

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

FORM 10-K

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

For the fiscal year ended December 31, 2022
OR

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

For the transition period from _____ to _____
Commission file number 1-183



THE HERSHEY COMPANY

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

23-0691590

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

19 East Chocolate Avenue, Hershey, PA 17033
(Address of principal executive offices and Zip Code)
(717) 534-4200

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, one dollar par value	HSY	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Class B Common Stock, one dollar par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.
If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b).

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

As of July 1, 2022 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting and non-voting common equity held by non-affiliates was \$32,207,985,953. Class B Common Stock is not listed for public trading on any exchange or market system. However, Class B shares are convertible into shares of Common Stock at any time on a share-for-share basis. Determination of aggregate market value assumes all outstanding shares of Class B Common Stock held by non-affiliates were converted to Common Stock as of July 1, 2022. The market value indicated is calculated based on the closing price of the Common Stock on the New York Stock Exchange on July 1, 2022 (\$221.00 per share).

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

Common Stock, one dollar par value—146,922,179 shares, as of February 15, 2023.

Class B Common Stock, one dollar par value—57,113,777 shares, as of February 15, 2023.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for the 2023 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

THE HERSHEY COMPANY
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2022

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Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K, including the exhibits hereto and the information incorporated by reference herein, contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Many of these forward-looking statements can be identified by the use of words such as “anticipate,” “assume,” “believe,” “continue,” “estimate,” “expect,” “forecast,” “future,” “intend,” “plan,” “potential,” “predict,” “project,” “strategy,” “target” and similar terms, and future or conditional tense verbs like “could,” “may,” “might,” “should,” “will” and “would,” among others. Forward-looking statements are predictions only and actual results could differ materially from management’s expectations due to a variety of factors, including those described below in Item 1A. “Risk Factors” and in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” All forward-looking statements attributable to us or persons working on our behalf are expressly qualified in their entirety by such risk factors. Given these risks and uncertainties, you should not rely on forward-looking statements as a prediction of actual results. The forward-looking statements that we make in this Annual Report on Form 10-K are based on management’s current views and assumptions regarding future events and speak only as of their dates. We assume no obligation to update developments of these risk factors or to announce publicly any revisions to any of the forward-looking statements that we make, or to make corrections to reflect future events or developments, except as required by the federal securities laws.

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PART I

Item 1. BUSINESS

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

Hershey is a global confectionery leader known for making more moments of goodness through chocolate, sweets, mints and other great tasting snacks. We are the largest producer of quality chocolate in North America, a leading snack maker in the United States and a global leader in chocolate and non-chocolate confectionery. We market, sell and distribute our products under more than 100 brand names in approximately 80 countries worldwide.

Reportable Segments

The Company reports its operations through three segments: (i) North America Confectionery, (ii) North America Salty Snacks and (iii) International. This organizational structure aligns with how our Chief Operating Decision Maker (“CODM”) manages our business, including resource allocation and performance assessment, and further aligns with our product categories and the key markets we serve.

- **North America Confectionery** – This segment is responsible for our traditional chocolate and non-chocolate confectionery market position in the United States and Canada. This includes our business in chocolate and non-chocolate confectionery, gum and refreshment products, protein bars, spreads, snack bites and mixes, as well as pantry and food service lines. This segment also includes our retail operations, including Hershey’s Chocolate World stores in Hershey, Pennsylvania; New York, New York; Las Vegas, Nevada; Niagara Falls (Ontario) and Singapore, as well as operations associated with licensing the use of certain of the Company’s trademarks and products to third parties around the world.
- **North America Salty Snacks** – This segment is responsible for our salty snacking products in the United States. This includes ready-to-eat popcorn, baked and trans fat free snacks, pretzels and other snacks.
- **International** – International is a combination of all other operating segments that are not individually material, including those geographic regions where we operate outside of North America. We currently have operations and manufacture product in Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets of Asia, Latin America, Middle East, Europe, Africa and other regions.

Financial and other information regarding our segments is provided in our Management’s Discussion and Analysis and [Note 13](#) to the Consolidated Financial Statements.

Business Acquisitions and Divestitures

In December 2021, we completed the acquisition of Pretzels Inc. (“Pretzels”), previously a privately held company that manufactures and sells pretzels and other salty snacks for other branded products and private labels in the United States. Pretzels is an industry leader in the pretzel category with a product portfolio that includes filled, gluten free and seasoned pretzels, as well as extruded snacks that complements Hershey’s snacks portfolio. Based in Bluffton, Indiana, Pretzels operates three manufacturing locations in Indiana and Kansas. Pretzels provides Hershey deep pretzel category and product expertise and the manufacturing capabilities to support brand growth and future pretzel innovation. Additionally in December 2021, we completed the acquisition of Dot’s Pretzels, LLC (“Dot’s”), previously a privately held company that produces and sells pretzels and other snack food products to retailers and distributors in the United States, with *Dot’s Homestyle Pretzels* snacks as its primary product. Dot’s is the fastest-growing scale brand in the pretzel category and complements Hershey’s snacks portfolio.

In June 2021, we completed the acquisition of Lily’s Sweets, LLC (“Lily’s”), previously a privately held company that sells a line of sugar-free and low-sugar confectionery foods to retailers and distributors in the United States and Canada. Lily’s products include dark and milk chocolate style bars, baking chips, peanut butter cups and other confection products that complement Hershey’s confectionery and confectionery-based portfolio.



In January 2021, we completed the divestiture of Lotte Shanghai Foods Co., Ltd. (“LSFC”), which was previously included within the International segment results in our consolidated financial statements. Total proceeds from the divestiture and the impact on our consolidated financial statements were immaterial.

During the second quarter of 2020, we completed the divestitures of KRAVE Pure Foods, Inc. (“Krave”), which was previously included within the North America Salty Snacks segment, and the *Scharffen Berger* and *Dagoba* brands, both of which were previously included within the North America Confectionery segment results in our consolidated financial statements. Total proceeds from the divestitures and the impact on our Consolidated Statements of Income, both individually and on an aggregate basis, were immaterial.

Products and Brands

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

- Within our North America Confectionery segment, our product portfolio includes a wide variety of chocolate offerings marketed and sold under the renowned brands of *Hershey’s*, *Reese’s* and *Kisses*, along with other popular chocolate and non-chocolate confectionery brands such as *Jolly Rancher*, *Almond Joy*, *Brookside*, *barkTHINS*, *Cadbury*, *Good & Plenty*, *Heath*, *Kit Kat®*, *Payday*, *Rolo®*, *Twizzlers*, *Whoppers* and *York*. Our protein bar products include *ONE* bar and our gum and mint products include *Ice Breakers* mints and chewing gum, *Breath Savers* mints and *Bubble Yum* bubble gum. We also have pantry items, including baking products, toppings and sundae syrups sold under the *Hershey’s*, *Reese’s*, *Heath* and *Lily’s* brands, as well as *Hershey’s* and *Reese’s* chocolate spreads and snack bites and mixes.
- Within our North America Salty Snacks segment, we have our salty snack items. This includes ready-to-eat *SkinnyPop* popcorn, baked and trans fat free *Pirates Booty* snacks, *Dot’s Homestyle Pretzels* snacks and other snack brands such as *Paqui*.
- Within our International segment, we manufacture, market and sell many of these same brands, as well as other brands that are marketed regionally, such as *Pelon Pelo Rico* confectionery products in Mexico, *IO-IO* snack products in Brazil and *Sofit* beverage products in India.

Principal Customers and Marketing Strategy

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

In 2022, approximately 28% of our consolidated net sales were made to McLane Company, Inc., one of the largest wholesale distributors in the United States (“U.S.”) to convenience stores, drug stores, wholesale clubs and mass merchandisers and the primary distributor of our products to Wal-Mart Stores, Inc.

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

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



Raw Materials and Pricing

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

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

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

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

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

Competition

Many of our confectionery and salty snack brands enjoy wide consumer acceptance and are among the leading brands sold in the marketplace in North America and certain international markets. We sell our brands in highly competitive markets with many other global multinational, national, regional and local firms. Some of our competitors are large companies with significant resources and substantial international operations. Competition in our product categories is based on product innovation, product quality, price, brand recognition and loyalty, effectiveness of marketing and promotional activity, the ability to identify and satisfy consumer preferences, as well as convenience and service. We have also experienced increased competition from other snack items, and through innovation and acquisitions, we are continuing to expand the boundaries of our brands to capture new snacking occasions.

Working Capital, Seasonality and Backlog

Our sales are typically higher during the third and fourth quarters of the year, representing seasonal and holiday-related sales patterns. We manufacture primarily for stock and typically fill customer orders within a few days of receipt. Therefore, the backlog of any unfilled orders is not material to our total annual sales. Additional information relating to our cash flows from operations and working capital practices is provided in our Management's Discussion and Analysis.



Trademarks, Service Marks and License Agreements

We own various registered and unregistered trademarks and service marks. The trademarks covering our key product brands are of material importance to our business. Depending on the country, trademarks remain valid for as long as they are in use or their registration status is maintained. Trademark registrations generally are renewable for fixed terms. We follow a practice of seeking trademark protection in the United States and other key international markets where our products are sold. We also grant trademark licenses to third parties to produce and sell pantry items, flavored milks and various other products primarily under the *Hershey's* and *Reese's* brand names.

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

Company	Brand	Location	Requirements
Kraft Foods Ireland Intellectual Property Limited/Cadbury UK Limited	<i>York</i> <i>Peter Paul Almond Joy</i> <i>Peter Paul Mounds</i>	Worldwide	None
Cadbury UK Limited	<i>Cadbury</i> <i>Caramello</i>	United States	Minimum sales requirement exceeded in 2022
Société des Produits Nestlé SA	<i>Kit Kat</i> ® <i>Rolo</i> ®	United States	Minimum unit volume sales exceeded in 2022
Iconic IP Interests, LLC	<i>Good & Plenty</i> <i>Heath</i> <i>Jolly Rancher</i> <i>Milk Duds</i> <i>Payday</i> <i>Whoppers</i>	Worldwide	None

Research and Development

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

Food Quality and Safety Regulation

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

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

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



Environmental Considerations

Beyond ordinary operating and capital expenditures that we make to comply with government regulations, including environmental laws and regulations, we have made a number of voluntary commitments to protect and reduce our environmental impacts in recent years, including efforts to eliminate commodity-driven deforestation and reduce greenhouse gas (“GHG”) emissions across our own operations and supply chain. Our climate change related investments and expenditures primarily focus on achieving a 50% absolute reduction in our Scope 1 and 2 GHG emissions and a 25% absolute reduction in our Scope 3 GHG emissions by 2030 (compared to a 2018 baseline), as well as having 100% of plastic packaging be recyclable, reusable or compostable and 25 million pounds of packaging be eliminated by 2030. The annual operating and capital expenditures associated with these ordinary course payments and additional climate change commitments are not material with respect to our results of operations, capital expenditures or competitive position.

Sustainability

The Company’s commitment to sustainability started with our founder’s belief in responsible citizenship. He was a purpose-driven leader who believed we could use chocolate to Make More Moments of Goodness in the world for our consumers today and for many generations to come. This belief resulted in a strong investment in local communities and the establishment of Milton Hershey School for disadvantaged kids. We continue that legacy today through our holistic environmental, social and governance (“ESG”) strategy: our Shared Goodness Promise, which guides how we empower the remarkable people who make and sell our brands, interact with farming communities that grow our ingredients, deliver on our commitments to consumers, customers, and external stakeholders, protect the environment and support children and youth.

To learn more about our ESG-related goals, progress and initiatives, as well as review our annual ESG Report and accompanying suite of ESG reporting frameworks, policies, and disclosures, access the Sustainability section of our website at: https://www.thehersheycompany.com/en_us/sustainability.html. Information found on the Company’s website is not part of this Annual Report on Form 10-K or any other report filed with the United States Securities and Exchange Commission (“SEC”).

Financial Information by Geographic Area

Our principal operations and markets are located in the United States. The percentage of total consolidated net sales for our businesses outside of the United States was 12.5% for 2022, 13.0% for 2021 and 13.6% for 2020. The percentage of total long-lived assets outside of the United States was 17.9% as of December 31, 2022 and 18.8% as of December 31, 2021.

Human Capital

As of December 31, 2022, the Company employed approximately 18,075 full-time and 1,790 part-time employees worldwide. Collective bargaining agreements covered approximately 6,470 employees, or approximately 33% of the Company’s employees worldwide. During 2023, agreements are expected to be negotiated for certain employees at five facilities, four of which are outside of the United States, comprising approximately 67% of total employees under collective bargaining agreements. We believe our efforts in managing our workforce have been effective, as evidenced by a strong culture and a good relationship between the Company and our employees.

We are a purpose-driven company and for more than a century, our iconic brands have been built on a foundation of community investment and connections between people around the world. We could not have achieved this without our remarkable employees who make our purpose a reality. As a result, our human capital strategies are material to our operations and core to the long-term success of the Company.

