UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **July 1, 2007**

OR

o 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
100 Crystal A Drive
Hershey, PA 17033

Registrant's telephone number: **717-534-4200**

State of Incorporation	IRS Employer Identification No.
Delaware	**23-0691590**

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.
Common Stock, $1 par value – 167,243,374 shares, as of July 20, 2007. Class B Common Stock,
$1 par value – 60,815,010 shares, as of July 20, 2007.

THE HERSHEY COMPANY
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PART I - FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements (Unaudited)

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

	For the Three Months Ended	
	July 1, 2007	July 2, 2006
Net Sales	$ 1,051,916	$ 1,051,912
Costs and Expenses:		
Cost of sales	722,478	644,077
Selling, marketing and administrative	216,870	221,478
Business realignment charge, net	79,728	4,240
Total costs and expenses	1,019,076	869,795
Income before Interest and Income Taxes	32,840	182,117
Interest expense, net	29,213	27,490
Income before Income Taxes	3,627	154,627
Provision for income taxes	73	56,730
Net Income	$ 3,554	$ 97,897
Earnings Per Share - Basic - Class B Common Stock	$ .01	$ .38
Earnings Per Share - Diluted - Class B Common Stock	$ .02	$ .38
Earnings Per Share - Basic - Common Stock	$ .02	$ .42
Earnings Per Share - Diluted - Common Stock	$ .01	$ .41
Average Shares Outstanding - Basic - Common Stock	168,309	175,779
Average Shares Outstanding - Basic - Class B Common Stock	60,815	60,817
Average Shares Outstanding - Diluted	231,963	240,124
Cash Dividends Paid per Share:		
Common Stock	$ .2700	$ .2450
Class B Common Stock	$ .2425	$ .2200

The accompanying notes are an integral part of these consolidated financial statements.

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

	For the Six Months Ended	
	July 1, 2007	July 2, 2006
Net Sales	$ 2,205,025	$ 2,191,419
Costs and Expenses:		
Cost of sales	1,461,556	1,351,442
Selling, marketing and administrative	433,303	438,272
Business realignment charge, net	107,273	7,571
Total costs and expenses	2,002,132	1,797,285
Income before Interest and Income Taxes	202,893	394,134
Interest expense, net	57,468	52,693
Income before Income Taxes	145,425	341,441
Provision for income taxes	48,398	121,073
Net Income	$ 97,027	$ 220,368
Earnings Per Share - Basic - Class B Common Stock	$ .39	$ .86
Earnings Per Share - Diluted - Class B Common Stock	$ .39	$ .85
Earnings Per Share - Basic - Common Stock	$ .43	$ .95
Earnings Per Share - Diluted - Common Stock	$ .42	$ .91
Average Shares Outstanding - Basic - Common Stock	169,078	174,344
Average Shares Outstanding - Basic - Class B Common Stock	60,815	60,818
Average Shares Outstanding - Diluted	232,841	241,644
Cash Dividends Paid per Share:		
Common Stock	$ .5400	$ .4900
Class B Common Stock	$ .4850	$ .4400

The accompanying notes are an integral part of these consolidated financial statements.

THE HERSHEY COMPANY
CONSOLIDATED BALANCE SHEETS
(in thousands of dollars)

ASSETS	July 1, 2007	December 31, 2006
Current Assets:		
Cash and cash equivalents	$ 38,822	$ 97,141
Accounts receivable - trade	378,178	522,673
Inventories	813,836	648,820
Deferred income taxes	55,976	61,360
Prepaid expenses and other	138,828	87,818
Total current assets	1,425,640	1,417,812
Property, Plant and Equipment, at cost	3,689,031	3,597,756
Less-accumulated depreciation and amortization	(2,100,868)	(1,946,456)
Net property, plant and equipment	1,588,163	1,651,300
Goodwill	508,849	501,955
Other Intangibles	234,549	140,314
Other Assets	510,035	446,184
Total assets	$ 4,267,236	$ 4,157,565

LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY	July 1, 2007	December 31, 2006
Current Liabilities:		
Accounts payable	$ 248,099	$ 155,517
Accrued liabilities	426,873	454,023
Accrued income taxes	56	—
Short-term debt	926,262	655,233
Current portion of long-term debt	14,669	188,765
Total current liabilities	1,615,959	1,453,538
Long-term Debt	1,272,504	1,248,128
Other Long-term Liabilities	590,144	486,473
Deferred Income Taxes	200,950	286,003
Total liabilities	3,679,557	3,474,142
Minority Interest	16,378	—
Stockholders' Equity:		
Preferred Stock, shares issued: none in 2007 and 2006	—	—
Common Stock, shares issued: 299,086,734 in 2007 and 299,085,666 in 2006	299,086	299,085
Class B Common Stock, shares issued: 60,815,010 in 2007 and 60,816,078 in 2006	60,815	60,816
Additional paid-in capital	324,043	298,243
Retained earnings	3,941,644	3,965,415
Treasury-Common Stock shares at cost: 131,858,178 in 2007 and 129,638,183 in 2006	(3,951,479)	(3,801,947)
Accumulated other comprehensive loss	(102,808)	(138,189)
Total stockholders' equity	571,301	683,423
Total liabilities, minority interest, and stockholders' equity	$ 4,267,236	$ 4,157,565

The accompanying notes are an integral part of these consolidated balance sheets.

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

	For the Six Months Ended	
	July 1, 2007	**July 2, 2006**
Cash Flows Provided from (Used by) Operating Activities		
Net Income	$ 97,027	$ 220,368
Adjustments to Reconcile Net Income to Net Cash Provided from Operations:		
Depreciation and amortization	144,003	98,059
Stock-based compensation expense, net of tax of $4,377 and $10,131, respectively	7,988	18,487
Excess tax benefits from exercise of stock options	(8,481)	(3,529)
Deferred income taxes	41,069	6,704
Business realignment initiatives, net of tax of $61,342 and $1,347, respectively	103,430	3,025
Contributions to pension plans	(7,836)	(8,592)
Changes in assets and liabilities, net of effects from business acquisitions:		
Accounts receivable - trade	149,719	180,188
Inventories	(166,637)	(243,715)
Accounts payable	87,044	(11,389)
Other assets and liabilities	(153,821)	(92,255)
Net Cash Flows Provided from Operating Activities	293,505	167,351
Cash Flows Provided from (Used by) Investing Activities		
Capital additions	(77,905)	(80,233)
Capitalized software additions	(5,259)	(7,104)
Business acquisitions	(76,989)	—
Net Cash Flows (Used by) Investing Activities	(160,153)	(87,337)
Cash Flows Provided from (Used by) Financing Activities		
Net increase in short-term debt	264,231	315,268
Repayment of long-term debt	(188,800)	(117)
Cash dividends paid	(120,798)	(113,168)
Exercise of stock options	42,234	17,394
Excess tax benefits from exercise of stock options	8,481	3,529
Repurchase of Common Stock	(197,019)	(346,618)
Net Cash Flows (Used by) Financing Activities	(191,671)	(123,712)
Decrease in Cash and Cash Equivalents	(58,319)	(43,698)
Cash and Cash Equivalents, beginning of period	97,141	67,183
Cash and Cash Equivalents, end of period	$ 38,822	$ 23,485
Interest Paid	$ 62,495	$ 51,677
Income Taxes Paid	$ 105,852	$ 154,243

The accompanying notes are an integral part of these consolidated financial statements.

1. BASIS OF PRESENTATION

Our unaudited consolidated financial statements provided in this report include the accounts of the Company and our majority-owned subsidiaries and entities in which we have a controlling financial interest after the elimination of intercompany accounts and transactions. We prepared these statements in accordance with the instructions to Form 10-Q. These statements do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

We included all adjustments (consisting only of normal recurring accruals) which we believe were considered necessary for a fair presentation. We reclassified certain prior year amounts to conform to the 2007 presentation. Operating results for the six months ended July 1, 2007 may not be indicative of the results that may be expected for the year ending December 31, 2007, because of the seasonal effects of our business.

Items Affecting Comparability

Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Misstatements When Quantifying Misstatements in Current Year Financial Statements* (“SAB No. 108”), required companies to change the accounting principle used for evaluating the effect of possible prior year misstatements when quantifying misstatements in current year financial statements. As a result, at December 31, 2006 we changed one of the five criteria of our revenue recognition policy, resulting in a delay in the recognition of revenue on goods in-transit until they are received by our customers. As permitted by SAB No. 108, we adjusted our financial statements for the three-month and six-month periods ended July 2, 2006 to provide comparability. These adjustments were not material to our results of operations for those periods. For more information, refer to the consolidated financial statements and notes included in our 2006 Annual Report on Form 10-K.

2. BUSINESS ACQUISITIONS

In May 2007, our Company and Godrej Beverages and Foods, Ltd., one of India’s largest consumer goods, confectionery and food companies, entered into an agreement to manufacture and distribute confectionery products, snacks and beverages across India. Under the agreement, we invested $58.7 million during the second quarter and own a 51% controlling interest. Total liabilities assumed were $59.0 million. Effective in May 2007, this business acquisition was included in our consolidated results.

Also in May 2007, our Company and Lotte Confectionery Co., LTD., entered into a manufacturing agreement in China that will produce Hershey products and certain Lotte products for the market in China. We invested $18.3 million in the second quarter of 2007 and own a 44% interest. We will account for this investment under the equity method.

Under each of the acquisition agreements, our Company and the other parties are currently obligated to make additional investments. We expect to invest a total of approximately $23.8 million later this year in these businesses. The additional investments will not change our ownership interests.

3. STOCK COMPENSATION PLANS

At our annual meeting of stockholders, held April 17, 2007, stockholders approved The Hershey Company Equity and Incentive Compensation Plan ("EICP"). The EICP is an amendment and restatement of our former Key Employee Incentive Plan, a share-based employee incentive compensation plan, and is also a continuation of our Broad Based Stock Option Plan, Broad Based Annual Incentive Plan and Directors' Compensation Plan. Following its adoption on April 17, 2007, the EICP became the single plan under which grants using shares for compensation and incentive purposes will be made. The following table summarizes our stock compensation costs:

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(in millions of dollars)			
Total compensation amount charged against income for stock compensation plans, including stock options, performance stock units ("PSUs") and restricted stock units	$ 5.5	$15.5	$12.4	$ 29.5
Total income tax benefit recognized in Consolidated Statements of Income for share-based compensation	$ 1.9	$ 5.7	$ 4.4	$ 10.5

The decrease in share-based compensation expense from 2006 to 2007 was primarily associated with lower performance expectations for the PSUs and the timing of stock option grants in 2007. The 2007 stock option grants were delayed pending approval by our stockholders of the EICP at the annual meeting in April 2007.

We estimated the fair value of each stock option grant on the date of the grant using a Black-Scholes option-pricing model and the weighted-average assumptions set forth in the following table:

	For the Six Months Ended	
	July 1, 2007	July 2, 2006
Dividend yields	2.0%	1.6%
Expected volatility	19.5%	23.7%
Risk-free interest rates	4.6%	4.6%
Expected lives in years	6.6	6.6

Stock Options

A summary of the status of our stock options as of July 1, 2007, and the change during 2007 is presented below:

	For the Six Months Ended July 1, 2007		
Stock Options	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding at beginning of the period	13,855,113	$40.29	6.3 years
Granted	2,000,325	$54.63	
Exercised	(1,268,528)	$29.61	
Forfeited	(127,990)	$54.96	
Outstanding as of July 1, 2007	14,458,920	$43.08	6.5 years
Options exercisable as of July 1, 2007	8,691,849	$37.11	5.3 years

	For the Six Months Ended	
	July 1, 2007	**July 2, 2006**
Weighted fair value of options granted (per share)	$ 12.95	$ 15.06
Intrinsic value of options exercised (in millions of dollars)	$ 31.3	$ 13.5

- As of July 1, 2007, the aggregate intrinsic value of options outstanding was $140.1 million and the aggregate intrinsic value of options exercisable was $129.2 million.

- As of July 1, 2007, there was $52.1 million of total unrecognized compensation cost related to non-vested stock option compensation arrangements granted under our stock option plans. That cost is expected to be recognized over a weighted-average period of 2.7 years.

Performance Stock Units and Restricted Stock Units

A summary of the status of our performance stock units and restricted stock units as of July 1, 2007, and the change during 2007 is presented below:

Performance Stock Units and Restricted Stock Units	**For the Six Months Ended July 1, 2007**	**Weighted-average grant date fair value for equity awards or market value for liability awards**
Outstanding at beginning of year	1,075,748	$44.89
Granted	273,572	$51.50
Performance assumption change	(145,533)	$53.49
Vested	(414,728)	$49.08
Forfeited	(350)	$49.80
Outstanding as of July 1, 2007	788,709	$42.54

As of July 1, 2007, there was $16.5 million of unrecognized compensation cost relating to non-vested performance stock units and restricted stock units. We expect to recognize that cost over a weighted-average period of 2.6 years.

