income (loss):		
North America	\$2,020,082	\$2,044,218
International	\$71,762	\$11,532
Other	\$2,003,844	\$2,011,315
Total	\$2,095,648	\$2,067,065

Unallocated corporate expense	499,251	488,318
-------------------------------------	---------	---------

(1) Unallocated mark-to-market (gains)	168,263	(35,292)
on commodity derivatives	157,229	4,204

Long-lived and intangible asset impairment		
--	--	--

charges			
Costs			
associated			
with			
51,827	69,359	93,902	
business			
realignment			
activities			
Acquisition-related			
44,829	311	6,480	
costs			
Gain			
on			
sale			
(2,658	) —	—	
of			
licensing			
costs			
Operating			
1,623,664	1,313,409	1,255,173	
profit			
Interest			
expense			
138,837	98,282	90,143	
net			
Other			
(income)			
74,766	104,459	65,549	
expense,			
net			
Income			
before			
\$1,410,061	\$1,110,668	\$1,099,481	
income			
taxes			

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.

Activity within the unallocated mark-to-market (gains) losses on commodity derivatives is as follows:

For the years ended December 31,	2018	2017	2016
Net (gains) losses on mark-to-market valuation of commodity derivative positions recognized in income	\$(69,379 )	\$55,734	\$171,753
Net losses on commodity derivative positions reclassified from unallocated to segment income	(98,884 )	(91,026 )	(8,515 )
Net (gains) losses on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative (gains) losses	\$(168,263 )	\$(35,292 )	\$163,238

As of December 31, 2018, the cumulative amount of mark-to-market gains on commodity derivatives that have been recognized in our consolidated cost of sales and not yet allocated to reportable segments was \$40,318. Based on our forecasts of the timing of the recognition of the underlying hedged items, we expect to reclassify net pretax losses on commodity derivatives of \$409 to segment operating results in the next twelve months.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

Depreciation and amortization expense included within segment income presented above is as follows:

For the years ended December 31,	2018	2017	2016
North America	\$205,340	\$171,265	\$162,211
International	35,656	42,542	50,753
Other Corporate	54,148	48,046	88,873
(1)			
	\$201,144	\$261,853	\$301,837

Corporate includes non-cash asset-related accelerated depreciation and amortization related to business (1)realignment activities, as discussed in Note 8. Such amounts are not included within our measure of segment income.

Additional geographic information is as follows:

For the years ended December 31,	2018	2017	2016
Net sales:			
United States	\$6,535,675	\$6,263,703	\$6,196,723
Other	1,394,394	1,251,723	1,243,458
Total	\$7,930,069	\$7,515,426	\$7,440,181

Long-lived assets:

United States	\$1,668,186	\$1,575,496	\$1,528,255
Other	448,108	531,201	648,993
Total	\$2,116,294	\$2,106,697	\$2,177,248

In conjunction with recent acquisitions, in 2018 we introduced our snacks portfolio, an additional product line represented by ready-to-eat popcorn, baked snacks, meat snack products and other better-for-you snacks. Net sales related to our snacks portfolio in 2017 and 2016, respectively, were immaterial. Additional product line information is as follows:

For the year ended December 31,	2018
Net sales:	
Confectionery and confectionery-based portfolio	\$7,453,364
Snacks portfolio	337,705
Total	\$7,791,069

### **13. EQUITY AND NONCONTROLLING INTEREST**

We had 1,055,000,000 authorized shares of capital stock as of December 31, 2018. 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.