- *Our People, Safety and Employee Engagement.* Our employees are among our most important resources and are critical to our continued success. We provide a workplace that develops, supports and motivates our people. The overall well-being and safety of our employees remains one of our top priorities. We continue to invest in training, workplace resources and leading systems and processes to ensure the responsible management of all facilities. Additionally, continuous listening surveys are distributed throughout the year to all employees globally. These short and fast surveys reach all of our employees around the world to hear their thoughts on the Company’s direction and their place in it. These continuous touchpoints allow for real-time feedback and action from the Company. These surveys are further supplemented with quarterly and



informative enterprise and team town halls, which, in conjunction with the continuous listening surveys, generate stronger employee engagement with the Company's strategy, initiatives and leadership. Further, in June 2022, the Company conducted its first annual Ethics and Compliance Survey to assess employees' perception of the health of ethics and compliance at Hershey.

- *Talent Acquisition, Development and Training.* Hiring and developing our employees is critically important to our operations and we are focused on creating experiences and programs that foster growth and performance. We provide all employees the chance to learn, grow and own their work. We have partnered with leading online content experts and increased internal learning development to expand our catalog of online and classroom courses. Additionally, we have co-created a culture of development with the enthusiastic support of our employees. Through individual development plans, learning opportunities, feedback and coaching, employees can build careers at The Hershey Company, as evidenced by the fact that the majority of our eight executive officers were promoted from within the organization (see [Information about Our Executive Officers](#)).
- *Compensation, Benefits and Wellness.* In addition to offering competitive, fair and transparent compensation, we also offer a suite of benefits, including comprehensive health and meaningful retirement benefits to eligible employees, tying incentive compensation to both business and individual performance, offering parental leave and adoption benefits and maintaining an employee stock purchase plan. We also provide a number of innovative programs designed to promote physical and emotional well-being, including ergonomic workspaces, a state-of-the-art fitness center at our Hershey, Pennsylvania campus and private rooms designed for quiet reflection, prayer or wellness breaks. The Company also offers SmartFlex benefits which is our suite of policies that allows individuals to create their own balance between work and personal life, including flexing work time based on work priorities or personal commitments, such as caring for children or family members. We believe that this flexibility improves productivity, job satisfaction and increases employee engagement. Additionally, the Company offers a "Best of Both" flexible work model for corporate and commercial employees to balance work and personal well-being. This model allows employees the option to work either remote, in-office, or both, depending on individual needs, personal schedules and work demands. This offers the benefits of flexibility and in-person collaboration, while maintaining productivity and overall job satisfaction.
- *Diversity, Equity and Inclusion.* Our diverse and inclusive culture makes the difference across all areas of the business around the world. Our gender representation includes women occupying many of the top positions in the Company, including Chief Executive Officer and Chairman of the Board, Chief Accounting Officer and President, Salty Snacks, and approximately 50% representation across the Company. Additionally, five of our 12 Board members are women (42% representation). In 2022, we maintained fair and equitable pay achievements, including 1:1 aggregate people of color pay equity for salaried employees in the United States (2021) and 1:1 aggregate gender pay (2020). Further, our eight employee-led Business Resource Groups, which include Abilities First, African American, Asian, GenH (Generations), Latino, Prism (LGBTQ), Veteran's and Women's, play a critical role in attracting diverse talent, providing mentoring and career development opportunities, delivering commercial business insights and connecting people to the Company and the communities where we do business. In 2022, the Company was ranked #6 on DiversityInc's Top 50 Companies for Diversity and was ranked as a top 50 company on Forbes Top Female Friendly Companies. Additionally, the Company also ranked as a top 30 company on Wall Street Journal's Top 250 Best-Managed Companies of 2022.
- *Community and Social Impact.* Our philanthropy and volunteerism efforts reflect how we live out the Company's value of making moments of goodness, from supporting causes our employees care about to investing in the long-term success of the communities where we live and work. We work closely with counterparts in each of our plant and office locations across the United States and globally to identify local community needs and craft tailored approaches to provide support. This work includes forging partnerships with local non-governmental organizations, providing grants and contributions and organizing volunteer service activities and employee fundraisers.



Available Information

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

We have a Code of Conduct that applies to our Board of Directors ("Board") and all Company officers and employees, including, without limitation, our Chief Executive Officer and "senior financial officers" (including the Chief Financial Officer, Chief Accounting Officer and persons performing similar functions). You can obtain a copy of our Code of Conduct, as well as our Corporate Governance Guidelines and charters for each of the Board's standing committees, from the Investors section of our website at: https://www.thehersheycompany.com/en_us/investors.html. If we change or waive any portion of the Code of Conduct that applies to any of our directors, executive officers or senior financial officers, we will post that information on our website. Information found on the Company's website is not part of this Annual Report on Form 10-K or any other report filed with the SEC.



Item 1A. RISK FACTORS

You should carefully read the following discussion of significant factors, events and uncertainties when evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. The events and consequences discussed in these risk factors could materially and adversely affect our business, operating results, liquidity and financial condition. While we believe we have identified and discussed below the key risk factors affecting our business, these risk factors do not identify all the risks we face, and there may be additional risks and uncertainties that we do not presently know or that we do not currently believe to be significant that may have a material adverse effect on our business, performance or financial condition in the future.

Risks Related to Our Business and Operations

Our Company's reputation or brand image might be impacted as a result of issues or concerns relating to the quality and safety of our products, ingredients or packaging, human and workplace rights, and other environmental, social or governance matters, which in turn could result in litigation or otherwise negatively impact our operating results.

In order to sell our iconic, branded products, we need to maintain a good reputation with our customers, consumers, suppliers, vendors and employees, among others. Issues related to the quality and safety of our products, ingredients or packaging could jeopardize our Company's image and reputation. We have in the past and may in the future need to recall products if any of our products become unfit for consumption. Negative publicity related to these types of concerns, or related to product contamination or product tampering, whether valid or not, could decrease demand for our products or cause production and delivery disruptions. In addition, negative publicity related to our environmental, social or governance practices could also impact our reputation with customers, consumers, suppliers and vendors.

We have been in the past and in the future could potentially be subject to litigation or government actions as a result of issues or concerns relating to the quality and safety of our products, ingredients or packaging, human and workplace rights, and other environmental, social or governance matters, which could result in payments of fines or damages. Costs associated with these potential actions, as well as the potential impact on our reputation or ability to sell our products, could negatively affect our operating results.

Disruption to our manufacturing operations or supply chain could impair our ability to produce or deliver finished products, resulting in a negative impact on our operating results.

Approximately 70% of our manufacturing capacity is located in the United States. Disruption to our global manufacturing operations or our supply chain could result from, among other factors, the following:

- Natural disaster;
- Pandemic outbreak of disease (such as the coronavirus disease 2019 ("COVID-19") global pandemic);
- Climate change and severity of extreme weather;
- Fire or explosion;
- Terrorism or other acts of violence;
- Labor strikes or other labor activities;
- Unavailability of raw or packaging materials;
- Operational and/or financial instability of key suppliers, and other vendors or service providers; and
- Suboptimal production planning which could impact our ability to cost-effectively meet product demand.

We believe that we take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place to manage disruptive events if they were to occur, including our global supply chain strategies and our principle-based global labor relations strategy. If we are unable, or find that it is not financially feasible, to effectively plan for, mitigate or manage operational stability and business resiliency, particularly within our international markets and snacks portfolio, due to the potential impacts of such disruptive events on our manufacturing operations or supply chain, our financial condition and results of operations could be negatively impacted if such events were to occur.



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

Our future success depends upon our ability to identify, hire, develop, engage and retain talented personnel across the globe. Competition for global talent is intense, and we might not be able to identify and hire the personnel we need to continue to evolve and grow our business. In particular, if we are unable to hire the right individuals to fill new or existing senior management positions as vacancies arise, our business performance may be impacted.

Activities related to identifying, recruiting, hiring and integrating qualified individuals require significant time and attention. We may also need to invest significant amounts of cash and equity to attract talented new employees, and we may never realize returns on these investments.

In addition to hiring new employees, we must continue to focus on retaining and engaging the talented individuals we need to sustain our core business and lead our developing businesses into new markets, channels and categories. This may require significant investments in training, coaching and other career development and retention activities. If we are not able to effectively retain and grow our talent, our ability to achieve our strategic objectives will be adversely affected, which may impact our financial condition and results of operations.

Risks associated with climate change and other environmental impacts, and increased focus and evolving views of our customers, stockholders and other stakeholders on climate change issues, could negatively affect our business and operations.

Climate-related changes can increase variability in, or otherwise impact, natural disasters, including weather patterns, with the potential for increased frequency and severity of significant weather events, natural hazards, rising mean temperature and sea levels, and long-term changes in precipitation patterns. Climate change or weather-related disruptions to our supply chain can impact the availability and cost of materials needed for manufacturing and could increase insurance and other operating costs.

Increased focus on climate change has led to legislative and regulatory efforts to combat both potential causes and adverse impacts of climate change, including regulation of GHG emissions. New or increasing laws and regulations related to GHG emissions and other climate change related concerns may adversely affect us, our suppliers and our customers, and may require additional capital investments. Our value chain faces similar challenges as our products rely on agricultural ingredients and a global supply chain. Climate change poses a significant and increasing risk to global food production systems and to the safety and resilience of the communities where we live, work and source our ingredients. The GHG impacts of land-use change are most pronounced in our cocoa supply chain, where we have already been working for several years to prevent deforestation. Additionally, any non-compliance with legislative and regulatory requirements could negatively impact our reputation and ability to do business.

Investors, customers, advisory services, government regulators and other market participants have increasingly focused on the environmental or sustainability practices of companies, including Hershey. Shareholders and financial institutions have increasingly evaluated a company's ESG practices, disclosures and performance before making investments or other financial decisions. We believe our practices, disclosures and performance are strong and growing. However, if our environmental goals do not meet investor or other external stakeholder expectations and standards, our access to capital may be negatively impacted. An enforcement action could harm our reputation, financial position and ability to grow. A failure to meet expectations may adversely affect our results of operations, ability to manage our liquidity, or implement our strategies.

The Company publishes its environmental goals, with a particular focus on achieving a 50% absolute reduction in our Scope 1 and 2 GHG emissions and a 25% absolute reduction in our Scope 3 GHG emissions by 2030 (compared to a 2018 baseline), as well as having 100% of plastic packaging be reusable, recyclable or compostable and 25 million pounds of packaging be eliminated by 2030. The costs of these voluntary commitments may be greater than expected, and there can be no assurance the Company will achieve its goals, or meet the evolving sustainability expectations and standards of our investors or other external stakeholders. Any failure to achieve our goals, a perception of our failure to act responsibly with respect to the environment, or failure to respond to new or evolving legal and regulatory requirements or other sustainability concerns could adversely affect our business, reputation and increase risk of litigation.



The effects and costs of climate change, or any failure to meet related requirements and expectations, could have a negative impact on our reputation, financial condition and results of operations.

Risks Related to the Industry in Which We Operate

Increases in raw material and energy costs along with the availability of adequate supplies of raw materials could affect future financial results.

We use many different commodities for our business, including cocoa products, sugar, corn products, dairy products, wheat products, peanuts, almonds, natural gas and diesel fuel.

Commodities are subject to price volatility and changes in supply caused by numerous factors, including:

- Commodity market fluctuations;
- Currency exchanges rates;
- Imbalances between supply and demand;
- Rising levels of inflation and interest rates related to domestic and global economic conditions or supply chain issues;
- The effects of climate change and extreme weather on crop yield and quality;
- Speculative influences;
- Trade agreements among producing and consuming nations;
- Supplier compliance with commitments;
- Import/export requirements for raw materials and finished goods;
- Political unrest in producing countries;
- Introduction of living income premiums or similar requirements;
- Changes in governmental agricultural programs and energy policies; and
- Other events beyond our control such as the impacts on the business or supply chain arising from the conflict between Russia and Ukraine.

Although we use forward contracts and commodity futures and options contracts where possible to hedge commodity prices, commodity price increases ultimately result in corresponding increases in our raw material and energy costs. If we are unable to offset cost increases for major raw materials and energy, there could be a negative impact on our financial condition and results of operations.

Price increases may not be sufficient to offset cost increases and maintain profitability or may result in sales volume declines associated with pricing elasticity.

We may be able to pass some or all raw material, energy and other input cost increases to customers by increasing the selling prices of our products or decreasing the size of our products; however, higher product prices or decreased product sizes may also result in a reduction in sales volume and/or consumption. If we are not able to increase our selling prices or reduce product sizes (including if inflation outpaces our pricing elasticity) sufficiently, or in a timely manner, to offset increased raw material, energy or other input costs, including packaging, freight, direct labor, overhead and employee benefits, or if our sales volume decreases significantly, there could be a negative impact on our financial condition and results of operations.

Market demand for new and existing products could decline.

We operate in highly competitive markets and rely on continued demand for our products. To generate revenues and profits, we must sell products that appeal to our customers and to consumers. Our continued success is impacted by many factors, including the following:

- Effective retail execution;
- Appropriate advertising campaigns and marketing programs;
- Our ability to secure adequate shelf space at retail locations;
- Our ability to drive sustainable innovation and maintain a strong pipeline of new products in the confectionery and broader snacking categories;
- Changes in product category consumption;
- Our response to consumer demographics and trends, including but not limited to, trends relating to store trips and the impact of the growing digital commerce channel; and



- Consumer health concerns, including obesity and the consumption of certain ingredients.