	For the Six Months Ended	
	July 1, 2007	**July 2, 2006**
Intrinsic value of share-based liabilities paid, combined with the fair value of shares vested (in millions of dollars)	$ 21.0	$ 3.7

The lower amount in 2006 was primarily associated with the additional three-year vesting term for performance stock unit grants for the 2003-2005 performance cycle (“2003 grants”) which reduced the number of shares that vested in 2006 compared with 2007. An additional three-year vesting term was imposed on the grant date for the 2003 grants with accelerated vesting for retirement, disability or death. The compensation cost based on grant date fair value for the 2003 grants is being recognized over a period from three to six years.

Deferred performance stock units, deferred restricted stock units, and directors’ fees and accumulated dividend amounts representing deferred stock units totaled 725,705 units as of July 1, 2007. Each unit is equivalent to one share of the Company's Common Stock.

No stock appreciation rights were outstanding as of July 1, 2007.

For more information on our stock compensation plans, refer to the consolidated financial statements and notes included in our 2006 Annual Report on Form 10-K and our proxy statement for the 2007 annual meeting of stockholders.

4. INTEREST EXPENSE

Net interest expense consisted of the following:

	For the Six Months Ended	
	July 1, 2007	July 2, 2006
	(in thousands of dollars)	
Interest expense	$ 58,860	$ 53,531
Interest income	(1,327)	(817)
Capitalized interest	(65)	(21)
Interest expense, net	$ 57,468	$ 52,693

For the first six months of 2007, net interest expense was higher than the comparable period of 2006, primarily due to the financing of share repurchases. Higher interest rates in 2007 as compared with 2006 also contributed to the increase in net interest expense.

5. BUSINESS REALIGNMENT INITIATIVES

In February 2007, we announced a comprehensive, three-year supply chain transformation program (the “2007 business realignment initiatives”). When completed, this program will greatly enhance our manufacturing, sourcing and customer service capabilities, reduce inventories resulting in improvements in working capital and generate significant resources to invest in our growth initiatives. These initiatives include accelerated marketplace momentum within our core U.S. business, creation of innovative new product platforms to meet customer needs and disciplined global expansion. Under the program, which will be implemented in stages over the next three years, we will significantly increase manufacturing capacity utilization by reducing the number of production lines by more than one-third, outsource production of low value-added items and construct a flexible, cost-effective production facility in Monterrey, Mexico to meet current and emerging marketplace needs. The program will result in a total net reduction of 1,500 positions across our supply chain over the next three years.

The estimated pre-tax cost of the program is from $525 million to $575 million over the next three years. The total includes from $475 million to $525 million in business realignment costs and approximately $50 million in project implementation costs. The costs will be incurred primarily in 2007 and 2008, with approximately $270 million to $300 million expected in 2007.

In July 2005, we announced initiatives intended to advance our value-enhancing strategy (the “2005 business realignment initiatives”). Charges for the 2005 business realignment initiatives were recorded during 2005 and 2006 and the 2005 business realignment initiatives were completed by December 31, 2006.

Charges (credits) associated with business realignment initiatives recorded during the three-month and six-month periods ended July 1, 2007 and July 2, 2006 were as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(in thousands of dollars)			
Cost of sales				
2007 business realignment initiatives	$ 41,307	$ –	$ 51,166	$ –
2005 business realignment initiatives	–	–	–	(1,599)
Previous business realignment initiatives	–	(1,600)	–	(1,600)
Total cost of sales	41,307	(1,600)	51,166	(3,199)
Selling, marketing and administrative				
2007 business realignment initiatives	3,347	–	6,333	–
Business realignment and asset impairments, net				
2007 business realignment initiatives:				
Fixed asset impairments and plant closure expenses	13,878	–	40,098	–
Employee separation costs	51,534	–	52,859	–
Contract termination costs	14,316	–	14,316	–
2005 business realignment initiatives	–	3,727	–	7,058
Previous business realignment initiatives	–	513	–	513
Total business realignment and asset impairments, net	79,728	4,240	107,273	7,571
Total net charges associated with business realignment initiatives	$ 124,382	$ 2,640	$ 164,772	$ 4,372

The charge of $41.3 million recorded in cost of sales during the second quarter of 2007 for the 2007 business realignment initiatives related to the accelerated depreciation of fixed assets over a reduced estimated remaining useful life and costs related to inventory reductions. The $3.3 million recorded in selling, marketing and administrative expenses related primarily to project administration. In determining the costs related to fixed asset impairments, fair value was estimated based on the expected sales proceeds. Certain real estate with a net realizable value of $5.4 million was being held for sale as of July 1, 2007. The employee separation costs included $22.3 million for involuntary terminations at six North American manufacturing facilities which are being closed. The facilities are located in Naugatuck, Connecticut; Reading, Pennsylvania; Oakdale, California; Smiths Falls, Ontario; Montreal, Quebec; and Dartmouth, Nova Scotia. The employee separation costs also included $29.2 million for charges relating to pension and other post-retirement benefits curtailments and special termination benefits.

Charges (credits) associated with previous business realignment initiatives which began in 2003 and 2001 resulted from the finalization of the sale of certain properties, adjustments to liabilities which had previously been recorded, and the impact of the settlement as to several of the eight former employees who had filed a complaint alleging that the Company had discriminated against them on the basis of age in connection with the 2003 business realignment initiatives. The $3.7 million charge associated with the 2005 business realignment initiatives was related primarily to the U.S. Voluntary Workforce Reduction Program (“VWRP”), in addition to costs for streamlining the Company’s international operations and facility rationalization relating to the closure of the Las Piedras, Puerto Rico plant. The business realignment charge included $2.1 million for involuntary terminations.

The charge of $51.2 million recorded in cost of sales during the first six months of 2007 for the 2007 business realignment initiatives related to the accelerated depreciation of fixed assets over a reduced estimated remaining useful life and costs related to inventory reductions. The $6.3 million recorded in selling, marketing and administrative expenses related primarily to project administration. In determining the costs related to fixed asset impairments, fair value was estimated based on the expected sales proceeds. The employee separation costs

included $23.7 million for involuntary terminations and $29.2 million for charges relating to pension and other post-retirement benefits curtailments and special termination benefits.

A credit of $1.6 million recorded in cost of sales for the 2005 business realignment initiatives related to higher than expected proceeds from the sale of equipment from the Las Piedras plant. The $7.1 million charge associated with the 2005 business realignment initiatives related primarily to the U.S. VWRP, along with costs for streamlining the Company's international operations and facility rationalization relating to the closure of the Las Piedras plant. The business realignment charge included $2.9 million for involuntary terminations. Charges (credits) associated with previous business realignment initiatives which began in 2003 and 2001 resulted from the finalization of the sale of certain properties, adjustments to liabilities which had previously been recorded, and the impact of the settlement as to several of the eight former employees who had filed a complaint alleging that the Company had discriminated against them on the basis of age in connection with the 2003 business realignment initiatives.

The July 1, 2007 liability balance relating to the 2007 business realignment initiatives was $23.5 million for employee separation costs. The July 1, 2007 liability balance relating to the 2005 business realignment initiatives was $8.7 million.

6. EARNINGS PER SHARE

In accordance with Statement of Financial Accounting Standards No. 128, *Earnings Per Share*, we compute Basic and Diluted Earnings Per Share based on the weighted-average number of shares of the Common Stock and the Class B Common Stock outstanding as follows:

	For the Three Months Ended		For the Six Months Ended	
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(in thousands except per share amounts)			
Net income	$ 3,554	$ 97,897	$ 97,027	$ 220,368
Weighted-average shares - Basic				
Common Stock	168,309	175,779	169,078	177,344
Class B Common Stock	60,815	60,817	60,815	60,818
Total weighted-average shares - Basic	229,124	236,596	229,893	238,162
Effect of dilutive securities:				
Employee stock options	2,330	2,847	2,367	2,848
Performance and restricted stock units	509	681	581	634
Weighted-average shares - Diluted	231,963	240,124	232,841	241,644
Earnings Per Share - Basic				
Class B Common Stock	$ .01	$ .38	$ .39	$ .86
Common Stock	$ .02	$ .42	$ .43	$ .95
Earnings Per Share - Diluted				
Class B Common Stock	$ .02	$ .38	$ .39	$ .85
Common Stock	$ .01	$ .41	$ .42	$ .91

The Class B Common Stock is convertible into Common Stock on a share for share basis at any time. In accordance with proposed Financial Accounting Standards Board ("FASB") Staff Position No. FAS 128-a, *Computational Guidance for Computing Diluted EPS under the Two-Class Method*, the calculation of earnings per share-diluted for the Class B Common Stock was performed using the two-class method and the calculation of earnings per share-diluted for the Common Stock was performed using the if-converted method.

For the three-month and six-month periods ended July 1, 2007, 5.6 million stock options were not included in the diluted earnings per share calculation because the effect would have been antidilutive. In the second quarter and

first six months of 2006, 3.6 million stock options were not included in the diluted earnings per share calculation because the effect would have been antidilutive.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We account for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended ("SFAS No. 133, as amended"). SFAS No. 133, as amended, requires us to recognize all derivative instruments at fair value. We classify the derivatives as assets or liabilities on the balance sheet. As of July 1, 2007 and July 2, 2006, all of our derivative instruments were classified as cash flow hedges.

Summary of Activity

Our cash flow hedging derivative activity during the three months and six months ended July 1, 2007 and July 2, 2006 was as follows:

	For the Three Months Ended		**For the Six Months Ended**	
	July 1, 2007	**July 2, 2006**	**July 1, 2007**	**July 2, 2006**
	(in millions of dollars)			
Net after-tax (losses) gains on cash flow hedging derivatives	$(1.0)	$7.7	$4.9	$14.3
Reclassification adjustment of losses from accumulated other comprehensive income to income, net of tax	1.2	.7	1.1	1.3
Hedge ineffectiveness gains recognized in cost of sales, before tax	–	2.0	–	2.0

- Net gains and losses on cash flow hedging derivatives were primarily associated with commodities futures contracts.

- Reclassification adjustments from accumulated other comprehensive income (loss) to income related to gains or losses on commodities futures contracts and were reflected in cost of sales. Reclassification adjustments for gains on interest rate swaps were reflected as an adjustment to interest expense.

- We recognized no components of gains or losses on cash flow hedging derivatives in income due to excluding such components from the hedge effectiveness assessment.

The amount of net gains on cash flow hedging derivatives, including foreign exchange forward contracts, interest rate swap agreements and commodities futures contracts, expected to be reclassified into earnings in the next twelve months was approximately $1.4 million after tax as of July 1, 2007. This amount was primarily associated with foreign exchange forward contracts.

In February 2006, we terminated a forward swap agreement hedging the anticipated execution of $250 million of term financing because the transaction was no longer expected to occur by the originally specified time period or within an additional two-month period of time thereafter. A gain of $1.0 million was recorded in the first quarter of 2006 as a result of the discontinuance of this cash flow hedge. No other gains or losses on cash flow hedging derivatives were reclassified from accumulated other comprehensive income (loss) into income as a result of the discontinuance of a hedge because it became probable that a hedged forecasted transaction would not occur.

For more information, refer to the consolidated financial statements and notes included in our 2006 Annual Report on Form 10-K.