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 2018, 6,000 shares of Class B Stock were converted into Common Stock. During 2017 and 2016 no shares of Class B Stock were converted into Common Stock.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)****(amounts in thousands, except share data or if otherwise indicated)**

Changes in the outstanding shares of Common Stock for the past three years were as follows:

For the years ended December 31,	2018	2017	2016
Shares issued	359,901,744	359,901,744	359,901,744
Treasury shares at beginning of year	(149,040,927 )	(147,642,009 )	(143,124,384 )
Stock repurchases:			
Shares repurchased in the open market under pre-approved share repurchase programs	(1,406,093 )	—	(4,640,964 )
Shares repurchased directly from the Milton Hershey School Trust	(450,000 )	(1,500,000 )	—
Shares repurchased to replace Treasury Stock issued for stock options and incentive compensation	(615,719 )	(1,278,675 )	(1,820,766 )
Stock issuances:			
Shares issued for stock options and incentive compensation	1,339,899	1,379,757	1,944,105
Treasury shares at end of year	(150,172,840 )	(149,040,927 )	(147,642,009 )
Net shares outstanding at end of year	209,728,904	210,860,817	212,259,735

We are authorized to purchase our outstanding shares in open market and privately negotiated transactions. The programs have no expiration date and acquired shares of Common Stock will be held as treasury shares. Purchases under approved share repurchase authorizations are in addition to our practice of buying back shares sufficient to offset those issued under incentive compensation plans.

**Hershey Trust Company**

Hershey Trust Company, as trustee for the Milton Hershey School Trust (the "Trust") and as direct owner of investment shares, held 3,903,121 shares of our Common Stock as of December 31, 2018. As trustee for the Trust, Hershey Trust Company held 60,612,012 shares of the Class B Stock as of December 31, 2018, 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 Trust, 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.

In November 2018, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the Trust, pursuant to which the Company agreed to purchase 450,000 shares of the Company's common stock from the Trust at a price equal to \$106.30 per share, for a total purchase price of \$47,835.

In August 2017, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the Trust, pursuant to which the Company agreed to purchase 1,500,000 shares of the Company's common stock from the Trust at a price equal to \$106.01 per share, for a total purchase price of \$159,015.

**Noncontrolling Interest in Subsidiary**

We currently own a 50% controlling interest in Lotte Shanghai Foods Co., Ltd. ("LSFC"), a joint venture established in 2007 in China for the purpose of manufacturing and selling product to the joint venture partners.

A roll-forward showing the 2018 activity relating to the noncontrolling interest follows:

	<b>Noncontrolling Interest</b>
Balance, December 31, 2017	\$ 16,227
Net loss attributable to noncontrolling interest	(6,511 )
Other comprehensive loss - foreign currency translation adjustments	(1,171 )
Balance, December 31, 2018	\$ 8,545





**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

The 2018 net loss attributable to the noncontrolling interest reflects the 50% allocation of LSFC-related business realignment and impairment costs (see Note 8).

**14. COMMITMENTS AND CONTINGENCIES*****Purchase obligations***

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, 2018.

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 our obligations under the forward purchase contracts. For each of the three years in the period ended December 31, 2018, we satisfied these obligations by taking delivery of and making payment for the specific commodities.

As of December 31, 2018, we had entered into agreements for the purchase of raw materials with various suppliers. Subject to meeting our quality standards, the purchase obligations covered by these agreements were as follows as of December 31, 2018:

<i>in millions</i>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Purchase obligations	\$1,495.9	\$870.9	\$7.5	\$0.7	\$ —

***Lease commitments***

We also have commitments under various operating and capital lease arrangements. Future minimum payments under lease arrangements with a remaining term in excess of one year were as follows as of December 31, 2018:

	<b>Operating leases (1)</b>	<b>Capital leases (2)</b>
2019	\$38,041	\$6,980
2020	24,047	5,272
2021	16,883	3,901
2022	15,424	4,399
2023	13,494	4,577
Thereafter	185,608	169,686

Future minimum rental payments reflect commitments under non-cancelable operating leases primarily for offices, (1) retail stores, warehouse and distribution facilities. Total rent expense for the years ended December 31, 2018, 2017 and 2016 was \$34,157, \$25,525 and \$20,330, respectively, including short-term rentals.

(2) Future minimum rental payments reflect commitments under non-cancelable capital leases primarily for offices and warehouse facilities, as well as vehicles.