There continues to be competitive product and pricing pressures in the markets where we operate, as well as challenges in maintaining profit margins. We must maintain mutually beneficial relationships with our key customers, including retailers and distributors, to compete effectively. Our largest customer, McLane Company, Inc., accounted for approximately 28% of our total net sales in 2022. McLane Company, Inc. is one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers, including Wal-Mart Stores, Inc.

Increased marketplace competition could hurt our business.

The global confectionery and snacks packaged goods industry is intensely competitive and consolidation in this industry continues. Some of our competitors are large companies that have significant resources and substantial international operations. We continue to experience increased levels of in-store activity for other snack items, which has pressured confectionery category growth. In order to protect our existing market share or capture increased market share in this highly competitive retail environment, we may be required to increase expenditures for promotions and advertising, and must continue to introduce and establish new products. Due to inherent risks in the marketplace associated with advertising and new product introductions, including uncertainties about trade and consumer acceptance, increased expenditures may not prove successful in maintaining or enhancing our market share and could result in lower sales and profits. In addition, we may incur increased credit and other business risks because we operate in a highly competitive retail environment.

Risks Related to Strategic Initiatives

Our financial results may be adversely impacted by the failure to successfully execute or integrate acquisitions, divestitures and joint ventures.

From time to time, we may evaluate potential acquisitions, divestitures or joint ventures that align with our strategic objectives. The success of such activity depends, in part, upon our ability to identify suitable buyers, sellers or business partners; perform effective assessments prior to contract execution; negotiate contract terms; and, if applicable, obtain government approval. These activities may present certain financial, managerial, staffing and talent, and operational risks, including diversion of management's attention from existing core businesses; difficulties integrating or separating businesses from existing operations; and challenges presented by acquisitions or joint ventures which may not achieve sales levels and profitability that justify the investments made. If the acquisitions, divestitures or joint ventures are not successfully implemented or completed, there could be a negative impact on our financial condition, results of operations and cash flows.

In 2021, we successfully completed the divestiture of LSFC as we better prioritize resources against assets and brands that fit our business model and scale capabilities. Additionally, we completed the acquisitions of Lily's in June 2021 and Dot's and Pretzels in December 2021. While we believe significant operating synergies can be obtained in connection with these acquisitions, achievement of these synergies will be driven by our ability to successfully leverage Hershey's resources, expertise, capability-building, distribution locations and customer base. In addition, the acquisitions of Dot's and Pretzels are important steps in our journey to expand our breadth in snacking, as they should enable us to bring scale and category management capabilities to a key sub-segment of the warehouse snack aisle. If we are unable to successfully couple Hershey's scale and expertise in brand building with Lily's, Dot's and Pretzels' existing operations, it may impact our ability to expand our snacking footprint at our desired pace.



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

In 2022, 2021 and 2020, respectively, we derived approximately 12.5%, 13.0% and 13.6% of our net sales from customers located outside of the United States. Additionally, approximately 18% of our total long-lived assets were located outside of the United States as of December 31, 2022. As part of our strategy, we have made investments outside of the United States, particularly in Canada, Malaysia, Mexico, Brazil and India. As a result, we are subject to risks and uncertainties relating to international sales and operations, including:

- The inability to manage operational stability and business resiliency within our international markets due to unforeseen global economic and environmental changes resulting in business interruption, supply constraints, inflation, deflation or decreased demand;
- The inability to establish, develop and achieve market acceptance of our global brands in international markets;
- Difficulties and costs associated with compliance and enforcement of remedies under a wide variety of complex laws, treaties and regulations;
- Unexpected changes in regulatory environments;
- Political and economic instability, including the possibility of civil unrest, terrorism, mass violence or armed conflict;
- Nationalization of our properties by foreign governments;
- Tax rates that may exceed those in the United States and earnings that may be subject to withholding requirements and incremental taxes upon repatriation;
- Potentially negative consequences from changes in tax laws;
- The imposition of tariffs, quotas, trade barriers, other trade protection measures and import or export licensing requirements;
- Increased costs, disruptions in shipping or reduced availability of freight transportation;
- The impact of currency exchange rate fluctuations between the U.S. dollar and foreign currencies;
- Failure to gain sufficient profitable scale in certain international markets resulting in an inability to cover manufacturing fixed costs or resulting in losses from impairment or sale of assets; and
- Failure to recruit, retain and build a talented and engaged global workforce.

If we are not able to achieve our projected international growth objectives and mitigate the numerous risks and uncertainties associated with our international operations, there could be a negative impact on our financial condition and results of operations.

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

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

Additionally, from time to time we implement business realignment activities to support key strategic initiatives designed to maintain long-term sustainable growth, such as the International Optimization Program, which we commenced in the fourth quarter of 2020. This program is intended to increase our operating effectiveness and efficiency, to reduce our costs and/or to generate savings that can be reinvested in other areas of our business. We cannot guarantee that we will be able to successfully implement these strategic initiatives and restructuring programs, that we will achieve or sustain the intended benefits under these programs, or that the benefits, even if achieved, will be adequate to meet our long-term growth and profitability expectations, which could in turn adversely affect our business.



Risks Related to Governmental and Regulatory Changes

Changes in governmental laws and regulations could increase our costs and liabilities or impact demand for our products.

Changes in laws and regulations and the manner in which they are interpreted or applied may alter our business environment. These negative impacts could result from changes in food and drug laws, laws related to advertising and marketing practices, accounting standards, taxation compliance and requirements, competition laws, employment laws, import/export requirements and environmental laws, among others. It is possible that we could become subject to additional liabilities in the future resulting from changes in laws and regulations that could result in an adverse effect on our financial condition and results of operations.

Political, economic and/or financial market conditions, including impacts on our business arising from the conflict between Russia and Ukraine, could negatively impact our financial results.

Our operations are impacted by consumer spending levels and impulse purchases, which are affected by general macroeconomic conditions, consumer confidence, employment levels, the availability of consumer credit and interest rates on that credit, consumer debt levels, energy costs and other factors. Volatility in food and energy costs, sustained global recessions, broad political instability, rising unemployment, pandemic outbreak of disease (such as COVID-19), climate change, weather, natural and other disasters and declines in personal spending could adversely impact our revenues, profitability and financial condition.

Changes in financial market conditions may make it difficult to access credit markets on commercially acceptable terms, which may reduce liquidity or increase borrowing costs for our Company, our customers and our suppliers. A significant reduction in liquidity could increase counterparty risk associated with certain suppliers and service providers, resulting in disruption to our supply chain and/or higher costs, and could impact our customers, resulting in a reduction in our revenue, or a possible increase in bad debt expense.

Additionally, in February 2022, Russia invaded Ukraine and this conflict is still ongoing. In response, the U.S. and other countries have imposed sanctions on Russia and may impose further sanctions that could damage or disrupt international commerce and the global economy. With respect to the conflict between Russia and Ukraine, the situation remains dynamic and subject to rapid and possibly material change. The Company's efforts to manage and mitigate any direct or indirect effects from this conflict may ultimately be unsuccessful, and the effectiveness of these efforts depends on factors beyond our control, including the duration of the conflict and potential governmental actions. The potential effects of the ongoing conflict between Russia and Ukraine may also impact many of the other risk factors described herein.

Risks Related to Digital Transformation, Cybersecurity and Data Privacy

Disruptions, failures or security breaches of our information technology infrastructure could have a negative impact on our operations.

Information technology is critically important to our business operations. We use information technology to manage all business processes including manufacturing, financial, logistics, sales, marketing and administrative functions. These processes collect, interpret and distribute business data and communicate internally and externally with employees, suppliers, customers and other third parties.

We are regularly the target of cyber, ransomware and other security threats. Therefore, we continuously monitor and update our information technology networks and infrastructure to prevent, detect, address and mitigate the risk of unauthorized access, misuse, computer viruses and other events that could have a security impact. We invest in industry standard security technology to protect the Company's data and business processes against risk of data security breach and cyber attack. Our data security management program includes identity, trust, vulnerability and threat management business processes as well as adoption of standard data protection policies. We measure our data security effectiveness through industry-accepted methods and remediate significant findings. Additionally, we certify our major technology suppliers and any outsourced services through accepted security certification standards. We maintain and routinely test backup systems and disaster recovery, along with external network security penetration testing by an independent third party as part of our business resiliency preparedness. We also have processes in place to prevent disruptions resulting from our implementation of new software and systems.



While we have been subject to cyber attacks, ransomware and other security breaches, these incidents did not have a significant impact on our business operations. We believe our security technology tools and processes provide adequate measures of protection against security and data breaches and in reducing cybersecurity risks. Nevertheless, despite continued vigilance in these areas, disruptions in or failures of information technology systems are possible and could have a negative impact on our operations or business reputation. Failure of our systems, including failures due to cyber attacks that would prevent the ability of systems to function as intended, could cause transaction errors, loss of customers and sales, and could have negative consequences to our Company, our employees and those with whom we do business. This in turn could have a negative impact on our financial condition and results or operations. In addition, the cost to remediate any damages to our information technology systems suffered as a result of a cyber attack could be significant.

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.



Item 2. PROPERTIES

Our principal properties include the following:

Country	Location	Type	Status (Own/Lease)
United States	Hershey, Pennsylvania (2 principal plants)	Manufacturing—confectionery products and pantry items	Own
	Lancaster, Pennsylvania	Manufacturing—confectionery products	Own
	Hazleton, Pennsylvania	Manufacturing—confectionery products	Own
	Robinson, Illinois	Manufacturing—confectionery products and pantry items	Own
	Stuarts Draft, Virginia	Manufacturing—confectionery products and pantry items	Own
	Edgerton, Kansas	Manufacturing—salty snack products	Own
	Bluffton, Indiana	Manufacturing—salty snack products	Lease
	Plymouth, Indiana	Manufacturing—salty snack products	Lease
	Lawrence, Kansas	Manufacturing—salty snack products	Lease
	Annville, Pennsylvania	Distribution	Own
	Palmyra, Pennsylvania	Distribution	Own
	Edwardsville, Illinois	Distribution	Own
	Ogden, Utah	Distribution	Own
	Kennesaw, Georgia	Distribution	Lease
	Whitestown, Indiana	Distribution	Lease
	Hershey, Pennsylvania	Corporate administrative	Lease
	New York, New York	Retail	Lease
	Canada	Brantford, Ontario	Distribution
Mexico	Monterrey, Mexico	Manufacturing—confectionery products	Own
	El Salto, Mexico	Manufacturing—confectionery products and pantry items	Own
Malaysia	Johor, Malaysia	Manufacturing—confectionery products	Own

In addition to the locations indicated above, we also own or lease several other properties and buildings worldwide which we use for manufacturing, sales, distribution and administrative functions. Our facilities are well maintained and generally have adequate capacity to accommodate seasonal demands, changing product mixes and certain additional growth. We regularly improve our facilities to incorporate the latest technologies. The largest facilities are located in Hershey, Lancaster and Hazleton, Pennsylvania; Monterrey and El Salto, Mexico; and Stuarts Draft, Virginia. The U.S., Canada and Mexico facilities in the table above primarily support our North America Confectionery and North America Salty Snacks segments, while the Malaysia facility primarily serves our International segment. As discussed in [Note 13](#) to the Consolidated Financial Statements, we do not manage our assets on a segment basis given the integration of certain manufacturing, warehousing, distribution and other activities in support of our global operations.

Item 3. LEGAL PROCEEDINGS

Information on legal proceedings is included in [Note 15](#) to the Consolidated Financial Statements.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.



SUPPLEMENTAL ITEM. INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The executive officers of the Company, their positions and, as of February 15, 2023, their ages are set forth below.

Name	Age	Positions Held During the Last Five Years
Michele G. Buck	61	Chairman of the Board, President and Chief Executive Officer (October 2019); President and Chief Executive Officer (March 2017)
Jennifer L. McCalman ⁽¹⁾	45	Vice President, Chief Accounting Officer (February 2021); Senior Director, Global Controller (March 2019)
Charles R. Raup	55	President, U.S. Confection (November 2022); President, U.S. (January 2020); Vice President, U.S. CMG (June 2018); Vice President and General Manager, Chocolate (August 2017)
Jason R. Reiman	51	Senior Vice President, Chief Supply Chain Officer (June 2019); Vice President, Supply Chain Operations (August 2018); Vice President, US Supply Chain Operations (July 2017); Vice President, International Operations (May 2017)
Kristen J. Riggs	44	President, Salty Snacks (November 2022); Senior Vice President, Chief Growth Officer (January 2020); Vice President, Innovation and Strategic Growth Platforms (September 2019); Vice President, Commercial Planning (June 2018); Vice President, Brand Commercialization (July 2017)
Christopher M. Scalia	47	Senior Vice President, Chief Human Resources Officer (January 2020); Vice President, Global Human Resources (March 2018); Vice President, Talent, HR Operations and Analytics (December 2014)
James Turoff	46	Senior Vice President, General Counsel and Secretary (May 2021); Acting General Counsel (December 2020); Vice President, Deputy General Counsel (March 2019); Vice President, SEC, Corporate Governance & Compliance (March 2018); Associate General Counsel, Securities & Governance and Business Transformation (May 2017)
Steven E. Voskuil ⁽²⁾	54	Senior Vice President, Chief Financial Officer (February 2021); Senior Vice President, Chief Financial Officer and Chief Accounting Officer (November 2019); Senior Vice President, Chief Financial Officer (May 2019)

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

- (1) Ms. McCalman was appointed Vice President, Chief Accounting Officer effective February 23, 2021. Prior to joining our Company she was Senior Director and Assistant Controller for Keurig Dr. Pepper (formerly Keurig Green Mountain) (May 2017).
- (2) Mr. Voskuil was appointed Senior Vice President, Chief Financial Officer effective May 13, 2019. Prior to joining our Company he was Senior Vice President and Chief Financial Officer at Avanos Medical, Inc. (November 2014).