8. COMPREHENSIVE INCOME

A summary of the components of comprehensive income (loss) is as follows:

	For the Three Months Ended July 1, 2007		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
	(in thousands of dollars)		
Net income			$ 3,554
Other comprehensive income (loss):			
Foreign currency translation adjustments	$ 24,714	$ —	24,714
Pension and post-retirement benefit plans	2,425	(1,073)	1,352
Cash flow hedges:			
Losses on cash flow hedging derivatives	(1,649)	600	(1,049)
Reclassification adjustments	1,819	(644)	1,175
Total other comprehensive income	$ 27,309	$ (1,117)	26,192
Comprehensive income			$ 29,746

	For the Three Months Ended July 2, 2006		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
	(in thousands of dollars)		
Net income			$ 97,897
Other comprehensive income (loss):			
Foreign currency translation adjustments	$ 8,686	$ —	8,686
Cash flow hedges:			
Gains on cash flow hedging derivatives	12,113	(4,390)	7,723
Reclassification adjustments	1,122	(399)	723
Total other comprehensive income	$ 21,921	$ (4,789)	17,132
Comprehensive income			$ 115,029

	For the Six Months Ended July 1, 2007		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
	(in thousands of dollars)		
Net income			$ 97,027
Other comprehensive income (loss):			
Foreign currency translation adjustments	$ 27,318	$ —	27,318
Pension and post-retirement benefit plans	3,720	(1,592)	2,128
Cash flow hedges:			
Gains on cash flow hedging derivatives	7,647	(2,768)	4,879
Reclassification adjustments	1,626	(570)	1,056
Total other comprehensive income	$ 40,311	$ (4,930)	35,381
Comprehensive income			$ 132,408

	For the Six Months Ended July 2, 2006		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
	(in thousands of dollars)		
Net income			$ 220,368
Other comprehensive income (loss):			
Foreign currency translation adjustments	$ 8,202	$ —	8,202
Minimum pension liability adjustments	118	(42)	76
Cash flow hedges:			
Gains on cash flow hedging derivatives	22,402	(8,135)	14,267
Reclassification adjustments	2,037	(731)	1,306
Total other comprehensive income	$ 32,759	$ (8,908)	23,851
Comprehensive income			$ 244,219

The components of accumulated other comprehensive income (loss) as shown on the Consolidated Balance Sheets are as follows:

	July 1, 2007	December 31, 2006
	(in thousands of dollars)	
Foreign currency translation adjustments	$ 27,283	$ (35)
Pension and post-retirement benefit plans, net of tax	(135,844)	(137,972)
Cash flow hedges, net of tax	5,753	(182)
Total accumulated other comprehensive loss	$ (102,808)	$ (138,189)

Effective December 31, 2006, we adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, an amendment of FASB Statements No. 87, 88, 106, and 132 (R) ("SFAS No. 158"). The provisions of SFAS No. 158 require that the funded status of our pension plans and the benefit obligations of our post-retirement benefit plans be recognized in our balance sheet. Appropriate adjustments were made to various assets and liabilities as of December 31, 2006, with an offsetting after-tax effect of $138.0 million recorded as a component of other comprehensive income rather than as an adjustment to the ending balance of accumulated other comprehensive loss.

Excluding the impact of the adoption of SFAS No. 158, total other comprehensive income for the year ended December 31, 2006 was $9.1 million after-tax, compared with the reported other comprehensive loss of $128.9 million after-tax. The presentation of other comprehensive income for the year ended December 31, 2006 will be adjusted to exclude the impact of the adoption of SFAS No. 158 in our Annual Report on Form 10-K for the year ending December 31, 2007.

9. INVENTORIES

We value the majority of our inventories under the last-in, first-out ("LIFO") method and the remaining inventories at the lower of first-in, first-out ("FIFO") cost or market. Inventories were as follows:

	July 1, 2007	December 31, 2006
	(in thousands of dollars)	
Raw materials	$ 252,767	$ 214,335
Goods in process	116,595	94,740
Finished goods	524,621	418,250
Inventories at FIFO	893,983	727,325
Adjustment to LIFO	(80,147)	(78,505)
Total inventories	$ 813,836	$ 648,820

The increase in raw material inventories as of July 1, 2007 resulted from the timing of deliveries to support manufacturing requirements, reflecting the seasonality of our business, and higher costs in 2007. The increase in finished goods inventories was primarily associated with seasonal sales patterns and the introduction of new products.

10. SHORT-TERM DEBT

As a source of short-term financing, we utilize commercial paper or bank loans with an original maturity of three months or less. In December 2006, we entered into a new five-year unsecured revolving credit agreement. The credit limit is $1.1 billion with an option to borrow an additional $400 million with the concurrence of the lenders. These funds may be used for general corporate purposes. This unsecured revolving credit agreement contains certain financial covenants and customary representations and warranties, and events of default. As of July 1, 2007 we complied with all covenants pertaining to our credit agreement. There were no significant compensating balance agreements that legally restricted these funds. For more information, refer to the consolidated financial statements and notes included in our 2006 Annual Report on Form 10-K.

11. LONG-TERM DEBT

In May 2006, we filed a shelf registration statement on Form S-3 that registered an indeterminate amount of debt securities. This registration statement was effective immediately upon filing under Securities and Exchange Commission regulations governing “well-known seasoned issuers” (the "WKSI Registration Statement"). In August 2006, we issued $500 million of Notes under the WKSI Registration Statement. Proceeds from the debt issuances and any other offerings under the WKSI Registration Statement may be used for general corporate requirements. These may include reducing existing borrowings, financing capital additions, funding contributions to our pension plans, future business acquisitions and working capital requirements.

12. FINANCIAL INSTRUMENTS

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair value as of July 1, 2007 and December 31, 2006, because of the relatively short maturity of these instruments.

The carrying value of long-term debt, including the current portion, was $1,287.2 million as of July 1, 2007, compared with a fair value of $1,327.3 million, an increase of $40.1 million over the carrying value, based on quoted market prices for the same or similar debt issues.

Foreign Exchange Forward Contracts

The following table summarizes our foreign exchange activity:

	July 1, 2007	
	Contract Amount	**Primary Currencies**
	(in millions of dollars)	
Foreign exchange forward contracts to purchase foreign currencies	$ 25.8	Mexican pesos British sterling Australian dollars Euros
Foreign exchange forward contracts to sell foreign currencies	$ 31.8	Canadian dollars Brazilian reais Mexican pesos

Our foreign exchange forward contracts mature in 2007 and 2008.

We define the fair value of foreign exchange forward contracts as the amount of the difference between contracted and current market foreign currency exchange rates at the end of the period. On a quarterly basis, we estimate the fair value of foreign exchange forward contracts by obtaining market quotes for future contracts with

similar terms, adjusted where necessary for maturity differences. We do not hold or issue financial instruments for trading purposes.

The total fair value of our foreign exchange forward contracts included in prepaid expenses and other current assets and in other non-current assets, as appropriate, on the Consolidated Balance Sheets were as follows:

	July 1, 2007	December 31, 2006
	(in millions of dollars)	
Fair value of foreign exchange forward contracts - asset	$ 2.2	$ 1.5

13. INCOME TAXES

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109* ("FIN No. 48"). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes.* FIN No. 48 describes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We adopted the provisions of FIN No. 48 as of January 1, 2007. The adoption of FIN No. 48 did not result in a significant change to the liability for unrecognized tax benefits. Upon adoption, we had unrecognized tax benefits of $79.0 million of which $45.5 million would impact the effective income tax rate if recognized. The entire amount of unrecognized tax benefits was classified as other long-term liabilities on the balance sheet since we do not expect to make any payments to taxing authorities related to such tax positions in the next twelve months. We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. Upon adoption, we had accruals of approximately $17.4 million for the payment of interest and penalties.

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 would usually require the use of cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period of resolution.

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions include the United States (federal and state) and Canada. We are no longer subject to U.S. federal examinations by the Internal Revenue Service ("IRS") for years before 2004 and various tax examinations by state taxing authorities could be conducted for years beginning in 2000. We are no longer subject to Canadian federal income tax examinations by the Canada Revenue Agency ("CRA") for years before 1999. U.S. and Canadian federal audit issues typically involve the timing of deductions and transfer pricing adjustments. We work with the IRS and the CRA to resolve proposed audit adjustments and to minimize the amount of adjustments. We do not anticipate that any potential tax adjustments will have a significant impact on our financial position or results of operations.

14. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

Components of net periodic benefits (income) cost consisted of the following:

	Pension Benefits		Other Benefits	
	For the Three Months Ended			
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(in thousands of dollars)			
Service cost	$ 10,809	$ 13,855	$ 1,177	$ 1,414
Interest cost	14,551	15,129	4,714	4,928
Expected return on plan assets	(28,554)	(27,067)	—	—
Amortization of prior service cost	748	1,141	(35)	(118)
Amortization of unrecognized transition balance	—	5	—	—
Recognized net actuarial loss	154	3,489	433	1,084
Administrative expenses	128	101	—	—
Net periodic benefits (income) cost	(2,164)	6,653	6,289	7,308
Special termination benefits	6,166	—	—	—
Settlement	—	28	—	—
Curtailment	4,215	31	18,862	—
Total amount reflected in earnings	$ 8,217	$ 6,712	$ 25,151	$ 7,308

We made contributions of $2.7 million and $5.9 million to the pension plans and other benefits plans, respectively, during the second quarter of 2007. The Special termination benefits and Curtailment losses recorded in the second quarter of 2007 related to the 2007 business realignment initiatives. The Settlement and Curtailment losses recorded during the second quarter of 2006 related to the termination of a small non-qualified plan. In the second quarter of 2006, we made contributions of $.6 million and $6.8 million to our pension and other benefits plans, respectively. The contributions in 2007 and 2006 also included benefit payments from our non-qualified pension plans and post-retirement benefit plans.

In the second quarter of 2007, there was net periodic pension benefits income of $2.2 million, compared with net periodic benefits cost of $6.7 million in the second quarter of 2006. The net periodic pension benefits income resulted from the changes to the U.S. pension plans announced in October 2006, the higher actual return on pension assets during 2006 and a higher discount rate.

	Pension Benefits		Other Benefits	
	For the Six Months Ended			
	July 1, 2007	July 2, 2006	July 1, 2007	July 2, 2006
	(in thousands of dollars)			
Service cost	$ 21,966	$ 28,364	$ 2,349	$ 2,856
Interest cost	29,219	29,254	9,461	9,539
Expected return on plan assets	(57,142)	(52,635)	—	—
Amortization of prior service cost	1,127	2,287	(74)	95
Amortization of unrecognized transition balance	—	9	—	—
Recognized net actuarial loss	910	6,758	975	1,852
Administrative expenses	301	403	—	—
Net periodic benefits (income) cost	(3,619)	14,440	12,711	14,342
Special termination benefits	6,166	—	—	—
Settlement	—	28	—	—
Curtailment	4,215	31	18,862	—
Total amount reflected in earnings	$ 6,762	$ 14,499	$ 31,573	$ 14,342

We made contributions of $7.8 million and $10.4 million to the pension plans and other benefits plans, respectively, during the first six months of 2007. In the first six months of 2006, we made contributions of $8.6 million and $13.2 million to our pension and other benefits plans, respectively. The contributions in 2007 and 2006 also included benefit payments from our non-qualified pension plans and post-retirement benefit plans.

In the first six months of 2007, there was net periodic pension benefits income of $3.6 million, compared with net periodic benefits cost of $14.4 million in the first six months of 2006. The net periodic pension benefits income resulted from the changes to the U.S. pension plans announced in October 2006, the higher actual return on pension assets during 2006 and a higher discount rate.

For 2007, there are no minimum funding requirements for the domestic plans and minimum funding requirements for the non-domestic plans are not material. We do not anticipate any significant contributions during the remainder of 2007.

For more information, refer to the consolidated financial statements and notes included in our 2006 Annual Report on Form 10-K.

15. SHARE REPURCHASES

Repurchases and Issuances of Common Stock

A summary of cumulative share repurchases and issuances is as follows:

	For the six months ended July 1, 2007	
	Shares	**Dollars**
	(in thousands)	
Shares repurchased in the open market under pre-approved share repurchase programs	1,862	$ 99,998
Shares repurchased to replace Treasury Stock issued for stock options and incentive compensation	1,824	97,020
Total share repurchases	3,686	197,018
Shares issued for stock options and incentive compensation	(1,466)	(47,486)
Net change	2,220	$149,532

- We intend to continue to repurchase shares of Common Stock in order to replace Treasury Stock shares issued for exercised stock options. The value of shares purchased in a given period will vary based on stock options exercised over time and market conditions.
- In December 2006, our Board of Directors approved an additional $250 million share repurchase program. As of July 1, 2007, $150.0 million remained available for repurchases of Common Stock under this program.

16. PENDING ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (“SFAS No. 157”). SFAS No. 157 establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for our Company beginning January 1, 2008. We have not yet determined the impact of the adoption of this new accounting standard.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (“SFAS No. 159”). SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 is effective for our Company beginning January 1, 2008. We have not yet determined the impact, if any, from the adoption of SFAS No. 159.

17. SUBSEQUENT EVENTS

In July 2007, our Company and Barry Callebaut AG, entered into a long-term global strategic supply and innovation agreement under which Barry Callebaut will supply Hershey with chocolate and chocolate products. Under the agreement, Barry Callebaut will construct and operate a facility to provide chocolate and chocolate products for our new plant in Monterrey, Mexico, and will also lease a portion of our Robinson, Illinois, plant and operate chocolate-making equipment at that facility.

Also in July 2007, our Company and Starbucks Coffee Company entered into a development and distribution agreement that will help transform the premium chocolate segment. The companies will create and market a new Starbucks-branded premium chocolate platform in the United States starting in the fall of 2007.