***Environmental contingencies***

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. 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.

**THE HERSHEY COMPANY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

**(amounts in thousands, except share data or if otherwise indicated)**

***Legal contingencies***

We are subject to various pending or threatened legal proceedings and claims that arise in the ordinary course of our business. While it is not feasible to predict or determine the outcome of such proceedings and claims with certainty, in our opinion these matters, both individually and in the aggregate, are not expected to have a material effect on our financial condition, results of operations or cash flows.

***Collective Bargaining***

As of December 31, 2018, the Company employed approximately 14,930 full-time and 1,490 part-time employees worldwide. Collective bargaining agreements covered approximately 5,780 employees, or approximately 35% of the Company's employees worldwide. During 2019, agreements will be negotiated for certain employees at three facilities outside of the United States, comprising approximately 67% of total employees under collective bargaining agreements. We currently expect that we will be able to renegotiate such agreements on satisfactory terms when they expire.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**15. 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,	2018		2017		2016	
	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)	\$410,732	\$151,789	\$385,878	\$140,394	\$367,081	\$132,394
Allocation of undistributed earnings	449,372	165,669	188,286	68,423	162,299	58,270
Total earnings—basic	\$860,104	\$317,458	\$574,164	\$208,817	\$529,380	\$190,664
Denominator (shares in thousands):						
Total weighted-average shares—basic	149,379	60,614	151,625	60,620	153,519	60,620
Earnings Per Share—basic	\$5.76	\$5.24	\$3.79	\$3.44	\$3.45	\$3.15
Diluted earnings per share:						
Numerator:						
Allocation of total earnings used in basic computation	\$860,104	\$317,458	\$574,164	\$208,817	\$529,380	\$190,664
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	317,458	—	208,817	—	190,664	—
Reallocation of undistributed earnings	—	(803 )	—	(492 )	—	(324 )
Total earnings—diluted	\$1,177,562	\$316,655	\$782,981	\$208,325	\$720,044	\$190,340
Denominator (shares in thousands):						
Number of shares used in basic computation	149,379	60,614	151,625	60,620	153,519	60,620
Weighted-average effect of dilutive securities:						
Conversion of Class B common stock to Common shares outstanding	60,614	—	60,620	—	60,620	—
Employee stock options	651	—	1,144	—	964	—
Performance and restricted stock units	345	—	353	—	201	—
Total weighted-average shares—diluted	210,989	60,614	213,742	60,620	215,304	60,620
Earnings Per Share—diluted	\$5.58	\$5.22	\$3.66	\$3.44	\$3.34	\$3.14

The earnings per share calculations for the years ended December 31, 2018, 2017 and 2016 excluded 4,196, 2,374 and 3,680 stock options (in thousands), respectively, that would have been antidilutive.

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**16. OTHER (INCOME) EXPENSE, NET**

Other (income) expense, net reports certain gains and losses associated with activities not directly related to our core operations. A summary of the components of other (income) expense, net is as follows:

For the years ended December 31,	2018	2017	2016
Write-down of equity investments in partnerships qualifying for tax credits	\$50,329	\$66,209	\$43,482
Non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans	20,672	38,768	49,390
Settlement of SGM liability (see Note 2)	—	—	(26,650 )
Other (income) expense, net	3,765	(518 )	(673 )
Total	\$74,766	\$104,459	\$65,549

**THE HERSHEY COMPANY**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**(amounts in thousands, except share data or if otherwise indicated)**

**17. SUPPLEMENTAL BALANCE SHEET INFORMATION**

The components of certain Consolidated Balance Sheet accounts are as follows:

December 31,	2018	2017
<b>Inventories:</b>		
Raw materials	\$237,086	\$224,940
Goods in process	107,139	93,627
Finished goods	618,798	614,945
Inventories at FIFO	963,023	933,512
Adjustment to LIFO	(178,144 )	(180,676 )
Total inventories	\$784,879	\$752,836
<b>Prepaid expenses and other:</b>		
Prepaid expenses	\$68,490	\$128,735
Assets held for sale	23,421	21,124
Other current assets	180,248	130,774
Total prepaid expenses and other	\$272,159	\$280,633
<b>Property, plant and equipment:</b>		
Land	\$102,074	\$108,300
Buildings	1,211,011	1,214,158
Machinery and equipment	2,988,027	2,925,353
Construction in progress	280,559	212,912
Property, plant and equipment, gross	4,581,671	4,460,723
Accumulated depreciation	(2,451,377 )	(2,354,026 )
Property, plant and equipment, net	\$2,130,294	\$2,106,697
<b>Other assets:</b>		
Capitalized software, net	\$126,379	\$104,881
Other non-current assets	126,605	146,998
Total other assets	\$252,984	\$251,879
<b>Accrued liabilities:</b>		
Payroll, compensation and benefits	\$180,546	\$190,863
Advertising, promotion and product allowances	293,642	305,107
Liabilities held for sale	596	—
Other	204,379	180,164
Total accrued liabilities	\$679,163	\$676,134
<b>Other long-term liabilities:</b>		
Post-retirement benefits liabilities	\$195,166	\$215,320
Pension benefits liabilities	66,379	39,410
Other	184,503	184,209
Total other long-term liabilities	\$446,048	\$438,939
<b>Accumulated other comprehensive loss:</b>		
Foreign currency translation adjustments	\$(96,678 )	\$(91,837 )
Pension and post-retirement benefit plans, net of tax	(205,230 )	(169,526 )

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Cash flow hedges, net of tax	(54,872 )	(52,383 )
Total accumulated other comprehensive loss	\$(356,780 )	\$(313,746 )

**THE HERSHEY COMPANY****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(amounts in thousands, except share data or if otherwise indicated)

**18. QUARTERLY DATA (Unaudited)**

Summary quarterly results were as follows:

<b>Year 2018</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Net sales	\$1,971,959	\$1,751,615	\$2,079,593	\$1,987,902
Gross profit	974,060	793,420	863,493	944,352
Net income attributable to The Hershey Company	350,203	226,855	263,713	336,791
Common stock:				
Net income per share—Basic	1.71	1.11	1.29	1.65
Net income per share—Diluted	1.65	1.08	1.25	1.60
Dividends paid per share	0.656	0.656	0.722	0.722
Class B common stock:				
Net income per share—Basic	1.55	1.01	1.17	1.50
Net income per share—Diluted	1.55	1.01	1.17	1.49
Dividends paid per share	0.596	0.596	0.656	0.656
Market price—common stock:				
High	114.06	100.60	106.60	110.01
Low	96.06	89.54	91.04	101.64
<b>Year 2017</b>	<b>First</b>	<b>Second</b>	<b>Third</b>	<b>Fourth</b>
Net sales	\$1,879,678	\$1,662,991	\$2,033,121	\$1,939,636
Gross profit	909,352	765,847	942,936	837,241
Net income attributable to The Hershey Company	125,044	203,501	273,303	181,133
Common stock:				
Net income per share—Basic	0.60	0.98	1.32	0.88
Net income per share—Diluted	0.58	0.95	1.28	0.85
Dividends paid per share	0.618	0.618	0.656	0.656
Class B common stock:				
Net income per share—Basic	0.55	0.89	1.20	0.80
Net income per share—Diluted	0.55	0.89	1.20	0.80
Dividends paid per share	0.562	0.562	0.596	0.596
Market price—common stock:				
High	109.61	115.96	110.50	115.45
Low	103.45	106.41	104.06	102.87

(a) Quarterly income per share amounts do not total to the annual amount due to changes in weighted-average shares outstanding during the year.