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



PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our Common Stock is listed and traded principally on the New York Stock Exchange under the ticker symbol "HSY." The Class B Common Stock ("Class B Stock") is not publicly traded.

The closing price of our Common Stock on December 30, 2022 (the last business day of the of the fiscal year) was \$231.57. There were 24,076 stockholders of record of our Common Stock and 5 stockholders of record of our Class B Stock as of December 31, 2022.

We paid \$775.0 million in cash dividends on our Common Stock and Class B Stock in 2022 and \$686.0 million in 2021. The annual dividend rate on our Common Stock in 2022 was \$3.874 per share.

On January 31, 2023, our Board declared a quarterly dividend of \$1.036 per share of Common Stock payable on March 15, 2023, to stockholders of record as of February 17, 2023. It is the Company's 373rd consecutive quarterly Common Stock dividend. A quarterly dividend of \$0.942 per share of Class B Stock also was declared.

Unregistered Sales of Equity Securities and Use of Proceeds

None.

Issuer Purchases of Equity Securities

The following table shows the purchases of shares of Common Stock made by or on behalf of Hershey, or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934, as amended) of Hershey, for each fiscal month in the three months ended December 31, 2022:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (2) (in thousands of dollars)
October 3 through October 30	—	\$ —	—	\$ 609,983
October 31 through November 27	145,701	\$ 231.25	—	\$ 609,983
November 28 through December 31	—	\$ —	—	\$ 609,983
Total	145,701	\$ —	—	—

(1) During the three months ended December 31, 2022, 145,701 shares of Common Stock were purchased in open market transactions in connection with our standing authorization to buy back shares sufficient to offset those issued under incentive compensation plans, which authorization does not have a dollar or share limit and is not included in our share repurchase authorizations described in the following note (2).

(2) In July 2018, our Board of Directors approved a \$500 million share repurchase authorization. As of December 31, 2022, approximately \$110 million remained available for repurchases of our Common Stock under this program. In May 2021, our Board of Directors approved an additional \$500 million share repurchase authorization. This program is to commence after the existing 2018 authorization is completed and is to be utilized at management's discretion. These share repurchase programs do not have an expiration date.

In February 2023, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the Milton Hershey School Trust (the "School Trust"), pursuant to which the Company purchased 1,000,000 shares of the Company's Common Stock from the School Trust at a price equal to \$239.91 per share, for a total purchase price of \$239.9 million. As a result of this repurchase, our July 2018 share repurchase authorization program was completed in February 2023, and approximately \$370 million remains available for repurchases under our May 2021 share repurchase authorization.

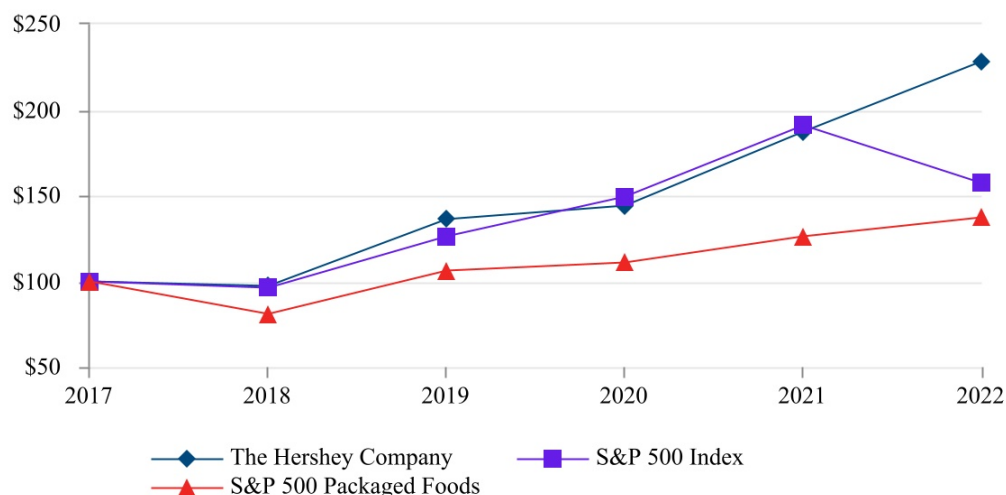


In February 2022, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company purchased 1,000,000 shares of the Company's Common Stock from the School Trust at a price equal to \$203.35 per share, for a total purchase price of \$203.4 million.

Stockholder Return Performance Graph

The following graph compares our cumulative total stockholder return (Common Stock price appreciation plus dividends, on a reinvested basis) over the last five fiscal years with the Standard & Poor's 500 Index and the Standard & Poor's 500 Packaged Foods Index.

Comparison of 5 Year Cumulative Total Return*
Among The Hershey Company, the S&P 500 Index,
and the S&P 500 Packaged Foods Index



*\$100 invested on December 31, 2017 in stock or index, assuming reinvestment of dividends.

Company/Index	December 31,					
	2017	2018	2019	2020	2021	2022
The Hershey Company	\$ 100	\$ 97	\$ 136	\$ 144	\$ 187	\$ 228
S&P 500 Index	\$ 100	\$ 96	\$ 126	\$ 149	\$ 191	\$ 157
S&P 500 Packaged Foods Index	\$ 100	\$ 81	\$ 106	\$ 111	\$ 126	\$ 137

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6. [RESERVED]



Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis ("MD&A") is intended to provide an understanding of Hershey's financial condition, results of operations and cash flows by focusing on changes in certain key measures from year to year. The MD&A should be read in conjunction with our Consolidated Financial Statements and accompanying Notes included in Item 8 of this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed elsewhere in this Annual Report on Form 10-K, particularly in Item 1A. "Risk Factors."

The MD&A is organized in the following sections:

- [Business Model and Growth Strategy](#)
- [Overview](#)
- [Trends Affecting Our Business](#)
- [Consolidated Results of Operations](#)
- [Segment Results](#)
- [Liquidity and Capital Resources](#)
- [Critical Accounting Policies and Estimates](#)

BUSINESS MODEL AND GROWTH STRATEGY

We are the largest producer of quality chocolate in North America, a leading snack maker in the United States and a global leader in chocolate and non-chocolate confectionery. We report our operations through three segments: (i) North America Confectionery, (ii) North America Salty Snacks and (iii) International, as discussed in [Note 13](#) to the Consolidated Financial Statements.

Our vision is to be a leading snacking powerhouse. We aspire to be a leader in meeting consumers' evolving snacking needs while strengthening the capabilities that drive our growth. We are focused on four strategic imperatives to ensure the Company's success now and in the future:

- *Drive Core Confection Business and Broaden Participation in Snacking.* We continue to be the undisputed leader in U.S. confection by taking actions to deepen our consumer connections and utilize our beloved brands to deliver meaningful innovation, while also diversifying our portfolio to capture profitable and incremental growth across the broader snacking continuum.
 - Our products frequently play an important role in special moments among family and friends. Seasons are an important part of our business model and for consumers, as they are highly anticipated, cherished times, centered around traditions. For us, it's an opportunity for our brands to be part of many connections during the year when family and friends gather.
 - Innovation is an important lever in this variety-seeking category and we are leveraging work from our proprietary demand landscape analytical tool to shape our future innovation and make it more impactful. We are becoming more disciplined in our focus on platform innovation, which should enable sustainable growth over time and significant extensions to our core.
 - To expand our breadth in snacking, we are focused on expanding the boundaries of our core confection brands to capture new snacking occasions and increasing our exposure into new snack categories through acquisitions. Our expansion into snacking recently has been fueled by the acquisitions of Dot's and Pretzels in December 2021, which are included in our North America Salty Snacks segment.
- *Deliver Profitable International Growth.* We are focused on ensuring that we efficiently allocate our resources to the areas with the highest potential for profitable growth. We have reset our international investment strategy, while holding fast to our belief that our targeted emerging market strategy will deliver long-term, profitable growth. The uncertain macroeconomic environment in many of these markets is expected to continue and we aim to ensure our investments in these international markets are appropriate relative to the size of the opportunity.



- *Expand Competitive Advantage through Differentiated Capabilities.* In order to generate actionable insights, we must acquire, integrate, access and utilize vast sources of the right data in an effective manner. We are working to leverage our advanced data and analytical techniques to gain a deep understanding of our consumers, our customers, our shoppers, our end-to-end supply chain, our retail environment and key economic drivers at both a macro and precision level, including digital transformation and new media models. In addition, we are in the process of transforming our supply chain capabilities and enterprise resource planning system, which will enable employees to work more efficiently and effectively.
- *Responsibly Manage Our Operations to Ensure the Long-Term Sustainability of Our Business, Our Planet and Our People.* We are a purpose-driven company and for more than a century, our iconic brands have been built on a foundation of community investment and connections between people around the world. We could not have achieved this without our remarkable employees who make our purpose a reality. We believe our long-standing values make our Company a special place to work.
 - We believe our employees are among our most important resources and are critical to our continued success. We utilize continuous listening surveys that are distributed throughout the year to all employees globally. These short and fast surveys reach all of our employees around the world to hear their thoughts on the Company’s direction and their place in it. These continuous touchpoints allow for real-time feedback and action from the Company. These surveys are further supplemented with quarterly and informative enterprise and team town halls, which, in conjunction with the continuous listening surveys, generate stronger employee engagement with the Company’s strategy, initiatives and leadership.
 - Our diverse and inclusive culture makes the difference across all areas of the business. Our gender representation includes women occupying many of the top positions in the Company, including Chief Executive Officer and Chairman of the Board, Chief Accounting Officer and President, Salty Snacks, and approximately 50% representation across the Company. In 2022, we maintained fair and equitable pay achievements, including 1:1 aggregate people of color pay equity for salaried employees in the United States (2021) and 1:1 aggregate gender pay (2020).
 - We have made strong progress on our ESG priorities and continue to elevate these ESG initiatives for a greater global impact. While we focus on sustainability and social impact across our value chain, we continue to improve and focus on the lives of cocoa farmers and cocoa communities, the environmental priorities of climate change and the role of packaging in our business, responsibly and sustainably sourcing the inputs to our products and increasing investments in human rights and diversity initiatives and growing diverse representation across the organization.

OVERVIEW

Hershey is a global confectionery leader known for making more moments of goodness through chocolate, sweets, mints and other great tasting snacks. We are the largest producer of quality chocolate in North America, a leading snack maker in the United States and a global leader in chocolate and non-chocolate confectionery. We market, sell and distribute our products under more than 100 brand names in approximately 80 countries worldwide.

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

Business Acquisitions and Divestitures

In December 2021, we completed the acquisition of Pretzels Inc. (“Pretzels”), previously a privately held company that manufactures and sells pretzels and other salty snacks for other branded products and private labels in the United States. Pretzels is an industry leader in the pretzel category with a product portfolio that includes filled, gluten free and seasoned pretzels, as well as extruded snacks that complements Hershey’s snacks portfolio. Based in Bluffton, Indiana, Pretzels operates three manufacturing locations in Indiana and Kansas. Pretzels provides Hershey with deep pretzel category and product expertise and the manufacturing capabilities to support brand growth and future pretzel innovation. Additionally, we completed the acquisition of Dot’s Pretzels, LLC (“Dot’s”), previously a privately held company that produces and sells pretzels and other snack food products to retailers and distributors in the United States, with *Dot’s Homestyle Pretzels* snacks as its primary product. Dot’s is the fastest-growing scale brand in the pretzel category and complements Hershey’s snacks portfolio.



In June 2021, we completed the acquisition of Lily’s Sweets, LLC (“Lily’s”), previously a privately held company that sells a line of sugar-free and low-sugar confectionery foods to retailers and distributors in the United States and Canada. Lily’s products include dark and milk chocolate style bars, baking chips, peanut butter cups and other confection products that complement Hershey’s confectionery and confectionery-based portfolio.

In January 2021, we completed the divestiture of Lotte Shanghai Foods Co., Ltd. (“LSFC”), which was previously included within the International segment results in our consolidated financial statements. Total proceeds from the divestiture and the impact on our consolidated financial statements were immaterial.

During the second quarter of 2020, we completed the divestitures of KRAVE Pure Foods, Inc. (“Krave”), which was previously included within the North America Salty Snacks segment, and the *Scharffen Berger* and *Dagoba* brands, both of which were previously included within the North America Confectionery segment results in our consolidated financial statements.