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

SUMMARY OF OPERATING RESULTS

Analysis of Selected Items from Our Income Statement

	For the Three Months Ended			For the Six Months Ended		
	July 1, 2007	July 2, 2006	Percent Change Increase (Decrease)	July 1, 2007	July 2, 2006	Percent Change Increase (Decrease)
	(in thousands except per share amounts)					
Net Sales	$ 1,051.9	$ 1,051.9	—	$ 2,205.0	$ 2,191.4	0.6%
Cost of Sales	722.5	644.1	12.2%	1,461.5	1,351.4	8.1%
Gross Profit	329.4	407.8	(19.2)%	743.5	840.0	(11.5)%
Gross Margin	*31.3%*	*38.8%*		*33.7%*	*38.3%*	
SM&A Expense	216.9	221.5	(2.1)%	433.3	438.3	(1.1)%
SM&A Expense as a percent of sales	*20.6%*	*21.1%*		*19.7%*	*20.0%*	
Business Realignment Charge, net	79.7	4.2	N/A	107.3	7.6	N/A
EBIT	32.8	182.1	(82.0)%	202.9	394.1	(48.5)%
EBIT Margin	*3.1%*	*17.3%*		*9.2%*	*18.0%*	
Interest Expense, net	29.2	27.5	6.3%	57.5	52.6	9.1%
Provision for Income Taxes	—	56.7	N/A	48.4	121.1	(60.0)%
Effective Income Tax Rate	—	*36.7%*		*33.3%*	*35.5%*	
Net Income	$ 3.6	$ 97.9	(96.4)%	$ 97.0	$220.4	(56.0)%
Net Income Per Share-Diluted	$0.01	$ 0.41	(97.6)%	$ 0.42	$ 0.91	(53.8)%

<u>Results of Operations - Second Quarter 2007 vs. Second Quarter 2006</u>

U.S. Price Increases

In April 2007, we announced an increase of approximately 4% to 5% in the wholesale prices of our domestic confectionery line, effective immediately. The increase applies to our standard bar, king-size bar, 6-pack and vending lines. These products represent approximately one-third of our portfolio. This action was implemented to help offset increases in input costs, including raw and packaging materials, fuel, utilities and transportation. We expect minimal financial impact from the pricing changes for the full year 2007.

Net Sales

Net Sales for the second quarter of 2007 was essentially equal to the second quarter of 2006 as sales volume increases from the introduction of new products were more than offset by lower sales of existing products in the U.S., primarily of single serve items. The sales volume decline in the U.S. was offset by sales volume increases for our international businesses, primarily Mexico and exports to Asia and Latin America. Decreased price realization from higher rates of promotional spending, including increases for trial-driving consumer coupons, and higher returns, discounts and allowances were only partially offset by higher list prices. Favorable foreign currency exchange rates also contributed modestly to net sales. The acquisition of the Godrej Hershey Foods and Beverages Company increased net sales by $7.4 million.

Key Marketplace Metrics

Consumer takeaway decreased 0.4% during the second quarter of 2007 compared with the same period of 2006. Consumer takeaway is provided for channels of distribution accounting for approximately 80% of our U.S. confectionery retail business. These channels of distribution include food, drug, mass merchandisers, including Wal-Mart Stores, Inc., and convenience stores.

Market share in measured channels declined by 1.5 share points during the second quarter of 2007. The change in market share is provided for measured channels which include sales in the food, drug, convenience store and mass merchandiser classes of trade, excluding sales of Wal-Mart Stores, Inc.

Cost of Sales and Gross Margin

Business realignment charges of $41.3 million were included in cost of sales in the second quarter of 2007, compared with a credit of $1.6 million in the second quarter of 2006. The remainder of the cost of sales increase was primarily associated with higher input costs, particularly for dairy products, and business acquisitions, offset partially by improved supply chain productivity.

Over half of the gross margin decline was attributable to the impact of business realignment initiatives recorded in 2007 compared with 2006. The rest of the decline reflected higher input costs, along with reduced net price realization. Favorable supply chain productivity partially offset the impact of these cost increases.

Selling, Marketing and Administrative

Selling, marketing and administrative expenses decreased primarily as a result of lower administrative costs associated with incentive compensation. Higher marketing expenses, primarily related to advertising, were offset by lower consumer promotional expenses. Expenses of $3.3 million for project implementation related to our 2007 business realignment initiatives were included in selling, marketing and administrative expense for the second quarter of 2007.

Business Realignment Initiatives

Business realignment charges of $79.7 million were recorded in the second quarter of 2007 associated with the 2007 business realignment initiatives. The charges were primarily associated with employee separation costs, along with expenses for asset impairments, the closure of certain manufacturing facilities and the termination of certain contracts.

During the second quarter of 2006, we recorded charges related to previous business realignment initiatives. The $4.2 million business realignment charge included $2.6 million related to a U.S. VWRP, $0.9 million related to streamlining our international operations and $0.2 million for facility rationalization relating to the closure of the Las Piedras plant. An additional charge of $.5 million was recorded to finalize transactions related to business realignment initiatives which began in 2003 and 2001.

Income Before Interest and Income Taxes and EBIT Margin

EBIT decreased in the second quarter of 2007 compared with the second quarter of 2006 principally as a result of higher net business realignment charges associated with our business realignment initiatives. Net pre-tax business realignment charges of $124.4 million were recorded in the second quarter of 2007 compared with $2.6 million recorded in the second quarter of 2006, an increase of $121.8 million. The remainder of the decrease in EBIT was attributable to lower gross profit resulting primarily from higher input costs which were only slightly offset by lower selling, marketing and administrative expenses.

EBIT margin decreased from 17.3% for the second quarter of 2006 to 3.1% for the second quarter of 2007. The impact of net business realignment charges reduced EBIT margin by 11.5 percentage points. The remainder of the decrease resulted from the lower gross margin offset partially by lower selling, marketing and administrative expense as a percentage of sales.

Interest Expense, Net

Net interest expense was higher in the second quarter of 2007 than the comparable period of 2006 primarily reflecting the financing of share repurchases. Higher interest rates in the second quarter of 2007 as compared to the second quarter of 2006 also contributed to the increase in interest expense.

Income Taxes and Effective Tax Rate

Our effective income tax rate was 2.0% for the second quarter of 2007 and benefited by 34.2 percentage points as a result of the higher effective tax rate associated with business realignment charges recorded during the quarter.

Net Income and Net Income Per Share

Net Income in the second quarter of 2007 was reduced by $78.1 million, or $0.34 per share-diluted, and was reduced by $1.8 million, or $0.01 per share-diluted, in the second quarter of 2006 as a result of net charges associated with our business realignment initiatives. After considering the impact of business realignment charges in each period, earnings per share-diluted in the second quarter of 2007 decreased $0.07 as compared to the second quarter of 2006.

Results of Operations – First Six Months 2007 vs. First Six Months 2006

Net Sales

The increase in net sales was attributable to sales volume increases from the introduction of new products, primarily in the U.S., and higher sales for our international businesses, primarily Canada, Mexico and exports to Asia. Sales volume increases from new product introductions were substantially offset by lower sales of existing products in the U.S. The acquisition of the Godrej Hershey Foods and Beverages Company increased net sales by $7.4 million in the first six months of 2007. These increases were substantially offset by decreased price realization from higher rates of promotional spending, including trial-driving consumer coupons, and higher returns, discounts and allowances for products at retail.

Key Marketplace Metrics

Consumer takeaway increased 0.4% during the first six months of 2007. Consumer takeaway is provided for channels of distribution accounting for approximately 80% of our U.S. confectionery retail business. These channels of distribution include food, drug, mass merchandisers, including Wal-Mart Stores, Inc., and convenience stores.

Market Share in measured channels declined by 1.3 share points during the first six months of 2007. The change in market share is provided for measured channels which include sales in the food, drug, convenience store and mass merchandiser classes of trade, excluding sales of Wal-Mart Stores, Inc.

Cost of Sales and Gross Margin

Business realignment charges of $51.2 million were included in cost of sales in the first six months of 2007, compared with a credit of $3.2 million in the prior year. The remainder of the cost of sales increase was primarily associated with significantly higher input costs, particularly for dairy products, offset partially by favorable supply chain productivity.

Approximately half of the gross margin decline was attributable to the impact of business realignment initiatives recorded in 2007 compared with 2006. The rest of the decline reflected much higher costs for raw materials, somewhat offset by improved supply chain productivity. Also contributing to the decrease was lower net price realization due to higher promotional costs along with increased obsolescence costs.

Selling, Marketing and Administrative

Selling, marketing and administrative expenses decreased primarily as a result of lower administrative costs associated with incentive compensation. Higher advertising expense was substantially offset by lower consumer promotional expenses. Project implementation costs related to our 2007 business realignment initiatives of $6.3 million were included in selling, marketing and administrative expenses.

Business Realignment Initiatives

Business realignment charges of $107.3 million were recorded in the first six months of 2007 associated with our 2007 business realignment initiatives. The charges were primarily related to employee separation costs, fixed asset impairments and the closure of certain manufacturing facilities, along with the termination of certain contracts.

During the first six months of 2006, we recorded charges related to previous business realignment initiatives. The $7.6 million charge for these business realignment initiatives related primarily to a U.S. VWRP, along with facility rationalization relating to the closure of the Las Piedras plant and streamlining our international operations.

Income Before Interest and Income Taxes and EBIT Margin

EBIT decreased in the first six months of 2007 compared with the first six months of 2006 principally as a result of higher net business realignment charges associated with our 2007 business realignment initiatives. Net pre-tax business realignment charges of $164.8 million were recorded in the first six months of 2007 compared with $4.4 million recorded in the first six months of 2006, an increase of $160.4 million. The decrease in EBIT was slightly offset by lower selling, marketing and administrative expenses.

EBIT margin decreased from 18.0% for the first six months of 2006 to 9.2% for the first six months of 2007. The impact of net business realignment charges reduced EBIT margin by 7.3 percentage points. The remainder of the decrease resulted from the lower gross margin offset partially by lower SM&A expense as a percentage of sales.

Interest Expense, Net

Net interest expense was higher in the first six months of 2007 than the comparable period of 2006 primarily reflecting the financing of share repurchases. Higher interest rates in the second quarter 2007 as compared to the first six months 2006 also contributed to the increase in interest expense.

Income Taxes and Effective Tax Rate

Our effective income tax rate was 33.3% for the first six months of 2007 and benefited by 2.1 percentage points as a result of the higher effective tax rate associated with business realignment charges recorded during the first six months. We expect our effective income tax rate for the full year 2007 to be 36.0%, excluding the impact of tax benefits associated with business realignment charges during the year.

Net Income and Net Income Per Share

Net Income in the first six months 2007 was reduced by $103.4 million, or $0.44 per share-diluted, and was reduced by $3.0 million, or $0.01 per share-diluted, in the first six months of 2006 as a result of net charges associated with our business realignment initiatives. After considering the impact of business realignment charges in each period, earnings per share-diluted for the first six months of 2007 was lower by $0.06 per share-diluted as compared with the first six months of 2006.

Liquidity and Capital Resources

Historically, our major source of financing has been cash generated from operations. Domestic seasonal working capital needs, which typically peak during the summer months, generally have been met by issuing commercial paper. Commercial paper may also be issued from time to time to finance ongoing business transactions such as the refinancing of obligations associated with certain lease arrangements, the repayment of long-term debt and for other general corporate purposes. During the first six months of 2007, cash and cash equivalents decreased by $58.3 million.

Cash provided from operations, short-term borrowings, cash provided from stock options exercises and cash on hand at the beginning of the period was sufficient to fund the repayment of long-term debt of $188.8 million, the repurchase of Common Stock for $197.0 million, business acquisitions of $77.0 million, dividend payments of $120.8 million and capital additions and capitalized software expenditures of $83.2 million.

Cash used by changes in other assets and liabilities was $153.8 million for the first six months of 2007 compared with cash used of $92.3 million for the same period of 2006. The increase in the amount of cash used by

other assets and liabilities from 2006 to 2007 primarily reflected the effect of hedging transactions, the impact of the exercise of stock options, and increased payments for interest and employee benefits.

During the second quarter of 2007, we acquired a 51% controlling interest in Godrej Hershey Foods and Beverages Company in India for $58.7 million. During the second quarter of 2007, we also acquired a 44% equity interest under an agreement with Lotte Confectionery Co., LTD in China for $18.3 million. Under each of the acquisition agreements, our Company and the other parties are currently obligated to make additional investments. We expect to invest a total of approximately $23.8 million later this year in these businesses. The additional investments will not change our ownership interests.