**Item 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

**Item 9A. *CONTROLS AND PROCEDURES***

**Evaluation of Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's 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"), as of December 31, 2018. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of a multi-year implementation of a new global enterprise resource planning ("ERP") system, which will replace our existing operating and financial systems. The ERP system is designed to accurately maintain the Company's financial records, enhance operational functionality and provide timely information to the Company's management team related to the operation of the business. The implementation is expected to occur in phases over the next several years. The initial changes to our consolidated financial reporting took place in the second quarter of 2018. The transition to the new financial reporting platform did not result in significant changes in our internal control over financial reporting. However, as the next phases of the updated processes are rolled out in connection with the ERP implementation, we will give appropriate consideration to whether these process changes necessitate changes in the design of and testing for effectiveness of internal controls over financial reporting.

**Design and Evaluation of Internal Control Over Financial Reporting**

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's 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. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

**Changes in Internal Control Over Financial Reporting**

Management's report on the Company's internal control over financial reporting appears on the following page. There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## MANAGEMENT'S ANNUAL 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). The Company's internal control system was 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.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013 edition)*. Based on this assessment, management concluded that, as of December 31, 2018, the Company's internal control over financial reporting was effective based on those criteria.

Management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Amplify Snack Brands, Inc. or Pirate Brands which were acquired on January 31, 2018 and October 17, 2018, respectively, and are included in the 2018 consolidated financial statements of the Company and constituted 28.2% of total assets as of December 31, 2018 and 4.0% of net sales for the year then ended.

The Company's independent auditors have audited, and reported on, the Company's internal control over financial reporting as of December 31, 2018.

/s/ MICHELE G. BUCK    /s/ PATRICIA A. LITTLE

Michele G. Buck

Chief Executive Officer

(Principal Executive Officer)

Patricia A. Little

Chief Financial Officer

(Principal Financial Officer)

**Item 9B. *OTHER INFORMATION***

None.

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### **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 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 for The Hershey Company and its subsidiaries for the years ended December 31, 2018, 2017 and 2016 is filed as part of this Annual Report on Form 10-K 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.

**Item 16. *FORM 10-K SUMMARY***

None.

**SIGNATURES**

**Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 22nd day of February, 2019.**

**THE HERSHEY COMPANY**  
(Registrant)

By: /s/ PATRICIA A. LITTLE

**Patricia A. Little**

**Chief Financial Officer**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ MICHELE G. BUCK <b>Michele G. Buck</b>	Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2019
/s/ PATRICIA A. LITTLE <b>Patricia A. Little</b>	Chief Financial Officer (Principal Financial Officer)	February 22, 2019
/s/ JAVIER H. IDROVO <b>Javier H. Idrovo</b>	Chief Accounting Officer (Principal Accounting Officer)	February 22, 2019
/s/ CHARLES A. DAVIS <b>Charles A. Davis</b>	Chairman of the Board	February 22, 2019
/s/ PAMELA M. ARWAY <b>Pamela M. Arway</b>	Director	February 22, 2019
/s/ JAMES W. BROWN <b>James W. Brown</b>	Director	February 22, 2019
/s/ MARY KAY HABEN <b>Mary Kay Haben</b>	Director	February 22, 2019
/s/ JAMES C. KATZMAN <b>James C. Katzman</b>	Director	February 22, 2019
/s/ M. DIANE KOKEN <b>M. Diane Koken</b>	Director	February 22, 2019
/s/ ROBERT M. MALCOLM <b>Robert M. Malcolm</b>	Director	February 22, 2019
/s/ ANTHONY J. PALMER <b>Anthony J. Palmer</b>	Director	February 22, 2019
/s/ WENDY L. SCHOPPERT <b>Wendy L. Schoppert</b>	Director	February 22, 2019

/s/ DAVID L. SHEDLARZ     Director  
**David L. Shedlarz**

February 22, 2019

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**Schedule II****THE HERSHEY COMPANY AND SUBSIDIARIES****SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS****For the Years Ended December 31, 2018, 2017 and 2016**