TRENDS AFFECTING OUR BUSINESS

Demand for consumer goods has remained strong throughout 2022, with continued positive consumer patterns identified for our products, as well as increased consumer optimism and mobility, including retail foot traffic. However, negative macroeconomic conditions, including inflation on inputs to consumer products, labor shortages and demand outpacing supply, have led to broad-based supply chain disruptions across the U.S. and globally. As a result, we experienced corresponding incremental costs and gross margin pressures during the year ended December 31, 2022 (see [Results of Operations](#) included in this MD&A). We are continuing to work closely with our business units, contract manufacturers, distributors, contractors and other external business partners to minimize the potential impact on our business.

In addition to broad-based supply chain disruptions, certain geopolitical events, specifically the conflict between Russia and Ukraine, have increased global economic and political uncertainty. For the year ended December 31, 2022, this conflict did not have a material impact on our commodity prices or supply availability. However, we are continuing to monitor for any significant escalation or expansion of economic or supply chain disruptions or broader inflationary costs, which may result in material adverse effects on our results of operations.

Net sales and net income increased during the year ended December 31, 2022, which was primarily driven by strong everyday performance on our core U.S. confection brands and salty snack brands (see [Segment Results](#) included in this MD&A), partially offset by the aforementioned supply chain disruptions and gross margin pressures. As of December 31, 2022, we believe we have sufficient liquidity to satisfy our key strategic initiatives and other material cash requirements in both the short-term and in the long-term; however, we continue to evaluate and take action, as necessary, to preserve adequate liquidity and ensure that our business can operate effectively during the current economic environment. We continue to monitor our discretionary spending across the organization (see [Liquidity and Capital Resources](#) included in this MD&A).

Based on the length and severity of broad-based supply chain disruptions, fluctuating levels of inflation, changes in consumer shopping and consumption behavior, and the conflict between Russia and Ukraine, we may experience increasing supply chain costs and higher inflation. We will continue to evaluate the nature and extent of these potential and evolving impacts on our business, consolidated results of operations, segment results, liquidity and capital resources.



CONSOLIDATED RESULTS OF OPERATIONS

For the years ended December 31, In millions of dollars except per share amounts	2022	2021	2020	Percent Change	
				2022 vs 2021	2021 vs 2020
Net sales	\$ 10,419.3	\$ 8,971.3	\$ 8,149.7	16.1 %	10.1 %
Cost of sales	5,920.5	4,922.7	4,448.5	20.3 %	10.7 %
Gross profit	4,498.8	4,048.6	3,701.2	11.1 %	9.4 %
<i>Gross margin</i>	43.2 %	45.1 %	45.4 %		
SM&A expense	2,236.0	2,001.4	1,890.9	11.7 %	5.8 %
<i>SM&A expense as a percent of net sales</i>	21.5 %	22.3%	23.2%		
Long-lived asset impairment charges	—	—	9.1	NM	NM
Business realignment costs	2.0	3.5	18.5	(43.6)%	(80.9)%
Operating profit	2,260.8	2,043.7	1,782.7	10.6 %	14.6 %
<i>Operating profit margin</i>	21.7 %	22.8 %	21.9 %		
Interest expense, net	137.6	127.4	149.4	8.0 %	(14.7)%
Other (income) expense, net	206.1	119.1	138.3	73.1 %	(13.9)%
Provision for income taxes	272.3	314.4	219.6	(13.4)%	43.2 %
<i>Effective income tax rate</i>	14.2 %	17.5 %	14.7 %		
Net income including noncontrolling interest	1,644.8	1,482.8	1,275.4	10.9 %	16.3 %
Less: Net gain (loss) attributable to noncontrolling interest	—	5.3	(3.3)	NM	NM
Net income attributable to The Hershey Company	\$ 1,644.8	\$ 1,477.5	\$ 1,278.7	11.3 %	15.5 %
Net income per share—diluted	\$ 7.96	\$ 7.11	\$ 6.11	12.0 %	16.4 %

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

NM = not meaningful

Net Sales

2022 compared with 2021

Net sales increased 16.1% in 2022 compared with 2021, reflecting a favorable price realization of 8.0% due to higher prices on certain products, a 4.3% benefit from net acquisitions and divestitures driven by the 2021 acquisitions of Lily's, Dot's and Pretzels and a volume increase of 4.0% due to an increase in consumer demand primarily in everyday core U.S. confection brands and salty snack brands. These increases were slightly offset by an unfavorable impact from foreign currency exchange rates of 0.2%.

2021 compared with 2020

Net sales increased 10.1% in 2021 compared with 2020, reflecting a volume increase of 5.6% due to an increase in everyday core U.S. confection brands and salty snack brands, a favorable price realization of 3.1% due to higher prices on certain products, a 1.0% benefit from net acquisitions and divestitures driven by the 2021 acquisitions of Lily's, Dot's and Pretzels and a favorable impact from foreign currency exchange rates of 0.4%.

Key U.S. Marketplace Metrics

For the full year 2022, our total U.S. retail takeaway increased 11.4% in the expanded multi-outlet combined plus convenience store channels (IRI MULO + C-Stores), which includes candy, mint, gum, salty snacks and grocery items. Our U.S. candy, mint and gum ("CMG") consumer takeaway increased 10.7%, resulting in a CMG market share decline of approximately 54 basis points.



The CMG consumer takeaway and market share information reflect measured channels of distribution accounting for approximately 90% of our U.S. confectionery retail business. These channels of distribution primarily include food, drug, mass merchandisers and convenience store channels, plus Wal-Mart Stores, Inc., partial dollar, club and military channels. These metrics are based on measured market scanned purchases as reported by Information Resources, Incorporated (“IRI”), the Company’s market insights and analytics provider, and provide a means to assess our retail takeaway and market position relative to the overall category.

Cost of Sales and Gross Margin

2022 compared with 2021

Cost of sales increased 20.3% in 2022 compared with 2021. The increase was driven by higher sales volume, higher supply chain inflation costs, including higher logistics and labor costs and an incremental \$40.8 million of unfavorable mark-to-market activity on our commodity derivative instruments intended to economically hedge future years’ commodity purchases. Additionally, the increase was partially offset by favorable price realization and supply chain productivity.

Gross margin decreased by 200 basis points in 2022 compared with 2021. The decrease was driven by unfavorable year-over-year mark-to-market impact from commodity derivative instruments, higher supply chain inflation costs, including higher logistics and labor costs, and unfavorable product mix. These declines were offset by favorable price realization and volume increases.

2021 compared with 2020

Cost of sales increased 10.7% in 2021 compared with 2020. The increase was driven by higher sales volume, higher freight and logistics costs and additional plant costs. These drivers were partially offset by the incremental \$78.8 million of favorable mark-to-market activity on our commodity derivative instruments intended to economically hedge future years’ commodity purchases; however, our mark-to-market activity was significantly impacted by financial market volatility during March 2020 amid the COVID-19 outbreak. Additionally, the increase was partially offset by favorable price realization and supply chain productivity.

Gross margin decreased by 30 basis points in 2021 compared with 2020. The decrease was driven by higher freight and logistics costs and additional plant costs. These factors were partially offset by favorable price realization, supply chain productivity and the favorable year-over-year mark-to-market impact from commodity derivative instruments.

Selling, Marketing and Administrative

2022 compared with 2021

Selling, marketing and administrative (“SM&A”) expenses increased \$234.7 million, or 11.7%, in 2022 driven by increased corporate expenses. Total advertising and related consumer marketing expenses increased 2.7% driven by advertising increases in our confectionery brands and increased investment in our salty snacks portfolio, which were partially offset by cost efficiencies related to new media partners. SM&A expenses, excluding advertising and related consumer marketing, increased approximately 16.3% in 2022 driven by an increase in acquisition and integration related costs, as well as higher compensation costs, investments in capabilities and technology and broad-based marketplace inflation.

2021 compared with 2020

SM&A expenses increased \$110.4 million, or 5.8%, in 2021 driven by increased corporate expenses. Total advertising and related consumer marketing expenses decreased 0.2% driven by lower advertising in our North America Confectionery segment. SM&A expenses, excluding advertising and related consumer marketing, increased approximately 9.2% in 2021 driven by higher compensation costs and investments in capabilities and technology.



Long-Lived Asset Impairment Charges

In 2022 and 2021, we recorded no impairments charges. In 2020, we recorded the following impairment charges:

For the year ended December 31,	2020
In millions of dollars	
Adjustment to disposal group (1)	\$ 6.2
Other asset write-down (2)	2.9
Long-lived asset impairment charges	<u>\$ 9.1</u>

- (1) In connection with our LSFC disposal group, which was previously classified as held for sale during 2020, we recorded impairment charges to adjust long-lived asset values. The fair value of the disposal group was supported by potential sales prices with third-party buyers. The sale of the LSFC joint venture was completed in January 2021.
- (2) In connection with a previous sale, the Company wrote-down certain receivables deemed uncollectible.

The assessment of the valuation of goodwill and other long-lived assets is based on management estimates and assumptions, as discussed in our critical accounting policies included in [Item 7](#) of this Annual Report on Form 10-K. These estimates and assumptions are subject to change due to changing economic and competitive conditions.

Business Realignment Activities

We periodically undertake business realignment activities designed to increase our efficiency and focus our business in support of our key growth strategies. In 2022, 2021 and 2020, we recorded business realignment costs of \$2.0 million, \$3.5 million and \$18.5 million, respectively. The 2022, 2021, and 2020 costs related primarily to the International Optimization Program, a program focused on optimizing our China operating model to improve our operational efficiency and provide for a strong, sustainable and simplified base going forward. Costs associated with business realignment activities are classified in our Consolidated Statements of Income as described in [Note 9](#) to the Consolidated Financial Statements.

Operating Profit and Operating Profit Margin

2022 compared with 2021

Operating profit increased 10.6% in 2022 compared with 2021 predominantly due to higher gross profit, partially offset by higher SM&A expenses, as noted above. Operating profit margin decreased to 21.7% in 2022 from 22.8% in 2021 by the same factors noted above that resulted in lower gross margin for the period.

2021 compared with 2020

Operating profit increased 14.6% in 2021 compared with 2020 due primarily to higher gross profit, lower business realignment costs and lower impairment charges, partially offset by higher SM&A in the 2021 period, as noted above. Operating profit margin increased to 22.8% in 2021 from 21.9% in 2020 driven by these same factors.

Interest Expense, Net

2022 compared with 2021

Net interest expense was \$10.1 million higher in 2022 than in 2021. The increase was primarily due to higher rates on short-term debt balances in 2022 versus 2021, specifically related to outstanding commercial paper borrowings. The increase was partially offset due to lower average long-term debt balances, specifically resulting from the repayment of \$84.7 million of 8.800% Debentures upon their maturity in February 2021 and \$350 million of 3.100% Notes upon their maturity in May 2021.

2021 compared with 2020

Net interest expense was \$22.0 million lower in 2021 than in 2020. The decrease was due to lower average long-term debt balances in 2021 versus 2020, specifically resulting from \$435 million of long-term debt repayments with varying maturity dates during 2021.



Other (Income) Expense, Net

2022 compared with 2021

Other (income) expense, net totaled an expense of \$206.1 million in 2022 versus an expense of \$119.1 million in 2021. The increase in the net expense was primarily due to higher write-downs on equity investments qualifying for tax credits in 2022 versus 2021 and higher non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans.

2021 compared with 2020

Other (income) expense, net totaled an expense of \$119.1 million in 2021 versus an expense of \$138.3 million in 2020. The decrease in the net expense was primarily due to lower write-downs on equity investments qualifying for historic and renewable energy tax credits, in addition to lower non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans during 2021 compared to the 2020 period.

Income Taxes and Effective Tax Rate

2022 compared with 2021

Our effective income tax rate was 14.2% for 2022 compared with 17.5% for 2021. Relative to the 21% statutory rate, the 2022 effective tax rate benefited from investment tax credits, partially offset by state taxes. The 2021 effective rate, relative to the 21% statutory rate, benefited from investment tax credits, partially offset by incremental tax reserves incurred as a result of an adverse ruling in connection with a non-U.S. tax litigation matter, as well as state taxes.

2021 compared with 2020

Our effective income tax rate was 17.5% for 2021 compared with 14.7% for 2020. Relative to the 21% statutory rate, the 2021 effective tax rate benefited from investment tax credits, partially offset by incremental tax reserves incurred as a result of an adverse ruling in connection with a non-U.S. tax litigation matter, as well as state taxes. The 2020 effective rate, relative to the 21% statutory rate, benefited from investment tax credits and the benefit of employee share-based payments, partially offset by state taxes.

Net Income Attributable to The Hershey Company and Earnings Per Share-diluted

2022 compared with 2021

Net income increased \$167.3 million, or 11.3%, while EPS-diluted increased \$0.85, or 12.0%, in 2022 compared with 2021. The increase in both net income and EPS-diluted was driven primarily by higher gross profit and lower income taxes, partially offset by higher SM&A expenses and higher other income and expenses. Our 2022 EPS-diluted also benefited from lower weighted-average shares outstanding as a result of share repurchases pursuant to our Board-approved repurchase programs.