A receivable of approximately $16.5 million was included in prepaid expenses and other current assets as of July 1, 2007 and $14.0 million as of December 31, 2006 related to the recovery of damages from a product recall and temporary plant closure in Canada. The increase resulted from currency exchange rate fluctuations and additional costs. The product recall during the fourth quarter of 2006 was caused by a contaminated ingredient purchased from an outside supplier with whom we have filed a claim for damages and are currently in litigation.

Interest paid was $62.5 million during the first six months of 2007 versus $ 51.7 million for the comparable period of 2006. The increase in interest paid reflects additional borrowings and the higher interest rate environment. Income taxes paid were $105.9 million during the first six months of 2007 versus $154.2 million for the comparable period of 2006. The decrease in taxes paid in 2007 was primarily related to a lower federal extension payment for 2006 income taxes and the impact of lower annualized taxable income in 2007.

The ratio of current assets to current liabilities decreased slightly to 0.9:1.0 as of July 1, 2007 from 1.0:1.0 as of December 31, 2006. The capitalization ratio (total short-term and long-term debt as a percent of stockholders' equity, short-term and long-term debt) increased to 79% as of July 1, 2007 from 75% as of December 31, 2006.

Generally, our short-term borrowings are in the form of commercial paper or bank loans with an original maturity of three months or less. In December 2006, we entered into a five-year credit agreement establishing an unsecured revolving credit facility to borrow up to $1.1 billion with the option to increase borrowings by an additional $400 million with the consent of the lenders. We may use these funds for general corporate purposes, including commercial paper backstop and business acquisitions.

Outlook

The outlook section contains a number of forward-looking statements, all of which are based on current expectations. Actual results may differ materially. Refer to the Safe Harbor Statement below as well as Risk Factors and other information contained in our 2006 Annual Report on Form 10-K for information concerning the key risks to achieving future performance goals.

We have revised our operating performance expectations for the full year 2007 as a result of slower than expected improvement in U.S. retail sales trends and continued significant increases in dairy input costs. Our latest expectations with regard to key operating performance measures are presented below.

We expect sales growth for the full year 2007 in the low single-digit range. As we increase investment spending in consumer and customer programs, which include trade and consumer promotions, advertising and sales force staffing increases in the U.S., we expect sequential improvement in retail takeaway and market share. Sales are also expected to increase as a result of the acquisition of the Godrej Hershey Foods and Beverages Company and the fall product launch in China.

We expect that our 2007 business realignment initiatives designed to execute a comprehensive, three-year supply chain transformation plan will result in total pre-tax charges and non-recurring project implementation costs of $525 million to $575 million. Total charges include project management and start-up costs of approximately $50 million. In 2007, we expect to record charges of approximately $270 million to $300 million, or $.75 to $.84 per share-diluted. As a result of the program, we estimate that our gross margin should improve significantly, with on-going savings of approximately $170 million to $190 million generated by 2010. A portion of the savings will be invested in our strategic growth initiatives, in such areas as core brand growth, new product innovation, selling and go-to-market capabilities and disciplined global expansion. The amount and timing of this investment will be contingent upon market conditions and the pace of our innovation and global expansion.

Excluding the impact of business realignment charges, we now expect our gross margin to be down over 100 basis points for the full year 2007. We expect significantly higher input costs in 2007 compared with 2006, particularly as a result of a significant increase in dairy input costs. The dairy markets are not as developed as many of the other commodities markets and, therefore, it is not possible to hedge our costs by taking forward positions to extend coverage for longer periods of time. We expect a moderation in the gross margin decline in the second half of the year as a result of productivity improvements and more normalized product obsolescence costs compared with the prior year.

Excluding the impact of business realignment charges, we now expect EBIT margin to decline approximately 200 basis points for the full year 2007. This decline will result from the decision to maintain our increased levels of brand investment, despite the increase in expected dairy costs. In addition to the lower gross margin, increased investment spending for trade promotions, advertising and improved selling capabilities is expected to contribute to the decline in EBIT, EBIT margin and earnings per share-diluted in 2007.

Excluding the impact of business realignment charges, earnings per share-diluted is now expected to decline in the mid-single digits range for the full year 2007.

In this section, we have provided diluted earnings per share measures excluding certain items. These non-GAAP financial measures are used in evaluating results of operations for internal purposes. These non-GAAP measures are not intended to replace the presentation of financial results in accordance with GAAP. Rather, we believe exclusion of such items provides additional information to investors to facilitate the comparison of past and present operations. Below is a reconciliation of GAAP and non-GAAP items to our earnings per share outlook:

	2006	**2007**
Reported / Expected EPS-Diluted	$2.34	$1.41 - $1.50
Total Realignment Charges	$0.03	$0.75 - $0.84
EPS-Diluted from Operations*	$2.37	
Expected EPS-Diluted from Operations*		$2.25

*From operations, excluding business realignment and one-time costs.

Subsequent Events

In July 2007, our Company and Barry Callebaut AG, the world's largest manufacturer of high-quality cocoa, industrial chocolate and confectionery products, entered into a long-term global strategic supply and innovation agreement under which Barry Callebaut will supply Hershey with chocolate and chocolate products. The alliance will enable us to work together to accelerate long-term growth in the global chocolate market. Under the agreement, Barry Callebaut will construct and operate a facility to provide chocolate and chocolate products for our new plant in Monterrey, Mexico, and will also lease a portion of our Robinson, Illinois, plant and operate chocolate-making equipment at that facility.

Also in July 2007, our Company and Starbucks Coffee Company entered into a development and distribution agreement that will help transform the premium chocolate segment. The companies will create and market a new Starbucks-branded premium chocolate platform in the United States starting in the fall of 2007. In addition to innovative flavors, this platform will offer new forms and packaging and will be available in a broad range of retail channels such as food, drug and mass merchandise outlets across the United States.

Safe Harbor Statement

We are subject to changing economic, competitive, regulatory and technological conditions, risks and uncertainties because of the nature of our operations. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we note the following factors that, among others, could cause future results to differ materially from the forward-looking statements, expectations and assumptions that we have discussed directly or implied in this report. Many of the forward-looking statements contained in this report may be identified by the use of words such as "intend," "believe," "expect," "anticipate," "should," "planned," "projected," "estimated," and "potential," among others.

Our results could differ materially because of the following factors, which include, but are not limited to:

- Our ability to implement and generate expected ongoing annual savings from the initiatives to transform our supply chain and advance our value-enhancing strategy;
- Changes in raw material and other costs and selling price increases;
- Our ability to execute our supply chain transformation within the anticipated timeframe in accordance with our cost estimates;
- The impact of future developments related to the product recall and temporary plant closure in Canada during the fourth quarter of 2006, including our ability to recover costs we incurred for the recall and plant closure from responsible third-parties;
- Pension cost factors, such as actuarial assumptions, market performance and employee retirement decisions;
- Changes in our stock price, and resulting impacts on our expenses for incentive compensation, stock options and certain employee benefits;
- Market demand for our new and existing products;
- Changes in our business environment, including actions of competitors and changes in consumer preferences;
- Changes in governmental laws and regulations, including taxes;
- Risks and uncertainties related to our international operations; and
- Such other matters as discussed in our Annual Report on Form 10-K for 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The potential net loss in fair value of foreign exchange forward contracts of ten percent resulting from a hypothetical near-term adverse change in market rates was $.2 million as of July 1, 2007 and December 31, 2006. The market risk resulting from a hypothetical adverse market price movement of ten percent associated with the estimated average fair value of net commodity positions increased from $3.7 million as of December 31, 2006, to $20.7 million as of July 1, 2007. Market risk represents 10% of the estimated average fair value of net commodity positions at four dates prior to the end of each period.

Item 4. Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 (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 our 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.

As of the end of the period covered by this quarterly report, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as required by Rule 13a-15 under the Exchange Act. This evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective. There has been no change during the most recent fiscal quarter in our internal control over financial reporting identified in connection with the evaluation that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Items 1, 1A, 3 and 5 have been omitted as not applicable.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
				(in thousands of dollars)
April 2 through April 29, 2007	—	$ —	—	$150,000
April 30 through May 27, 2007	—	$ —	—	$150,000
May 28 through July 1, 2007	839,019	$ 52.65	—	$150,000
Total	839,019		—	

Item 4 – Submission of Matters to a Vote of Security Holders

The Hershey Company's Annual Meeting of Stockholders was held on April 17, 2007. The following directors were elected by the holders of Common Stock and Class B Common Stock, voting together without regard to class:

Name	Votes For	Votes Withheld
Jon A. Boscia	754,013,225	3,060,955
Robert H. Campbell	751,987,950	5,086,230
Robert F. Cavanaugh	752,753,399	4,320,781
Gary P. Coughlan	750,361,722	6,712,458
Harriet Edelman	753,107,369	3,966,811
Richard H. Lenny	752,378,976	4,695,204
Mackey J. McDonald	751,958,071	5,116,109
Marie J. Toulantis	754,038,474	3,035,706

The following directors were elected by the holders of the Common Stock voting as a class:

Name	Votes For	Votes Withheld
Bonnie G. Hill	144,640,463	5,734,198
Alfred F. Kelly, Jr.	147,186,890	3,187,771

Holders of the Common Stock and the Class B Common Stock voting together ratified the appointment of KPMG LLP as the independent auditors for 2007. Stockholders cast 754,603,757 votes FOR the appointment, 1,041,908 votes AGAINST the appointment and ABSTAINED from casting 1,428,515 votes on the appointment of independent auditors.

Holders of the Common Stock and the Class B Common Stock, voting together without regard to class, approved the stockholder proposal regarding The Hershey Company Equity and Incentive Compensation Plan (“EICP”). Holders of the Common Stock and the Class B Common Stock voting together cast 718,064,095 votes FOR the amendment, 36,620,091 votes AGAINST the amendment, and ABSTAINED from casting 2,389,693 votes on the proposal to approve the EICP.

No other matters were submitted for stockholder action.

Item 6 - Exhibits

The following items are attached or incorporated herein by reference:

Exhibit Number	Description
10.1	Second Amendment to The Hershey Company Deferred Compensation Plan is attached hereto and filed as Exhibit 10.1.
10.2	The Company’s amended and restated Directors’ Compensation Plan is attached hereto and filed as Exhibit 10.2.
10.3	Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan is attached hereto and filed as Exhibit 10.3.
10.4	The Company’s Equity and Incentive Compensation Plan is incorporated by reference from Exhibit 10.1 to the Company’s Current Report on Form 8-K filed April 20, 2007.
12.1	Statement showing computation of ratio of earnings to fixed charges for the six months ended July 1, 2007 and July 2, 2006.
31.1	Certification of Richard H. Lenny, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Richard H. Lenny, Chief Executive Officer, and Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*Pursuant to Securities and Exchange Commission Release No. 33-8212, this certification will be treated as “accompanying” this Quarterly Report on Form 10-Q and not “filed” as part of such report for purposes of Section 18 of the Exchange Act or otherwise subject to the liability of Section 18 of the Exchange Act, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE HERSHEY COMPANY
(Registrant)

Date: August 8, 2007 /s/Bert Alfonso
Humberto (Bert) P. Alfonso
Chief Financial Officer

Date: August 8, 2007 /s/David W. Tacka
David W. Tacka
Chief Accounting Officer

EXHIBIT INDEX

Exhibit 10.1 Second Amendment to The Hershey Company Deferred Compensation Plan

Exhibit 10.2 The Company's Directors' Compensation Plan

Exhibit 10.3 Terms and Conditions of Nonqualified Stock Option Awards Under the Equity and Incentive Compensation Plan

Exhibit 12.1 Computation of Ratio of Earnings to Fixed Charges

Exhibit 31.1 Certification of Richard H. Lenny, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification of Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification of Richard H. Lenny, Chief Executive Officer, and Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 10.1

SECOND AMENDMENT TO THE
HERSHEY COMPANY DEFERRED COMPENSATION PLAN

WHEREAS, The Hershey Company (the "Company") currently maintains The Hershey Company Deferred Compensation Plan (the "Plan");

WHEREAS, the Compensation and Executive Organization Committee of the Company's Board of Directors (the "Committee"), at its April 16, 2007 meeting, approved changes to the Defined Contribution Supplemental Executive Retirement Plan portion of the Plan (the "DC SERP") to (1) require a participant to be employed on December 31 of a year (except in certain limited circumstances) in order to receive an allocation under the DC SERP for such year, and (2) impose a new vesting schedule to determine the portion of the DC SERP account, if any, that a participant will be entitled to receive upon termination of employment;

WHEREAS, the Committee authorized and directed the officers of the Company to adopt amendments to the Plan to reflect these changes; and

WHEREAS, this amendment shall supersede the provisions of the Plan to the extent those provisions are inconsistent with the provisions of this amendment.