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
In thousands of dollars					
<b>For the year ended December 31, 2018</b>					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$41,792	\$222,819	\$	—\$(240,001)	\$24,610
Valuation allowance on net deferred taxes (b)	312,148	18,413	—	(90,602)	239,959
Inventory obsolescence reserve (c)	19,348	32,379	—	(31,591)	20,136
Total allowances deducted from assets	\$373,288	\$273,611	\$	—\$(362,194)	\$284,705
<b>For the year ended December 31, 2017</b>					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$40,153	\$166,993	\$	—\$(165,354)	\$41,792
Valuation allowance on net deferred taxes (b)	235,485	92,139	—	(15,476)	312,148
Inventory obsolescence reserve (c)	20,043	35,666	—	(36,361)	19,348
Total allowances deducted from assets	\$295,681	\$294,798	\$	—\$(217,191)	\$373,288
<b>For the year ended December 31, 2016</b>					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$32,638	\$174,314	\$	—\$(166,799)	\$40,153
Valuation allowance on net deferred taxes (b)	207,055	28,430	—	—	235,485
Inventory obsolescence reserve (c)	22,632	30,053	—	(32,642)	20,043
Total allowances deducted from assets	\$262,325	\$232,797	\$	—\$(199,441)	\$295,681

(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. The 2017 deductions from reserves reflects the change in valuation allowance due to the remeasurement of corresponding U.S. deferred tax assets at the lower enacted corporate tax rates resulting from the U.S. tax reform.

(c) Includes adjustments to the inventory reserve, transfers, disposals and write-offs of obsolete inventory.

## EXHIBIT INDEX

Exhibit Number	Description
<u>2.1</u>	<u>Agreement and Plan of Merger, dated as of December 17, 2017, among the Company, Alphabet Merger Sub Inc. and Amplify Snack Brands, Inc. is incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed December 18, 2017.</u>
<u>2.2</u>	<u>Asset Purchase Agreement, dated as of September 12, 2018, among the Company, B&amp;G Foods, Inc. and the Selling Subsidiaries (as named therein) is incorporated by reference from Exhibit 2.1 to the Company's Current Report on Form 8-K filed September 13, 2018.</u>
<u>3.1</u>	<u>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.</u>
<u>3.2</u>	<u>The Company's By-laws, as amended and restated as of February 21, 2017.*</u>
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) <u>2.900% Notes due 2020</u></li> <li>2) <u>4.125% Notes due 2020</u></li> <li>3) <u>3.100% Notes due 2021</u></li> <li>4) <u>8.8% Debentures due 2021<sup>#</sup></u></li> <li>5) <u>3.375% Notes due 2023</u></li> <li>6) <u>2.625% Notes due 2023</u></li> <li>7) <u>3.200% Notes due 2025</u></li> <li>8) <u>2.300% Notes due 2026</u></li> <li>9) <u>7.2% Debentures due 2027</u></li> <li>10) <u>3.375% Notes due 2046</u></li> <li>11) 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)	<i>Kit Kat®</i> and <i>Rolo®</i> 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. <sup>#</sup>
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. <sup>#</sup>
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. <sup>#</sup>
10.2	<i>Peter Paul/York</i> 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 <sup>#</sup>
10.3	<i>Cadbury</i> 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. <sup>#</sup>
<u>10.4(a)</u>	<u>Trademark and Technology License Agreement between Huhtamäki (now Iconic IP Interests, LLC) 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.</u>
<u>10.4(b)</u>	<u>Amended and Restated Trademark and Technology License Agreement between Huhtamäki (now Iconic IP Interests, LLC) 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.</u>