2021 compared with 2020

Net income increased \$198.8 million, or 15.5%, while EPS-diluted increased \$1.00, or 16.4%, in 2021 compared with 2020. The increase in both net income and EPS-diluted was driven primarily by higher gross profit, partially offset by higher SM&A and higher income taxes in 2021. Our 2021 EPS-diluted also benefited from lower weighted-average shares outstanding as a result of share repurchases pursuant to our Board-approved repurchase programs.



SEGMENT RESULTS

The summary that follows provides a discussion of the results of operations of our three segments: North America Confectionery, North America Salty Snacks and International. For segment reporting purposes, we use “segment income” to evaluate segment performance and allocate resources. Segment income excludes unallocated general corporate administrative expenses, unallocated mark-to-market gains and losses on commodity derivatives, business realignment and impairment charges, acquisition-related costs and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are largely managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the Chief Operating Decision Maker and used for resource allocation and internal management reporting and performance evaluation. Segment income and segment income margin, which are presented in the segment discussion that follows, are non-GAAP measures and do not purport to be alternatives to operating income as a measure of operating performance. We believe that these measures are useful to investors and other users of our financial information in evaluating ongoing operating profitability as well as in evaluating operating performance in relation to our competitors, as they exclude the activities that are not directly attributable to our ongoing segment operations.

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

For the years ended December 31,	2022	2021	2020
In millions of dollars			
Net Sales:			
North America Confectionery	\$ 8,536.5	\$ 7,682.4	\$ 7,084.9
North America Salty Snacks	1,029.4	555.4	438.2
International	853.4	733.5	626.6
Total	\$ 10,419.3	\$ 8,971.3	\$ 8,149.7
Segment Income:			
North America Confectionery	\$ 2,811.1	\$ 2,475.9	\$ 2,274.6
North America Salty Snacks	159.9	100.7	75.8
International	107.9	74.2	—
Total segment income	3,078.9	2,650.8	2,350.4
Unallocated corporate expense (1)	735.5	614.9	520.7
Unallocated mark-to-market losses (gains) on commodity derivatives (2)	78.2	(24.4)	6.4
Long-lived asset impairment charges	—	—	9.1
Costs associated with business realignment activities	4.4	16.6	31.5
Operating profit	2,260.8	2,043.7	1,782.7
Interest expense, net	137.6	127.4	149.4
Other (income) expense, net	206.2	119.1	138.3
Income before income taxes	\$ 1,917.0	\$ 1,797.2	\$ 1,495.0

- (1) Includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense, (d) acquisition-related costs and (e) other gains or losses that are not integral to segment performance.
- (2) Net losses (gains) on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative losses (gains). See [Note 13](#) to the Consolidated Financial Statements.



North America Confectionery

The North America Confectionery segment is responsible for our chocolate and non-chocolate confectionery market position in the United States and Canada. This includes developing and growing our business in chocolate and non-chocolate confectionery, gum and refreshment products, protein bars, spreads, snack bites and mixes, as well as pantry and food service lines. While a less significant component, this segment also includes our retail operations, including Hershey's Chocolate World stores in Hershey, Pennsylvania; New York, New York; Las Vegas, Nevada; Niagara Falls (Ontario) and Singapore, as well as operations associated with licensing the use of certain trademarks and products to third parties around the world. North America Confectionery accounted for 81.9%, 85.6% and 86.9% of our net sales in 2022, 2021 and 2020, respectively. North America Confectionery results for the years ended December 31, 2022, 2021 and 2020 were as follows:

For the years ended December 31, In millions of dollars	2022	2021	2020	Percent Change	
				2022 vs 2021	2021 vs 2020
Net sales	\$ 8,536.5	\$ 7,682.4	\$ 7,084.9	11.1 %	8.4 %
Segment income	2,811.1	2,475.9	2,274.6	13.5 %	8.8 %
Segment margin	32.9 %	32.2 %	32.1 %		

2022 compared with 2021

Net sales of our North America Confectionery segment increased \$854.1 million, or 11.1%, in 2022 compared to 2021, reflecting a favorable price realization of 8.1% due to higher prices on certain products, a volume increase of 2.8% due to an increase in everyday core U.S. confection brands, and a 0.4% benefit from the 2021 acquisition of Lily's. These increases were partially offset by an unfavorable impact from foreign currency exchange rates of 0.2%.

Our North America Confectionery segment also includes licensing and owned retail. This includes our Hershey's Chocolate World stores in the United States (3 locations), Niagara Falls (Ontario) and Singapore. Our net sales for licensing and owned retail increased approximately 12.7% during 2022 compared to 2021.

Our North America Confectionery segment income increased \$335.2 million, or 13.5%, in 2022 compared to 2021, primarily due to favorable price realization and volume increases, partially offset by higher supply chain inflation costs, including higher logistics and labor costs, as well as, unfavorable product mix.

2021 compared with 2020

Net sales of our North America Confectionery segment increased \$597.5 million, or 8.4%, in 2021 compared to 2020, reflecting a volume increase of 5.1% due to an increase in everyday core U.S. confection brands, a favorable price realization of 2.1% due to higher prices on certain products, a 0.9% benefit from the 2021 acquisition of Lily's and a favorable impact from foreign currency exchange rates of 0.3%.

Our North America Confectionery segment also includes licensing and owned retail. At the onset of the pandemic, all Hershey's Chocolate World stores were temporarily closed and subsequently re-opened in July 2020 with increased safety measures. This included the United States (3 locations), Niagara Falls (Ontario) and Singapore. As a result, our net sales increased approximately 37.4% during 2021 compared to 2020.

Our North America Confectionery segment income increased \$201.3 million, or 8.8%, in 2021 compared to 2020, primarily due to favorable price realization and volume increases, partially offset by higher supply chain-related costs, higher freight and logistics costs, as well as unfavorable product mix.



North America Salty Snacks

The North America Salty Snacks segment is responsible for our grocery and snacks market positions, including our salty snacking products. North America Salty Snacks accounted for 9.9%, 6.2% and 5.4% of our net sales in 2022, 2021 and 2020, respectively. North America Salty Snacks results for the years ended December 31, 2022, 2021 and 2020 were as follows:

For the years ended December 31,	2022	2021	2020	Percent Change	
				2022 vs 2021	2021 vs 2020
In millions of dollars					
Net sales	\$ 1,029.4	\$ 555.4	\$ 438.2	85.3 %	26.7 %
Segment income	159.9	100.7	75.8	58.8 %	32.8 %
Segment margin	15.5 %	18.1 %	17.3 %		

2022 compared with 2021

Net sales for our North America Salty Snacks segment increased \$474 million, or 85.3%, in 2022 compared to 2021, reflecting a 64.0% benefit from the 2021 acquisitions of Dot's and Pretzels, a favorable price realization of 12.0% due to higher prices on certain products and a volume increase of 9.3% primarily related to *SkinnyPop* and *Pirates Booty* snacks.

Our North America Salty Snacks segment income increased \$59.2 million, or 58.8%, in 2022 compared to 2021, primarily due to favorable price realization and volume increases, partially offset by higher supply chain inflation costs, including higher logistics and labor costs, as well as, unfavorable product mix.

2021 compared with 2020

Net sales for our North America Salty Snacks segment increased \$117.2 million, or 26.7%, in 2021 compared to 2020, reflecting a volume increase of 16.9%, primarily related to *SkinnyPop* and *Pirates Booty* snacks, a favorable price realization of 5.7% due to higher prices on certain products and a 4.1% benefit from net acquisitions and divestitures driven by the 2021 acquisitions of Dot's and Pretzels.

Our North America Salty Snacks segment income increased \$24.9 million, or 32.8%, in 2021 compared to 2020, primarily due to favorable price realization and volume increases, partially offset by higher supply chain-related costs, higher freight and logistics costs, as well as unfavorable product mix.



International

The International segment includes all other countries where we currently manufacture, import, market, sell or distribute chocolate and non-chocolate confectionery and other products. We currently, have operations and manufacture product in Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets of Latin America, as well as Asia, Europe, the Middle East and Africa (“AEMEA”) and other regions. International accounted for 8.2%, 8.2% and 7.7% of our net sales in 2022, 2021 and 2020, respectively. International results for the years ended December 31, 2022, 2021 and 2020 were as follows:

For the years ended December 31, In millions of dollars	2022	2021	2020	Percent Change	
				2022 vs 2021	2021 vs 2020
Net sales	\$ 853.4	\$ 733.5	\$ 626.6	16.3 %	17.1 %
Segment income	107.9	74.2	—	45.4 %	NM
Segment margin	12.6 %	10.1 %	— %		

NM = not meaningful

2022 compared with 2021

Net sales of our International segment increased \$119.9 million, or 16.3%, in 2022 compared to 2021, reflecting a volume increase of 11.9%, a favorable price realization of 4.1%, and a favorable impact from foreign currency exchange rates of 0.3%. The volume increase was primarily attributed to solid marketplace growth in Brazil, Mexico and India, where net sales increased by 21.6%, 20.6% and 13.7%, respectively. Our International segment also includes world travel retail, where net sales increased approximately 28.6%.

Our International segment income increased \$33.7 million in 2022 compared to 2021 primarily resulting from volume increases, favorable price realization, and the execution of our International Optimization Program in China, as we streamline and optimize our China operating model.

2021 compared with 2020

Net sales of our International segment increased \$106.9 million, or 17.1%, in 2021 compared to 2020, reflecting a favorable price realization of 12.1%, a volume increase of 4.2% and a favorable impact from foreign currency exchange rates of 0.8%. The volume increase was primarily attributed to solid marketplace growth in Mexico, India, and Brazil, where net sales increased by 39.0%, 23.9% and 21.3%, respectively. Our International segment also includes world travel retail, where net sales increased approximately 27.1%. These increases also benefited from a favorable impact from foreign currency exchange rates of 1.0%.

Our International segment income increased \$74.2 million in 2021 compared to 2020 with the improvement primarily resulting from execution of our International Optimization Program in China, as we streamline and optimize our China operating model, as well as volume increases and favorable price realization.



Unallocated Corporate Expense

Unallocated corporate expense includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense and (d) other gains or losses that are not integral to segment performance.

Unallocated corporate expense totaled \$735.5 million in 2022 as compared to \$614.9 million in 2021. The increase was primarily driven by an increase in acquisition and integration related costs, as well as higher compensation costs, investments in capabilities and technology and broad-based marketplace inflation.

Unallocated corporate expense totaled \$614.9 million in 2021 as compared to \$520.7 million in 2020 primarily driven by higher incentive compensation, higher group insurance costs from COVID-19-related delays in preventive care and incremental investments in capabilities and technology.

LIQUIDITY AND CAPITAL RESOURCES

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing and financing activities. Significant factors affecting liquidity include cash flows generated from operating activities, capital expenditures, acquisitions, dividends, repurchases of outstanding shares, the adequacy of available commercial paper and bank lines of credit, and the ability to attract long-term capital with satisfactory terms. We generate substantial amounts of cash from operations and remain in a strong financial position, with sufficient liquidity available for capital reinvestment, strategic acquisitions and the payment of dividends.

Cash Flow Summary

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

In millions of dollars	2022	2021	2020
Net cash provided by (used in):			
Operating activities	\$ 2,327.8	\$ 2,082.9	\$ 1,699.6
Investing activities	(787.4)	(2,222.8)	(531.3)
Financing activities	(1,415.7)	(681.1)	(499.2)
Effect of exchange rate changes on cash and cash equivalents	9.9	(5.1)	(7.0)
Less: Cash classified as assets held for sale	—	11.4	(11.4)
Increase (decrease) in cash and cash equivalents	\$ 134.6	\$ (814.7)	\$ 650.7

Operating activities

Our principal source of liquidity is cash flow from operations. Our net income and, consequently, our cash provided by operations are impacted by sales volume, seasonal sales patterns, timing of new product introductions, profit margins and price changes. Sales are typically higher during the third and fourth quarters of the year due to seasonal and holiday-related sales patterns. Generally, working capital needs peak during the summer months. We meet these needs primarily with cash on hand, bank borrowings or the issuance of commercial paper.

We generated cash of \$2.3 billion from operating activities in 2022, an increase of \$244.9 million compared to \$2.1 billion in 2021. This increase in net cash provided by operating activities was mainly driven by the following factors:

- In the aggregate, select net working capital items, specifically, trade accounts receivable, inventory, accounts payable and accrued liabilities, consumed cash of \$9 million in 2022 and generated cash of \$47 million in 2021. This \$56 million fluctuation was mainly driven by a higher year-over-year build up of U.S. inventories to satisfy product requirements and maintain sufficient levels to accommodate customer requirements, partially offset by the timing of vendor and supplier payments.
- Net income adjusted for non-cash charges to operations (including depreciation, amortization, stock-based compensation, deferred income taxes, write-down of equity investments and other charges) resulted in \$348 million of higher cash flow in 2022 relative to 2021.