NOW, THEREFORE, BE IT RESOLVED that, by virtue and in exercise of the power reserved to the Committee by Section 8.1 of the Plan, and pursuant to the authority delegated to officers of the Company by the Committee, the Plan is hereby amended, effective April 16, 2007, as follows:

1. Sections 3.2 a. and 3.2 b. are amended to read as follows:

a. Each Plan Year, for a Participant who defers Compensation under the 401(k) Plan equal to (i) the maximum deferral percentage as permitted by the plan administrator under the 401(k) Plan or (ii) the maximum contribution limit under Code section 402(g) (indexed for inflation); provided, however, the Plan Administrator, in its sole discretion, may waive this condition in its entirety, the Company shall credit to such Participant's Supplemental Match Contributions Sub-Account an amount equal to four and one-half percent (4-1/2%) of those amounts awarded under the AIP that are deferred under this Plan as soon as administratively practicable following the last day of the Plan Year.

b. Each Plan Year, for a Participant who defers Compensation under the 401(k) Plan equal to (i) the maximum deferral percentage as permitted by the plan administrator under the 401(k) Plan or (ii) the maximum contribution limit under Code section 402(g) (indexed for inflation); provided, however, the Plan Administrator, in its sole discretion, may waive this condition in its entirety, the Company shall credit to such Participant's Supplemental Match Contributions

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Sub-Account an amount equal to four and one-half percent (4-1/2%) of (1) plus (2) less (3), where (1), (2), and (3) are determined as follows:

2. Section 6.2 is amended to read as follows:

6.2 Benefits. A Participant meeting the eligibility requirements under Section 6.1 shall receive DC SERP Benefits in an amount equal to a percentage of Compensation determined by the Compensation Committee in its sole discretion. Such DC SERP Benefits shall be credited to a Participant's DC SERP Benefits Sub-Account as soon as administratively practicable following the last day of the Plan Year, provided that the Participant

a. defers Compensation under the 401(k) Plan equal to either (1) the maximum deferral percentage as permitted by the plan administrator under the 401(k) Plan or (2) the maximum contribution limit under Code section 402(g) (indexed for inflation); provided, however, the Plan Administrator, in its sole discretion, may waive this condition in its entirety, and

b. was employed on the last day of the Plan Year, unless during the year he or she (1) terminated employment while at least age 55, (2) retired in accordance with the provisions of any applicable Company-sponsored qualified or nonqualified retirement plan or program, (3) became Disabled, (4) became eligible for benefits under a Company-sponsored severance plan, or (5) died. In the case of any allocation for a Plan Year for which the Participant was not employed on December 31, except as provided in the next paragraph in the case of a Participant who becomes Disabled, the allocation shall be based on the amount of the Participant's actual Compensation paid for services performed through the last active day of the Participant's employment, which shall not include any amounts paid on account of the employee's severance from employment with the Company.

If a Participant becomes Disabled, such Participant shall continue to be credited with DC SERP Benefits in accordance with this Section 6.2 until the earlier of (i) two (2) years from the date benefits commence under the Company's Long Term Disability Plan or (ii) the date he or she is no longer eligible for such long-term disability benefits, based on the amount of Compensation that was payable to the Participant at the time of Disability.

3. A new Section 6.4 is added to read as follows:

6.4 Vesting. Benefits under this Article VI shall be payable only to the extent vested. A Participant shall become vested in his or her DC SERP Benefits Sub-Account in accordance with the following vesting schedule, provided the Participant has first completed five (5) Years of Service with the Company:

Age	Vested Percentage
45	0 percent
46	10 percent
47	20 percent
48	30 percent
49	40 percent
50	50 percent
51	60 percent
52	70 percent
53	80 percent
54	90 percent
55	100 percent

In all cases, a Participant shall be 100% vested in his or her DC SERP Benefits if he or she dies or becomes Disabled while employed with the Company.

IN WITNESS WHEREOF, the Company has caused this amendment to be executed this 29th day of June, 2007.

THE HERSHEY COMPANY

By: */s/ Marcella K. Arline*
Marcella K. Arline
Senior Vice President, Chief People Officer

THE HERSHEY COMPANY

DIRECTORS' COMPENSATION PLAN

(Amended and Restated as of June 14, 2007)

1

PURPOSE

The purposes of the Directors' Compensation Plan ("Plan") are to provide Directors of The Hershey Company ("Company") with payment alternatives for the retainer and fees payable for services as members of the Board of Directors ("Board") of the Company or as a chair of any committee thereof (together, "Director Fees"), to provide Directors the opportunity to elect to receive all or a portion of the Directors Fees in Deferred Stock Units ("DSUs"), each representing an obligation of the Company to issue one share of Common Stock of the Company, $1.00 par value per share ("Common Stock"), and to promote the identification of interests between such Directors and the stockholders of the Company by paying a portion of each Director's compensation in Restricted Stock Units ("RSUs"), each RSU representing an obligation of the Company to issue one share of Common Stock.

2

ELIGIBILITY

Any Director of the Company who is not an employee of the Company or any of its subsidiaries shall be eligible to participate in the Plan. Except as the context may otherwise require, references in this Plan to a "Director" shall mean only those directors of the Company who are participants in the Plan.

3

PAYMENT

(a) **Director Fees.** A Director shall be entitled to Director Fees, in such amounts as shall be determined by the Board, for services on the Board and as a chair of any committee of the Board. Pursuant to Section 4 hereof, a Director may elect to have payment of Directors Fees made currently in cash and/or Common Stock or deferred for subsequent payment in cash or Common Stock; provided that if paid currently, fees payable for services as a chair of any committee of the Board shall be payable only in cash. Any shares of Common Stock payable under this Section 3(a) shall be paid by the issuance to the Director of a number of shares of Common Stock equal to the cash amount of the retainer so payable divided by the Fair Market Value of one share of the Common Stock, as defined in Section 12 hereof. Any fractional share of Common Stock resulting from such payment shall be rounded to the nearest whole share. The

Company shall issue share certificates to the Director for the shares of Common Stock acquired or, if requested in writing by the Director and permitted under such plan, the shares acquired shall be added to the Director's account under the Company's Automatic Dividend Reinvestment Plan. As of the date on which the part or whole of the retainer is payable in shares of Common Stock, the Director shall be a stockholder of the Company with respect to such shares. Unless otherwise elected in Section 4, any remaining Director Fees shall be payable in cash.

(b) **Restricted Stock Units.** A Director shall also be entitled to receive RSUs, in such amounts as shall be determined by the Board, for services on the Board. Beginning January 1, 2006 and thereafter, unless otherwise directed by the Board, RSUs having a value of $25,000 (or such other amount as the Board shall from time to time determine) shall be awarded to each Director on the first day of January, April, July and October. The number of full and fractional RSUs so awarded shall be determined by dividing $25,000 (or such other amount) by the average of the per share closing price of the Common Stock on the New York Stock Exchange as published in **The Wall Street Journal** (or such other reliable publication as the Board or its delegates may determine) for the last three trading days of the month preceding the date of the award. Directors whose membership on the Board commences after January 1, 2006 on a day which is not the first day of any January, April, July or October, shall be awarded a pro rata number of RSU's with respect to the quarter during which the Director joined the Board equal to the number of RSUs awarded to each Director who was a member of the Board on the first day of the applicable quarter, multiplied by a fraction, the numerator of which equals the number of days remaining in the quarter after the first day on which such Director became a member of the Board, and the denominator being the total number of days in the quarter. A Restricted Stock Unit Account shall be established on the books of the Company in the name of each Director. During the period of the Director's membership on the Board, the Director's Restricted Stock Unit Account shall be subject to credits, adjustment and substitution to reflect any dividend or other distribution on the outstanding Common Stock or any split or consolidation or other change affecting the Common Stock. Any such credit, adjustment or substitution shall be made in a manner similar to that set forth in Section 6(a) and 6(b) with respect to Deferred Stock Compensation Accounts. RSUs awarded pursuant to the Plan shall vest upon termination of the Director's membership on the Board by reason of retirement, death or disability, or such other circumstances as the Board, in its sole discretion, shall at any time determine (provided that a termination of a Director's membership on the Board following a Change in Control (as defined in the Company's Executive Benefits Protection Plan (Group 3A), the "EBPP") shall be considered a retirement for this purpose). RSUs not vested upon or in connection with the Director's termination of membership on the Board, as aforesaid, shall be forfeited as of the date of such termination. The balance of the Director's Restricted Stock Unit Account which becomes vested shall be paid in a lump sum in accordance with Section 7. If payment hereunder would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and cash in lieu of such fractional share shall be paid to the Director based upon the average of the per share closing price of the Common Stock on the New York Stock Exchange as published in **The Wall Street Journal** (or such other reliable publication as the Board or its delegates may determine) for the three trading days immediately preceding the date of payment. The Company shall issue share certificates to the Director, or the Director's designated beneficiary, for the shares of Common Stock represented by the Director's vested RSUs, or if requested in writing by the Director and permitted under such plan, the shares to be distributed shall be added to the Director's account under the Company's Automatic Dividend Reinvestment

Plan. As of the date on which the Director is entitled to receive payment of shares of Common Stock, a Director shall be a stockholder of the Company with respect to such shares.

4

ELECTIONS

(a) **Director Fee Payment Alternatives.** A Director may elect any one of the following alternatives with respect to payment of Director Fees:

(1) to receive currently full payment in cash and/or Common Stock, as set forth in Section 3(a) above, on the date or dates on which the Director Fees are payable;

(2) to defer payment of all or a portion of the Director Fees for subsequent payment in cash (a “Cash Deferral Election”);

(3) to defer payment of all or a portion of the Director Fees for subsequent payment in shares of Common Stock (a “Stock Deferral Election”); or

(4) a combination of (2) and (3).

(b) **Filing and Effectiveness of Elections.** The election by a Director to receive payment of Director Fees other than as set forth in Section 4(a)(1) on the date on which the Director Fees are otherwise payable is made by filing with the Secretary of the Company a Notice of Election in the form prescribed by the Company (an “Election”). In order to be effective for any calendar year, an Election must be received by the Secretary of the Company on or before December 31 of the preceding calendar year, except that if a Director files a Notice of Election on or before 30 days subsequent to the Director's initial election to the office of Director, the Election shall be effective on the date of filing with respect to Director Fees payable for any portion of the calendar year which remains at the date of such filing. An Election may not be modified or terminated after the beginning of a calendar year for which it is effective. Unless modified or terminated by filing a new Notice of Election on or before December 31 immediately preceding the calendar year for which such modification or termination is effective, an Election shall be effective for and apply to Director Fees payable for each subsequent calendar year. Director Fees earned at any time for which an Election is not effective shall be paid as set forth in Section 4(a)(1) on the date when the Director Fees are otherwise payable. Any Election shall terminate on the date a Director ceases to be a member of the Board.

(c) **Cash Deferral Elections.** Director Fees deferred pursuant to a Cash Deferral Election shall be deferred and paid as provided in Sections 5 and 7.

(d) **Stock Deferral Elections.** Director Fees deferred pursuant to a Stock Deferral Election shall be deferred and paid as provided in Sections 6 and 7.

DEFERRED CASH COMPENSATION ACCOUNT

(a) **General.** The amount of any Director Fees deferred in accordance with a Cash Deferral Election shall be credited on the date on which such Director Fees are otherwise payable to a deferred cash compensation account maintained by the Company in the name of the Director (a "Deferred Cash Compensation Account"). A separate Deferred Cash Compensation Account shall be maintained for each calendar year for which a Director has elected a different number of payment installments or as otherwise may be agreed between the Director and the Company.

(b) **Adjustment for Earnings or Losses.** The amount in the Director's Deferred Cash Compensation Account shall be adjusted to reflect net earnings, gains or losses in accordance with the provisions of The Hershey Company Deferred Compensation Plan relating to Investment Credits and Investment Options. The adjustment for earnings, gains or losses shall be equal to the amount determined under (1) below as follows:

(1) ***Deemed Investment Options.*** The total amount determined by multiplying the rate earned (positive or negative) by each fund available (taking into account earnings distributed and share appreciation (gains) or depreciation (losses) on the value of shares of the fund) for the applicable period by the portion of the balance in the Director's Deferred Cash Compensation Account as of the end of each such period, respectively, which is deemed to be invested in such fund pursuant to paragraph (2) below. Subject to elimination, modification or addition by the Board, the funds available for the Director's election of deemed investments pursuant to paragraph (2) below shall be one or more of the funds available (excluding Common Stock) under the Investment Options of The Hershey Company Deferred Compensation Plan.

(2) ***Deemed Investment Elections.***

(A) The Director shall designate, on a form prescribed by the Company, the percentage of the deferred Director Fees that are to be deemed to be invested in the available funds under paragraph (1) above. Said designation shall be effective on a date specified therein and remain in effect and apply to all subsequent deferred Director Fees until changed as provided below.