- 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.
- 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.
- 364 Day Credit Agreement, dated as of January 8, 2018, among the Company, Citibank, N.A., Bank of America N.A. and Royal Bank of Canada, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed January 9, 2018.
- Letter Agreement, by and between the Company and Citibank, N.A., terminating the 364 Day Credit Agreement effective October 24, 2018 is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.
- 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.
- 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.
- 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.
- Stock Purchase Agreement, dated August 24, 2017, between Milton Hershey School Trust, by its trustee, Hershey Trust Company, and the Company is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 28, 2017.
- Stock Purchase Agreement, dated November 7, 2018, between Milton Hershey School Trust, by its trustee, Hershey Trust Company, and the Company is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed November 8, 2018.
- 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>
- Form of Notice of Award of Restricted Stock Units (pre-February 15, 2016 version) is incorporated by reference from Exhibit 10.9 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015<sup>†</sup>
- Form of Notice of Award of Restricted Stock Units (effective February 15, 2016 - February 21, 2017 version) is incorporated by reference from Exhibit 10.10(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016<sup>†</sup>
- Form of Notice of Award of Restricted Stock Units (effective February 22, 2017) is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017<sup>†</sup>
- Form of Notice of Special Award of Restricted Stock Units (pro-rata vest, pre-February 15, 2016 version) is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed June 16, 2011<sup>†</sup>
- Form of Notice of Special Award of Restricted Stock Units (pro-rata vest, effective February 15, 2016 - February 21, 2017 version) is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed June 17, 2016<sup>†</sup>
- Form of Notice of Special Award of Restricted Stock Units (pro-rata vest, effective February 22, 2017) is incorporated by reference from Exhibit 10.2(a) to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017<sup>†</sup>
- Form of Notice of Special Award of Restricted Stock Units (3-year cliff vest, pre-February 22, 2017 version) is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 18, 2016<sup>†</sup>
- Form of Notice of Special Award of Restricted Stock Units (3-year cliff vest, effective February 22, 2017) is incorporated by reference from Exhibit 10.2(b) to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017<sup>†</sup>
- Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan (pre-February 15, 2016 version) is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 24, 2012<sup>†</sup>

- Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan (effective February 15, 2016 - February 21, 2017 version) is incorporated by reference from Exhibit 10.12(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.<sup>+</sup>
- Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan (effective February 22, 2017) is incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.<sup>+</sup>
- Form of Notice of Award of Performance Stock Units (pre-February 15, 2016 version) is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 24, 2012.<sup>+</sup>
- Form of Notice of Award of Performance Stock Units (effective February 15, 2016 - February 21, 2017 version) is incorporated by reference from Exhibit 10.13(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.<sup>†</sup>
- Form of Notice of Award of Performance Stock Units (effective February 22, 2017) is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.<sup>†</sup>
- Form of Notice of Special Award of Performance Stock Units is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 5, 2017.<sup>+</sup>
- 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>
- 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>
- 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>
- 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>
- 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>
- 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>
- The Company's Executive Benefits Protection Plan (Group 3), Amended and Restated as of June 27, 2012, is incorporated by reference from Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.<sup>†</sup>
- 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>
- 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>
- Employee Confidentiality and Restrictive Covenant Agreement, amended as of October 10, 2016, is incorporated by reference from Exhibit 10.21(b) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.<sup>†</sup>
- 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>
- 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>
- Retirement Agreement, dated as of February 22, 2017, by and between the Company and John P. Bilbrey is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K/A filed February 24, 2017.<sup>†</sup>
- Executive Employment Agreement, effective as of March 1, 2017, by and between the Company and Michele G. Buck is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed February 24, 2017.<sup>†</sup>
- 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.

<u>21.1</u>	<u>Subsidiaries of the Registrant.*</u>
<u>23.1</u>	<u>Consent of Ernst &amp; Young LLP.*</u>
<u>23.2</u>	<u>Consent of KPMG LLP.*</u>
<u>31.1</u>	<u>Certification of Michele G. Buck, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
<u>31.2</u>	<u>Certification of Patricia A. Little, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*</u>
<u>32.1</u>	<u>Certification of Michele G. Buck, Chief Executive Officer, and Patricia A. Little, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**</u>
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
#	Pursuant to Instruction 1 to Regulation S-T Rule 105(d), no hyperlink is required for any exhibit incorporated by reference that has not been filed with the SEC in electronic format