We generated cash of \$2.1 billion from operating activities in 2021, an increase of \$383.3 million compared to \$1.7 billion in 2020. This increase in net cash provided by operating activities was mainly driven by the following factors:

- In the aggregate, select net working capital items, specifically, trade accounts receivable, inventory, accounts payable and accrued liabilities, generated cash of \$47 million in 2021 and consumed cash of \$166 million in 2020. This \$213 million fluctuation was mainly driven by strong demand of U.S. inventories, specifically our everyday core U.S. confection brands and salty snack brands.
- Net income adjusted for non-cash charges to operations (including depreciation, amortization, stock-based compensation, deferred income taxes, long-lived asset charges, write-down of equity investments and other charges) resulted in \$185 million of higher cash flow in 2021 relative to 2020.

Pension and Post-Retirement Activity. We recorded net periodic benefit costs of \$36.3 million, \$28.4 million and \$34.5 million in 2022, 2021 and 2020, respectively, relating to our benefit plans (including our defined benefit and other post retirement plans). The main drivers of fluctuations in expense from year to year are assumptions in formulating our long-term estimates, including discount rates used to value plan obligations, expected returns on plan assets, the service and interest costs and the amortization of actuarial gains and losses.

The funded status of our qualified defined benefit pension plans is dependent upon many factors, including returns on invested assets, the level of market interest rates and the level of funding. We contribute cash to our plans at our discretion, subject to applicable regulations and minimum contribution requirements. Cash contributions to our pension and post retirement plans totaled \$78.5 million, \$51.1 million and \$11.7 million in 2022, 2021 and 2020, respectively.

Investing activities

Our principal uses of cash for investment purposes relate to purchases of property, plant and equipment and capitalized software, as well as acquisitions of businesses, partially offset by proceeds from sales of property, plant and equipment. We used cash of \$787.4 million for investing activities in 2022 compared to \$2.2 billion in 2021, with the decrease in cash spend driven by lower levels of acquisition activity, partially offset by higher capital spend and investment tax credits. We used cash of \$531.3 million for investing activities in 2020, with the increase in 2021 in cash spend driven by higher levels acquisition activity.

Primary investing activities include the following:

- *Capital spending.* Capital expenditures, including capitalized software, primarily to support our ERP system implementation, capacity expansion, innovation and cost savings, were \$519.5 million in 2022, \$495.9 million in 2021 and \$441.6 million in 2020. For each of the years presented, our expenditures increased due to progress on capacity expansion projects and our ERP system implementation. We expect 2023 capital expenditures, including capitalized software, to approximate \$800 million to \$900 million. The increase in our 2023 capital expenditures is largely driven by our key strategic initiatives, including core confection capacity expansion and continued investments in a digital infrastructure including the build and upgrade of a new ERP system across the enterprise. We intend to use our existing cash and internally generated funds to meet our 2023 capital requirements.
- *Investments in partnerships qualifying for tax credits.* We make investments in partnership entities that in turn make equity investments in projects eligible to receive federal historic and energy tax credits. We invested approximately \$275.5 million in 2022, \$128.4 million in 2021 and \$87.2 million in 2020 in projects qualifying for tax credits.
- *Business acquisitions.* In 2022 and 2020, we had no acquisition activity. In 2021, we spent an aggregate \$1.6 billion to acquire Lily's (June 2021), as well as Dot's and Pretzels (December 2021). Further details regarding our business acquisition activity is provided in [Note 2](#) to the Consolidated Financial Statements.
- *Other investing activities.* In 2022, 2021, and 2020, our other investing activities were minimal.



Financing activities

Our cash flow from financing activities generally relates to the use of cash for purchases of our Common Stock and payment of dividends, offset by net borrowing activity and proceeds from the exercise of stock options. Financing activities in 2022 used cash of \$1.4 billion, compared to cash used of \$681.1 million in 2021. We used cash of \$499.2 million for financing activities in 2020.

The majority of our financing activity was attributed to the following:

- *Short-term borrowings, net.* In addition to utilizing cash on hand, we use short-term borrowings (commercial paper and bank borrowings) to fund seasonal working capital requirements and ongoing business needs. In 2022, used cash of \$245.6 million to reduce a portion of our short-term commercial paper borrowings originally used to fund our 2021 acquisitions of Dot's and Pretzels, partially offset by an increase in short-term foreign bank borrowings. In 2021, we generated cash flow of \$869.0 million predominantly through the issuance of short-term commercial paper. In 2020, we generated cash flow of \$41.8 million due to an increase in short-term foreign bank borrowings.
- *Long-term debt borrowings and repayments.* In 2022, long-term debt activity was minimal. In February 2021 and May 2021, we repaid \$84.7 million of 8.800% Debentures and \$350 million of 3.100% Notes due upon their maturities, respectively. In May 2020, we issued \$300 million of 0.900% Notes due in 2025, \$350 million of 1.700% Notes due in 2030 and \$350 million of 2.650% Notes due in 2050 (the "2020 Notes"). Proceeds from the issuance of the 2020 Notes, net of discounts and issuance costs, totaled \$989.9 million. Additionally, in May 2020 and December 2020, we repaid \$350 million of 2.900% Notes and \$350 million of 4.125% Notes due upon their maturities, respectively. In 2023, we expect our long-term debt repayments to approximate \$750 million upon the maturity of \$250 million of 2.625% Notes and \$500 million of 3.375% Notes, both due in May 2023.
- *Dividend payments.* Total dividend payments to holders of our Common Stock and Class B Common Stock were \$775.0 million in 2022, \$686.0 million in 2021 and \$640.7 million in 2020. Dividends per share of Common Stock increased 13.6% to \$3.874 per share in 2022 compared to \$3.410 per share in 2021, while dividends per share of Class B Common Stock increased 13.6% in 2022. Details regarding our 2022 cash dividends paid to stockholders are as follows:

In millions of dollars except per share amounts	Quarter Ended			
	April 3, 2022	July 3, 2022	October 2, 2022	December 31, 2022
Dividends paid per share – Common stock	\$ 0.901	\$ 0.901	\$ 1.036	\$ 1.036
Dividends paid per share – Class B common stock	\$ 0.819	\$ 0.819	\$ 0.942	\$ 0.942
Total cash dividends paid	\$ 181.1	\$ 179.9	\$ 207.0	\$ 207.0
Declaration date	February 2, 2022	April 27, 2022	July 27, 2022	November 2, 2022
Record date	February 18, 2022	May 20, 2022	August 19, 2022	November 18, 2022
Payment date	March 15, 2022	June 15, 2022	September 15, 2022	December 15, 2022



- *Share repurchases.* We repurchase shares of Common Stock to offset the dilutive impact of treasury shares issued under our equity compensation plans. The value of these share repurchases in a given period varies based on the volume of stock options exercised and our market price. In addition, we periodically repurchase shares of Common Stock pursuant to Board-authorized programs intended to drive additional stockholder value. Details regarding our share repurchases are as follows:

In millions	2022	2021	2020
Milton Hershey School Trust repurchase (1)	\$ 203.4	\$ —	\$ —
Shares repurchased in the open market under pre-approved share repurchase programs (2)	—	150.0	150.0
Shares repurchased in the open market to replace Treasury Stock issued for stock options and incentive compensation	\$ 185.6	\$ 308.0	\$ 61.2
Cash used for total share repurchases	389.0	458.0	211.2
Total shares repurchased under pre-approved share repurchase programs	—	0.9	1.0

(1) In February 2022, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company purchased 1,000,000 shares of the Company's Common Stock from the School Trust at a price equal to \$203.35 per share, for a total purchase price of \$203.4 million.

(2) In July 2018, our Board of Directors approved a \$500 million share repurchase authorization. As of December 31, 2022, approximately \$110 million remained available for repurchases of our Common Stock under this program. In May 2021, our Board of Directors approved an additional \$500 million share repurchase authorization. This program is to commence after the existing 2018 authorization is completed and is to be utilized at management's discretion. These share repurchase programs do not have an expiration date. We expect 2023 share repurchases to be in line with our traditional buyback strategy.

Additionally, in February 2023, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company purchased 1,000,000 shares of the Company's Common Stock from the School Trust at a price equal to \$239.91 per share, for a total purchase price of \$239.9 million. As a result of this repurchase, our July 2018 share repurchase authorization program was completed in February 2023, and approximately \$370 million remains available for repurchases under our May 2021 share repurchase authorization.

- *Proceeds from the exercise of stock options, including tax benefits.* In 2022 we received \$34.2 million from employee exercises of stock options and paid \$35.5 million of employee taxes withheld from share-based awards. We received \$33.2 million and \$25.5 million from employee exercises of stock options, net of employee taxes withheld from share-based awards in 2021 and 2020, respectively. Variances are driven primarily by the number of shares exercised and the share price at the date of grant.



Financial Condition

At December 31, 2022, our cash and cash equivalents totaled \$463.9 million. At December 31, 2021, our cash and cash equivalents totaled \$329.3 million. Our cash and cash equivalents at the end of 2022 increased \$134.6 million compared to the 2021 year-end balance as a result of the net sources of cash outlined in the previous discussion.

Approximately 90% of the balance of our cash and cash equivalents at December 31, 2022 was held by subsidiaries domiciled outside of the United States. A majority of this balance is distributable to the United States without material tax implications, such as withholding tax. We intend to continue to reinvest the remainder of the earnings outside of the United States for which there would be a material tax implication to distributing for the foreseeable future and, therefore, have not recognized additional tax expense on these earnings. We believe that our existing sources of liquidity are adequate to meet anticipated funding needs at comparable risk-based interest rates for the foreseeable future. Acquisition spending and/or share repurchases could potentially increase our debt. Operating cash flow and access to capital markets are expected to satisfy our various short- and long-term cash flow requirements, including acquisitions and capital expenditures.

We maintain debt levels we consider prudent based on our cash flow, interest coverage ratio and percentage of debt to capital. We use debt financing to lower our overall cost of capital which increases our return on stockholders' equity. Our total short- and long-term debt was \$4.8 billion at December 31, 2022 and \$5.0 billion at December 31, 2021. Our total debt decreased in 2022 mainly due the repayment of short-term commercial paper borrowings originally used to fund our 2021 acquisitions of Dot's and Pretzels.

As a source of short-term financing, we maintain a \$1.5 billion unsecured revolving credit facility with the option to increase borrowings by an additional \$500 million with the consent of the lenders. As of December 31, 2022, the termination date of this agreement is July 2, 2024, however, we may extend the termination date for up to two additional one-year periods upon notice to the administrative agent under the facility. We may use these funds for general corporate purposes, including commercial paper backstop and business acquisitions. As of December 31, 2022, we had \$942 million of available capacity under the agreement. The unsecured revolving credit agreement contains certain financial and other covenants, customary representations, warranties and events of default. We were in compliance with all covenants as of December 31, 2022.

In addition to the revolving credit facility, we maintain lines of credit in various currencies with domestic and international commercial banks. As of December 31, 2022, we had available capacity of \$178 million under these lines of credit.

Furthermore, we have a current shelf registration statement filed with the SEC that allows for the issuance of an indeterminate amount of debt securities. Proceeds from the debt issuances and any other offerings under the current registration statement may be used for general corporate requirements, including reducing existing borrowings, financing capital additions and funding contributions to our pension plans, future business acquisitions and working capital requirements.

Our ability to obtain debt financing at comparable risk-based interest rates is partly a function of our existing cash-flow-to-debt and debt-to-capitalization levels as well as our current credit rating.

We believe that our existing sources of liquidity are adequate to meet anticipated funding needs at comparable risk-based interest rates for the foreseeable future. Acquisition spending and/or share repurchases could potentially increase our debt. Operating cash flow and access to capital markets are expected to satisfy our various short- and long-term cash flow requirements, including acquisitions and capital expenditures.



Equity Structure

We have two classes of stock outstanding – Common Stock and Class B Stock. Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors. Holders of the Common Stock have 1 vote per share. Holders of the Class B Stock have 10 votes per share. Holders of the Common Stock, voting separately as a class, are entitled to elect one-sixth of our Board. With respect to dividend rights, holders of the Common Stock are entitled to cash dividends 10% higher than those declared and paid on the Class B Stock.

Hershey Trust Company, as trustee for the trust established by Milton S. and Catherine S. Hershey that has as its sole beneficiary Milton Hershey School, maintains voting control over The Hershey Company. In addition, three representatives of Hershey Trust Company currently serve as members of the Company's Board. In performing their responsibilities on the Company's Board, these representatives may from time to time exercise influence with regard to the ongoing business decisions of our Board or management. Hershey Trust Company, as trustee for the Trust, in its role as controlling stockholder of the Company, has indicated it intends to retain its controlling interest in The Hershey Company. The Company's Board, and not the Hershey Trust Company board, is solely responsible and accountable for the Company's management and performance.

Pennsylvania law requires that the Office of Attorney General be provided advance notice of any transaction that would result in Hershey Trust Company, as trustee for the Trust, no longer having voting control of the Company. The law provides specific statutory authority for the Attorney General to intercede and petition the court having jurisdiction over Hershey Trust Company, as trustee for the Trust, to stop such a transaction if the Attorney General can prove that the transaction is unnecessary for the future economic viability of the Company and is inconsistent with investment and management considerations under fiduciary obligations. This legislation makes it more difficult for a third party to acquire a majority of our outstanding voting stock and thereby may delay or prevent a change in control of the Company.