(B) A Director may elect to change, on a calendar year basis (or on such other basis as permitted from time to time by the Board), the deemed investment election under paragraph (A) above with respect to future deferred Director Fees among one or more of the options then available by written notice to the Secretary of the Company, on a form prescribed by the Company (or by voice or other form of notice permitted by the Company), at least ten days before the first day of the calendar year for which the change is to be effective, with such change to be effective for Director Fees credited to the Deferred Cash Compensation Account on and after the effective date of the change.

(C) A Director may elect to reallocate the balance of his Deferred Cash Compensation Account, subject to limitations imposed by the Board, on a calendar year basis, among the deemed investment options then available. A Director may make such an election by written notice to the Secretary of the Company, on a form prescribed by the Company (or by voice or other form of notice permitted by the Company), at least ten days before the first day of the calendar year for which the transfer election is to be effective, with such transfer to be based on the value of the Deferred Cash Compensation Account on the last day of the calendar year preceding the effective date of the transfer election.

(D) The election of deemed investments among the options provided above shall be the sole responsibility of each Director. The Company and Board members are not authorized to make any recommendation to any Director with respect to such election. Each Director assumes all risk connected with any adjustment to the value of his Deferred Cash Compensation Account. Neither the Board nor the Company in any way guarantees against loss or depreciation.

(E) All payments from the Plan shall be made pro-rata from the portion of the Director's Deferred Cash Compensation Account which is deemed to be invested in such funds as may be available from time to time for deemed investment elections under the Plan.

(F) The Company shall not be required or obligated to invest any amounts in the funds provided as deemed investment options, and such funds shall be used solely to measure investment performance. Further, the Company shall not be precluded from providing for its liabilities hereunder by investing in such funds or in any other investments deemed to be appropriate by the Board.

(c) **Manner of Payment.** The balance of a Director's Deferred Cash Compensation Account will be paid to the Director or, in the event of the Director's death, to the Director's designated beneficiary, in accordance with the Cash Deferral Election. A Director may elect at the time of filing the Notice of Election for a Cash Deferral Election to receive payment of the Director Fees in annual installments rather than a lump sum, provided that the payment period for installment payments shall not exceed fifteen years following the Payment Commencement Date, as described in Section 7 hereof. The amount of any installment shall be determined by multiplying (i) the balance in the Director's Deferred Cash Compensation Account on the date of such installment by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments (including the installment payment then being determined). The balance of the Deferred Cash Compensation Account shall be appropriately reduced on the date of payment to the Director or the Director's designated beneficiary to reflect the installment payment made hereunder. Amounts held pending distribution pursuant to this Section 5(c) shall continue to be credited with the earnings, gains or losses as described in Section 5(b) hereof.

DEFERRED STOCK COMPENSATION ACCOUNT

(a) **General.** The amount of any Director Fees deferred in accordance with a Stock Deferral Election shall be credited to a deferred stock compensation account maintained by the Company in the name of the Director (a "Deferred Stock Compensation Account"). A separate Deferred Stock Compensation Account shall be maintained for each calendar year for which a Director has elected a different number of payment installments or as otherwise determined by the Board. On each date on which Director Fees are otherwise payable and a Stock Deferral Election is effective for a Director, the Director's Deferred Stock Compensation Account for that calendar year shall be credited with a number of full and fractional Deferred Stock Units ("DSUs") equal to the cash amount of the Director Fees payable divided by the Fair Market Value of one share of the Common Stock, as defined in Section 12 hereof, on the date on which such Director Fees are payable. If a dividend or distribution is paid on the Common Stock in cash or property other than Common Stock, on the date of payment of the dividend or distribution to holders of the Common Stock each Deferred Stock Compensation Account shall be credited with a number of full and fractional DSUs equal to the number of full and fractional DSUs credited to such Account on the date fixed for determining the stockholders entitled to receive such dividend or distribution times the amount of the dividend or distribution paid per share of Common Stock divided by the Fair Market Value of one share of Common Stock, as defined in Section 12 hereof, on the date on which the dividend or distribution is paid, it being intended that the number of full and fractional DSUs credited as a result of the dividend or distribution shall be equal to the number of full and fractional shares that would be issued if the DSUs credited to the Account were actual shares participating in the Company's dividend reinvestment plan. If the dividend or distribution is paid in property, the amount of the dividend or distribution shall equal the fair market value of the property on the date on which the dividend or distribution is paid. The Deferred Stock Compensation Account of a Director shall be charged on the date of distribution with any distribution of shares of Common Stock made to the Director from such Account pursuant to Section 6(c) hereof.

(b) **Adjustment and Substitution.** The number of DSUs credited to each Deferred Stock Compensation Account shall be proportionately adjusted to reflect any dividend or other distribution on the outstanding Common Stock payable in shares of Common Stock or any split or consolidation of the outstanding shares of Common Stock. If the outstanding Common Stock shall, in whole or in part, be changed into or exchangeable for a different class or classes of securities of the Company or securities of another Company or cash or property other than Common Stock, whether through reorganization, reclassification, recapitalization, merger, consolidation or otherwise, the Board shall adopt such amendments to the Plan as it deems necessary to carry out the purposes of the Plan, including the continuing deferral of any amount of any Deferred Stock Compensation Account.

(c) **Manner of Payment.** The balance of a Director's Deferred Stock Compensation Account will be paid in shares of Common Stock to the Director or, in the event of the Director's death, to the Director's designated beneficiary, in accordance with the Stock Deferral Election. A Director may elect at the time of filing of the Notice of Election for a Stock Deferral Election to receive payment of the shares of Common Stock credited to the Director's Deferred Stock

Compensation Account in annual installments rather than a lump sum, provided that the payment period for installment payments shall not exceed fifteen years following the Payment Commencement Date as described in Section 7 hereof. The number of shares of Common Stock distributed in each installment shall be determined by multiplying (i) the number of DSUs credited to such Director's Deferred Stock Compensation Account on the date of payment of such installment, by (ii) a fraction, the numerator of which is one and the denominator of which is the number of remaining unpaid installments (including the installment payment then being determined) and by rounding such result down to the nearest whole number of shares. The balance of the number of DSUs credited to such Director's Deferred Stock Compensation Account shall be appropriately reduced in accordance with this Section 6(c) to reflect the installment payments made hereunder. DSUs remaining in a Deferred Stock Compensation Account pending distribution of shares of Common Stock pursuant to this Section 6(c) shall continue to be credited with respect to dividends or distributions paid on the Common Stock pursuant to Section 6(a) hereof and shall be subject to adjustment pursuant to Section 6(b) hereof. If a lump sum payment or the final installment payment hereunder would result in the issuance of a fractional share of Common Stock, such fractional share shall not be issued and cash in lieu of such fractional share shall be paid to the Director based on the Fair Market Value of a share of Common Stock, as defined in Section 12 hereof, on the date immediately preceding the date of such payment. The Company shall issue share certificates to the Director, or the Director's designated beneficiary, for the shares of Common Stock distributed hereunder, or if requested in writing by the Director and permitted under such plan, the shares to be distributed shall be added to the Director's account under the Company's Automatic Dividend Reinvestment Plan. As of the date on which the Director is entitled to receive payment of shares of Common Stock, a Director shall be a stockholder of the Company with respect to such shares.

7

PAYMENT COMMENCEMENT DATE

Payment of amounts in a Restricted Stock Unit Account (if vested), Deferred Cash Compensation Account or a Deferred Stock Compensation Account shall commence on the first business day next succeeding the 89th day following the day on which the Director ceases to be a member of the Board for any reason, including death or disability. The Governance Committee of the Board may provide for the accelerated payment of Deferred Cash Compensation Accounts and Deferred Stock Compensation Accounts in one lump sum in connection with a change in control event within the meaning of the regulations promulgated under Code Section 409A, notwithstanding any other payment options previously selected by a Director under his or her Cash Deferral Elections and Stock Deferral Elections.

8

BENEFICIARY DESIGNATION

A Director may designate, in the Beneficiary Designation form prescribed by the Company, any person to whom payments of cash or shares of Common Stock are to be made if the Director dies before receiving payment of all amounts due hereunder. A beneficiary designation will be effective only after the signed beneficiary designation form is filed with the Secretary of the Company while the Director is alive and will cancel all beneficiary designations signed and filed earlier. If the Director fails to designate a beneficiary, or if all designated beneficiaries of the Director die before the Director or before complete payment of all amounts due hereunder, any remaining unpaid amounts shall be paid in one lump sum to the estate of the last to die of the Director or the Director's designated beneficiaries, if any.

9

NON-ALIENABILITY OF BENEFITS

Neither the Director nor any beneficiary designated by the Director shall have the right to, directly or indirectly, alienate, assign, transfer, pledge, anticipate or encumber (except by reason of death) any amount that is or may be payable hereunder, nor shall any such amount be subject to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment, or garnishment by creditors of the Director or the Director's designated beneficiary or to the debts, contracts, liabilities, engagements, or torts of any Director or designated beneficiary, or transfer by operation of law in the event of bankruptcy or insolvency of the Director or any beneficiary, or any legal process.

10

NATURE OF ACCOUNTS

Any Restricted Stock Unit Account, Deferred Cash Compensation Account or Deferred Stock Compensation Account shall be established and maintained only on the books and records of the Company, and no assets or funds of the Company or the Plan or shares of Common Stock of the Company shall be removed from the claims of the Company's general or judgment creditors or otherwise made available until such amounts are actually payable to Directors or their designated beneficiaries as provided herein. The Plan constitutes a mere promise by the Company to make payments in the future. The Directors and their designated beneficiaries shall have the status of, and their rights to receive a payment of cash or shares of Common Stock under the Plan shall be no greater than the rights of, general unsecured creditors of the Company. No person shall be entitled to any voting rights with respect to shares credited to any RSU or Deferred Stock Compensation Account which is not yet payable to a Director or the Director's designated beneficiary. The Company shall not be obligated under any circumstance to fund its financial obligations under the Plan, and the Plan is intended to constitute an unfunded plan for tax purposes. However, the Company may, in its discretion, set aside funds in a trust or other vehicle, subject to the claims of its

creditors, in order to assist it in meeting its obligations under the Plan, if such arrangement will not cause the Plan to be considered a funded deferred compensation plan under the Internal Revenue Code of 1986, as amended.

11

ADMINISTRATION OF PLAN; HARDSHIP WITHDRAWAL

Full power and authority to construe, interpret, and administer the Plan shall be vested in the Board. Decisions of the Board shall be final, conclusive, and binding upon all parties. Notwithstanding the terms of a Cash Deferral Election or a Stock Deferral Election made by a Director hereunder, the Board may, in its sole discretion, permit the withdrawal of amounts credited to a Deferred Cash Compensation Account or shares credited to a Deferred Stock Compensation Account with respect to Director Fees previously payable, or permit the early vesting and payment of RSUs previously awarded, upon the request of a Director or the Director's representative, or following the death of a Director upon the request of a Director's beneficiary or such beneficiary's representative, if the Board determines that the Director or the Director's beneficiary, as the case may be, is confronted with an unforeseeable emergency. An unforeseeable emergency is a severe financial hardship to the Director resulting from illness or accident of the Director, the Director’s spouse, beneficiary or dependent, loss of the Director’s property due to casualty or similar extraordinary and unforeseeable circumstances beyond the Director’s control, which hardship cannot be relieved through insurance, cessation of deferrals under the Plan or liquidation of assets that would not cause a severe financial hardship. Cash needs arising from foreseeable events, such as the purchase or building of a house or education expenses, will not be considered to be the result of an unforeseeable financial emergency. The Director or the Director's beneficiary shall provide to the Board such evidence as the Board, in its discretion, may require to demonstrate that such emergency exists and financial hardship would occur if the withdrawal were not permitted. The withdrawal shall be limited to the amount or to the number of shares, as the case may be, necessary to meet the emergency. Payment shall be made as soon as practicable after the Board approves the payment and determines the amount of the payment or number of shares which shall be withdrawn. In the case of a hardship withdrawal from the Deferred Cash Compensation Account or Deferred Stock Compensation Account, payment shall be made in a single lump sum from the portion of the Deferred Cash Compensation Account or Deferred Stock Compensation Account, as applicable, with the largest number and in reverse order of installment payments, in each case in accordance with Section 5(b)(2)(E) if the distribution is from the Deferred Cash Compensation Account. No Director shall participate in any decision of the Board regarding such Director's request for a withdrawal under this Section 11.

12

FAIR MARKET VALUE

Fair Market Value of the Common Stock ("Fair Market Value") on a single date shall be the closing price on the applicable date (or if not a trading date, the next preceding trading date), and Fair Market Value, where the determination is made over a period of more than one day, shall be the average of the closing price for all trading dates for the applicable period covered by a payment. For purposes of Section 3(a) and 6(a) hereof, the applicable period for a quarterly Directors Fees payment or credit shall be the three calendar months immediately preceding the calendar month during which the day on which the payment or credit is being made, and the applicable period for a Directors Fees payment relating to a period other than a quarter shall be determined under similar principles. The closing price of the Common Stock for a single date or for each day within the applicable period shall be as quoted in **The Wall Street Journal** (or in such other reliable publication as the Board or its delegate, in its discretion, may determine to rely upon).

13

SECURITIES LAWS; ISSUANCE OF SHARES; NONCERTIFICATED SHARES

The obligation of the Company to issue or credit shares of Common Stock under the Plan shall be subject to (i) the effectiveness of a registration statement under the Securities Act of 1933, as amended, with respect to such shares, if deemed necessary or appropriate by counsel for the Company, (ii) the condition that the shares shall have been listed (or authorized for listing upon official notice of issuance) upon each stock exchange, if any, on which the Common Stock shares may then be listed and (iii) all other applicable laws, regulations, rules and orders which may then be in effect. If, on the date on which any shares of Common Stock would be issued sufficient shares of Common Stock are not available under the Plan or the Company is not obligated to issue shares pursuant to this Section 13, then no shares of Common Stock shall be issued but rather, in the case of Common Stock to be issued currently, cash shall be paid in payment of the Director Fees payable. The Board shall adopt appropriate rules and regulations to carry out the intent of the immediately preceding sentence if the need for such rules and regulations arises. To the extent the Plan provides for issuance of share certificates to reflect the transfer of shares of Common Stock, the transfer of such shares may be effected on a noncertificated or "book-entry" basis.

14

GOVERNING LAW

The provisions of this Plan shall be interpreted and construed in accordance with the laws of the State of Delaware.

15

EFFECTIVE DATE; AMENDMENT AND TERMINATION

The Plan was adopted by the Board on December 4, 1996, and became effective as of January 1, 1997. The Plan was previously amended and restated effective October 2, 2001 and December 3, 2002. The Plan, as amended and restated herein, shall be effective as of June 14, 2007. The Board may amend or terminate the Plan at any time, provided that no such amendment or termination shall adversely affect rights with respect to amounts or shares then credited to any Deferred Cash Compensation Account or Deferred Stock Compensation Account.

16

AUTHORIZED SHARES; DESIGNATION AS AWARD UNDER EQUITY AND INCENTIVE COMPENSATION PLAN

Shares issued hereunder with respect to RSUs and DSUs credited prior to April 17, 2007 shall be deemed issued as part of the aggregate of 300,000 (reflecting prior stock splits and stock dividends and as shall be adjusted and subject to adjustment to reflect future stock splits and stock dividends) shares of Common Stock previously authorized for issuance hereunder. Effective as of April 17, 2007, the crediting of RSUs and the ability to make elections to receive Directors Fees in shares of Common Stock or to defer payment of Directors Fees and have such fees credited as DSUs shall constitute a non-employee directors award under The Hershey Company Equity and Incentive Compensation Plan (the “EICP”). This Plan and the related Notice of Election and other documents contemplated hereunder shall constitute the award agreement for purposes of the EICP and shares of Common Stock issued with respect to such RSUs, Directors Fees or DSUs shall be deemed issued from the shares authorized for issuance under the EICP.

THE HERSHEY COMPANY

By: /s/ *Marcella K. Arline*
Marcella K. Arline, Senior Vice President,
Chief People Officer

Exhibit 10.3

THE HERSHEY COMPANY

TERMS AND CONDITIONS OF
NONQUALIFIED STOCK OPTION AWARDS
UNDER THE
EQUITY AND INCENTIVE COMPENSATION PLAN

1. The Optionee, by accepting the option to purchase shares of the Company's Common Stock (the "Options") granted to him/her on ____________________, (the “Grant Date”), accepts and agrees to these terms and conditions and the terms and conditions of the Equity and Incentive Compensation Plan (the "Plan"), which Plan is incorporated herein by reference.

2. The Options shall not be exercisable until vested. The Options shall be exercisable during the period ____________________ through ____________________ (the “Exercise Period”), subject to the vesting schedule described in the next sentence and the provisions regarding termination set forth in paragraphs 3 and 4 below and in the Plan. Of the total Options granted to the Optionee on the Grant Date (“Total Grant”), twenty-five percent (25%) of the Total Grant will become vested on the first anniversary of the Grant Date; an additional twenty-five percent (25%) of the Total Grant will become vested on the second anniversary of the Grant Date; an additional twenty-five percent (25%) of the Total Grant will become vested on the third anniversary of the Grant Date; and an additional twenty-five percent (25%) of the Total Grant will become vested on the fourth anniversary of the Grant Date. During the Exercise Period, vested Options may be exercised in whole or in part and on one or more than one occasion. The purchase price of any shares as to which the Options shall be exercised shall be paid in full at the time of such exercise.

3. In the event Optionee's employment with the Company is terminated for any reason other than the occurrence of an event described in paragraph 4 below, or a “Corporate Event” or “Change in Control” as described in this paragraph 3, whether voluntarily or involuntarily, the Options shall terminate immediately upon termination of Optionee’s employment and may not be exercised after such termination of employment.

If Optionee’s employment with the Company is terminated solely due to a “Corporate Event,” Optionee shall have the right to exercise any Options that vest on or prior to the Corporate Event Exercise Deadline at the time or after such Options vest but on or before the Corporate Event Exercise Deadline. The “Corporate Event Exercise Deadline” is the 90th day following the Optionee’s termination of employment or, if such 90th day is not a New York Stock Exchange trading day, the first day after such 90th day that is a New York Stock Exchange trading date, provided that the Corporate Event Exercise Deadline shall not extend beyond ____________________, the date the Options expire. For purposes of this grant, a Corporate Event shall mean a corporate action, such as the sale of a subsidiary or business unit, a corporate restructuring, or other material, non-recurring event which results in the displacement or elimination of a significant number of jobs and which is required to be disclosed as a separate matter in the Company’s financial statements.

Upon the occurrence of a Change in Control (as that term is defined in the Plan), the Options shall become fully vested and exercisable notwithstanding the vesting schedule set forth in paragraph 2 above. If Optionee's employment is terminated by the Company within two (2) years following the Change in Control for any reason other than for Cause (as that term is defined in the Plan) or if Optionee's employment is terminated by the Optionee within such two year period for Good Reason (as that term is defined in the Plan), Optionee shall have one (1) year from the date of termination of employment to exercise his/her Options. In no event, however, may Options be exercised after ____________________, the date the Options expire.

4. If Optionee retires after the Grant Date and during the calendar year in which the Grant Date occurs, the Total Grant will be reduced on a pro-rata basis to reflect Optionee's period of employment during the calendar year in which the Grant Date occurs (the "Adjusted Grant"). The Adjusted Grant shall equal the Total Grant multiplied by a fraction, the numerator of which equals the number of calendar months from and including April 2007 through and including the calendar month preceding the month during which Optionee's retirement date occurs and the denominator of which equals 9; provided, however, that any fractional share resulting from such calculation shall be eliminated by rounding the Adjusted Grant down to the nearest whole number.

The foregoing provisions of this paragraph 4 notwithstanding, if a Change in Control occurs following the Grant Date, and Optionee retires after the occurrence of the Change in Control but prior to the first day of the twelfth (12th) calendar month following the month during which the Grant Date occurs, the Total Grant shall not be reduced as aforesaid, but rather the Total Grant of Options shall be deemed to have become fully vested and exercisable upon the occurrence of the Change in Control.

In the event Optionee retires, dies or becomes totally disabled, the Options shall not terminate but instead will continue to remain outstanding and vest, subject to the vesting provisions of paragraph 2, the provisions of paragraph 3 if a Change in Control occurs or shall have occurred and the provisions regarding possible adjustment of the Total Grant to an Adjusted Grant as provided in this paragraph 4, and Optionee (or his/her estate in the case of death) shall have five (5) years from the date of retirement, death, or disability to exercise his/her Options at the time or after such Options vest, provided such five (5) year period cannot extend beyond ____________________, the date the Options expire. For purposes of this grant, Optionee shall be deemed to have retired if his or her employment terminates for any reason on or after his or her 55th birthday.

5. The Options shall be exercisable through Charles Schwab & Co. ("Schwab"), the broker selected by the Company to provide services for stock options, or by such other method as shall be established by the Company from time to time. For information about Schwab's services and how to exercise stock options, call 1-800-654-2593 or go online to Schwab Equity Award Center™ at http://equityawardcenter.schwab.com for assistance.

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6. The Compensation and Executive Organization Committee of the Board of Directors (the “Committee”), or any successor committee performing similar functions, may from time to time impose certain limitations or restrictions on the exercise of the Options by employees who are subject to employee minimum stockholding requirements established by the Committee. Such limitations, restrictions and minimum stockholding requirements are subject to change at the discretion of the Committee.

7. Except to the extent that the Plan permits exercise in limited circumstances by persons other than the Optionee, the Options may not be assigned, transferred, pledged or hypothecated in any way whether by operation of law or otherwise, and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge, hypothecation or other disposition of the Options contrary to the provisions hereof or of the Plan, and the levy of any execution, attachment or similar process upon the Options, shall be null and void and without effect and shall cause the Options to terminate.

8. By accepting the Options granted herewith, Optionee acknowledges and agrees, subject to paragraph 12 below, that the Options are granted under and governed by the terms and conditions set forth in this document and in the Plan. Any dispute or disagreement which shall arise under, as a result of, or in any way relate to the interpretation, construction or administration of the Plan or the Options granted thereunder shall be determined in all cases and for all purposes by the Committee, or any successor committee, and any such determination shall be final, binding and conclusive for all purposes.

9. In selling the Company's Common Stock (the "Shares") upon Optionee's exercise of his/her Options, the Company is fulfilling in full its contractual obligation to Optionee by making such transfer, and the Company shall have no further obligations or duties with respect thereto and is discharged and released from the same. The Company makes no representations to Optionee regarding the market price of the Shares or the information which is available to Optionee regarding the Shares of the Company.

10. The Optionee may be restricted by the Company in its sole judgment from exercising any of the Options to the extent necessary to comply with insider trading or other provisions of federal or state securities laws.

11. The grant of Options and all terms and conditions related thereto, including those of the Plan, shall be governed by the laws of the Commonwealth of Pennsylvania. The Plan shall control in the event there is a conflict between the Plan and these terms and conditions.

12. The terms and conditions set forth in this document shall not, unless expressly stated otherwise, modify or supersede the terms and conditions of any other plan or agreement applicable to employee benefit plans of the Company.

EXHIBIT 12.1

THE HERSHEY COMPANY
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(in thousands of dollars except for ratios)
(Unaudited)

	For the Six Months Ended	
	July 1, 2007	**July 2, 2006**
Earnings:		
Income before income taxes (a)	$ 145,425	$ 341,441
Add (deduct):		
Interest on indebtedness	58,860	53,531
Portion of rents representative of the interest factor (b)	4,096	3,837
Amortization of debt expense	390	221
Amortization of capitalized interest	1,343	1,441
Adjustment to exclude minority interest and income (loss) from equity investee	(265)	---
Earnings as adjusted	$ 209,849	$ 400,471
Fixed Charges:		
Interest on indebtedness	$ 58,860	$ 53,531
Portion of rents representative of the interest factor (b)	4,096	3,837
Amortization of debt expense	390	221
Capitalized interest	65	21
Total fixed charges	$ 63,411	$ 57,610
Ratio of earnings to fixed charges	3.31	6.95

NOTE:

(a) Amounts for 2006 were adjusted for the impact of certain immaterial adjustments relating to the timing of the recognition of revenue, as permitted by Securities and Exchange Commission Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Misstatements When Quantifying Misstatements in Current Year Financial Statements*, adopted in the fourth quarter of 2006.

(b) Portion of rents representative of the interest factor consists of one-third of rental expense for operating leases.

Exhibit 31.1

CERTIFICATION

I, Richard H. Lenny, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Hershey Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2007 /s/ Richard H. Lenny
Richard H. Lenny
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Humberto (Bert) P. Alfonso, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Hershey Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2007 /s/ Bert Alfonso
Humberto (Bert) P. Alfonso
Chief Financial Officer

Exhibit 32.1

CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of The Hershey Company (the "Company") hereby certify that the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2007 (the "Report") fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2007

/s/ Richard H. Lenny
Richard H. Lenny
Chief Executive Officer

Date: August 8, 2007

/s/ Bert Alfonso
Humberto (Bert) P. Alfonso
Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.