Material Cash Requirements

The following table summarizes our future material cash requirements as of December 31, 2022:

In millions of dollars	Payments due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Short-term debt (primarily U.S. commercial paper)	\$ 693.8	\$ 693.8	\$ —	\$ —	\$ —
Long-term notes (excluding finance lease obligations)	4,043.6	750.0	900.0	693.6	1,700.0
Interest expense (1)	1,080.8	99.0	164.3	120.2	697.3
Operating lease obligations (2)	419.7	41.4	66.3	47.4	264.6
Finance lease obligations (3)	171.4	8.3	13.0	8.1	142.0
Unconditional purchase obligations (4)	2,246.4	1,871.0	215.1	25.0	135.3
Total obligations	\$ 8,655.7	\$ 3,463.5	\$ 1,358.7	\$ 894.3	\$ 2,939.2

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

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

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

(4) Purchase obligations consist primarily of fixed commitments for the purchase of raw materials to be utilized in the normal course of business. Amounts presented include fixed price forward contracts and unpriced contracts that were valued using market prices as of December 31, 2022. The amounts presented in the table do not include items already recorded in accounts payable or accrued liabilities at year-end 2022, nor does the table reflect cash flows we are likely to incur based on our plans, but are not obligated to incur. Such amounts are part of normal operations and are reflected in historical operating cash flow trends. We do not believe such purchase obligations will adversely affect our liquidity position.



In entering into contractual obligations, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. Our risk is limited to replacing the contracts at prevailing market rates. We do not expect any significant losses resulting from counterparty defaults.

These obligations impact our liquidity and capital resource needs. To meet those cash requirements, we intend to use our existing cash and internally generated funds. To the extent necessary, we may also borrow under our existing unsecured revolving credit facility or under other short-term borrowings, and depending on market conditions and upon the significance of the cost of a particular Note maturity or acquisition to our then-available sources of funds, to obtain additional short- and long-term financing. We believe that cash provided from these sources will be adequate to meet our future short- and long-term cash requirements.

Asset Retirement Obligations

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. Our asbestos management program is compliant with current applicable regulations, which require that we handle or dispose of asbestos in a specified manner if such facilities undergo major renovations or are demolished. We do not have sufficient information to estimate the fair value of any asset retirement obligations related to these facilities. We cannot specify the settlement date or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected present value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal of significant quantities of asbestos.

Income Tax Obligations

Liabilities for unrecognized income tax benefits are excluded from the table above as we are unable to reasonably predict the ultimate amount or timing of a settlement of these potential liabilities. See [Note 10](#) to the Consolidated Financial Statements for more information.

Recent Accounting Pronouncements

Information on recently adopted and issued accounting standards is included in [Note 1](#) to the Consolidated Financial Statements.



CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements requires management to use judgment and make estimates and assumptions. We believe that our most critical accounting policies and estimates relate to the following:

- Accrued Liabilities for Trade Promotion Activities
- Pension and Other Post-Retirement Benefits Plans
- Business Acquisitions, Valuation and Impairment of Goodwill and Other Intangible Assets
- Income Taxes

Management has discussed the development, selection and disclosure of critical accounting policies and estimates with the Audit Committee of our Board. While we base estimates and assumptions on our knowledge of current events and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. Other significant accounting policies are outlined in [Note 1](#) to the Consolidated Financial Statements.

Accrued Liabilities for Trade Promotion Activities

We promote our products with advertising, trade promotions and consumer incentives. These programs include, but are not limited to, discounts, coupons, rebates, in-store display incentives and volume-based incentives. We expense advertising costs and other direct marketing expenses as incurred. We recognize the costs of trade promotion and consumer incentive activities as a reduction to net sales along with a corresponding accrued liability based on estimates at the time of revenue recognition. These estimates are based on our analysis of the programs offered, historical trends, expectations regarding customer and consumer participation, sales and payment trends and our experience with payment patterns associated with similar programs offered in the past. The estimated costs of these programs are reasonably likely to change in future periods due to changes in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products. Differences between estimated expense and actual program performance are recognized as a change in estimate in a subsequent period and are normally not significant. During 2022, 2021, and 2020, actual annual promotional costs have not deviated from the estimated amount by more than 3%. Our trade promotion and consumer incentive accrued liabilities totaled \$215.7 million and \$174.0 million at December 31, 2022 and 2021, respectively.

Pension and Other Post-Retirement Benefits Plans

We sponsor various defined benefit pension plans. The primary plans are The Hershey Company Retirement Plan and The Hershey Company Retirement Plan for Hourly Employees, which are cash balance plans that provide pension benefits for most U.S. employees hired prior to January 1, 2007. We also sponsor two primary other post-employment benefit (“OPEB”) plans, consisting of a health care plan and life insurance plan for retirees. The health care plan is contributory, with participants’ contributions adjusted annually, and the life insurance plan is non-contributory.

For accounting purposes, the defined benefit pension and OPEB plans require assumptions to estimate the projected and accumulated benefit obligations, including the following variables: discount rate; expected salary increases; certain employee-related factors, such as turnover, retirement age and mortality; expected return on assets; and health care cost trend rates. These and other assumptions affect the annual expense and obligations recognized for the underlying plans. Our assumptions reflect our historical experiences and management’s best judgment regarding future expectations. Our related accounting policies, accounting balances and plan assumptions are discussed in [Note 11](#) to the Consolidated Financial Statements.

Pension Plans

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

- **Long-term rate of return on plan assets.** The expected long-term rate of return is evaluated on an annual basis. We consider a number of factors when setting assumptions with respect to the long-term rate of return, including current and expected asset allocation and historical and expected returns on the plan asset categories. Actual asset allocations are regularly reviewed and periodically rebalanced to the targeted allocations when considered appropriate. Investment gains or losses represent the difference between the expected return estimated using the



long-term rate of return and the actual return realized. For 2022, we increased the expected return on plan assets assumption to 6.3% from the 4.9% assumption used during 2021. The historical average return (compounded annually) over the 20 years prior to December 31, 2022 was approximately 6.4%.

As of December 31, 2022, our primary plans had cumulative unrecognized investment and actuarial losses of approximately \$213 million. We amortize the unrecognized net actuarial gains and losses in excess of the corridor amount, which is the greater of 10% of a respective plan's projected benefit obligation or the fair market value of plan assets. These unrecognized net losses may increase future pension expense if not offset by (i) actual investment returns that exceed the expected long-term rate of investment returns, (ii) other factors, including reduced pension liabilities arising from higher discount rates used to calculate pension obligations or (iii) other actuarial gains when actual plan experience is favorable as compared to the assumed experience. A 100 basis point decrease or increase in the long-term rate of return on pension assets would correspondingly increase or decrease annual net periodic pension benefit expense by approximately \$7 million.

- **Discount rate.** We utilize a full yield curve approach in the estimation of service and interest costs by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This approach provides a more precise measurement of service and interest costs by improving the correlation between the projected cash flows to the corresponding spot rates along the yield curve. This approach does not affect the measurement of our pension and other post-retirement benefit liabilities but generally results in lower benefit expense in periods when the yield curve is upward sloping.

A 100 basis point decrease (increase) in the weighted-average pension discount rate would increase (decrease) annual net periodic pension benefit expense by approximately \$5 million and the December 31, 2022 pension liability would increase by approximately \$57 million or decrease by approximately \$50 million, respectively.

Pension expense for defined benefit pension plans is expected to be approximately \$21 million in 2023. Pension expense beyond 2023 will depend on future investment performance, our contributions to the pension trusts, changes in discount rates and various other factors related to the covered employees in the plans.

Other Post-Employment Benefit Plans

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

- **Discount rate.** The determination of the discount rate used to calculate the benefit obligations of the OPEB plans is discussed in the pension plans section above. A 100 basis point decrease (increase) in the discount rate assumption for these plans would not be material to the OPEB plans' consolidated expense and the December 31, 2022 benefit liability would increase by approximately \$13 million or decrease by approximately \$12 million, respectively.

Business Acquisitions, Valuation and Impairment of Goodwill and Other Intangible Assets

We use the acquisition method of accounting for business acquisitions. Under the acquisition method, the results of operations of the acquired business have been included in the consolidated financial statements since the respective dates of the acquisitions. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. As a result, we normally obtain the assistance of a third-party valuation specialist in estimating fair values of tangible and intangible assets. The fair value estimates are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. While management believes those expectations and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

Goodwill and indefinite-lived intangible assets are not amortized, but instead, are evaluated for impairment annually or more often if indicators of a potential impairment are present. Our annual impairment tests are conducted at the beginning of the fourth quarter.



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

We determine the fair value of our reporting units and indefinite-lived intangible assets using an income approach. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate the future cash flows used to measure fair value. Our estimates of future cash flows consider past performance, current and anticipated market conditions and internal projections and operating plans which incorporate estimates for sales growth and profitability, and cash flows associated with taxes and capital spending. Additional assumptions include forecasted growth rates, estimated discount rates, which may be risk-adjusted for the operating market of the reporting unit, and estimated royalty rates that would be charged for comparable branded licenses. We believe such assumptions also reflect current and anticipated market conditions and are consistent with those that would be used by other marketplace participants for similar valuation purposes. Such assumptions are subject to change due to changing economic and competitive conditions.

We also have intangible assets, consisting primarily of certain trademarks, customer-related intangible assets and patents obtained through business acquisitions, that are expected to have determinable useful lives. The costs of finite-lived intangible assets are amortized to expense over their estimated lives. Our estimates of the useful lives of finite-lived intangible assets consider judgments regarding the future effects of obsolescence, demand, competition and other economic factors. We conduct impairment tests when events or changes in circumstances indicate that the carrying value of these finite-lived assets may not be recoverable. Undiscounted cash flow analyses are used to determine if an impairment exists. If an impairment is determined to exist, the loss is calculated based on the estimated fair value of the assets.

Results of Impairment Tests

At December 31, 2022, the net book value of our goodwill totaled \$2.6 billion. As it relates to our 2022 annual testing performed at the beginning of the fourth quarter, we tested all of our reporting units using a qualitative assessment and determined that no quantitative testing was deemed necessary. Based on our testing, all of our reporting units had an excess fair value well over their respective carrying values. There were no other events or circumstances that would indicate that impairment may exist. We had no goodwill impairment charges in 2022, 2021 or 2020.

Income Taxes

We base our deferred income taxes, accrued income taxes and provision for income taxes upon income, statutory tax rates, the legal structure of our Company, interpretation of tax laws and tax planning opportunities available to us in the various jurisdictions in which we operate. We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. We are regularly audited by federal, state and foreign tax authorities; a number of years may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolved. From time to time, these audits result in assessments of additional tax. We maintain reserves for such assessments.

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, we recognize the amount of tax benefit that has a greater than 50% likelihood of being ultimately realized upon settlement. Future changes in judgments and estimates related to the expected ultimate resolution of uncertain tax positions will affect income in the quarter of such change. While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, we believe that our unrecognized tax benefits reflect the most likely outcome. Accrued interest and penalties related to unrecognized tax benefits are included in income tax expense. We adjust these unrecognized tax benefits, as well as the related interest, in light of



changing facts and circumstances, such as receiving audit assessments or clearing of an item for which a reserve has been established. Settlement of any particular position could require the use of cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period of resolution.

We believe it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets, net of valuation allowances. Our valuation allowances are primarily related to U.S. capital loss carryforwards and various foreign jurisdictions' net operating loss carryforwards and other deferred tax assets for which we do not expect to realize a benefit. Refer to [Note 10](#) to the Consolidated Financial Statements for further discussion of our deferred tax assets and liabilities.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use certain derivative instruments to manage our interest rate, foreign currency exchange rate and commodity price risks. We monitor and manage these exposures as part of our overall risk management program.

We enter into interest rate swap agreements and foreign currency forward exchange contracts for periods consistent with related underlying exposures. We enter into commodities futures and options contracts and other derivative instruments for varying periods. These commodity derivative instruments are intended to be, and are effective as, economic hedges of market price risks associated with anticipated raw material purchases, energy requirements and transportation costs. We do not hold or issue derivative instruments for trading purposes and are not a party to any instruments with leverage or prepayment features.

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by entering into exchange-traded contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

Refer to [Note 1](#) and [Note 5](#) to the Consolidated Financial Statements for further discussion of these derivative instruments and our hedging policies.

Interest Rate Risk

In December 2020, our fixed-to-floating interest rate swap matured in connection with the repayment of certain long-term debt upon its maturity. Therefore, as of December 31, 2022 and December 31, 2021, we had no interest rate swap derivative instruments in a fair value hedging relationship. Prior to maturing in December 2020, the total notional amount of interest rate swaps was \$350 million. The notional amount relates to fixed-to-floating interest rate swaps which convert a comparable amount of fixed-rate debt to variable rate debt. A hypothetical 100 basis point increase in interest rates applied to this variable-rate debt through its December 2020 maturity would have increased interest expense by approximately \$3.2 million for 2020.

In addition, the total amount of short-term debt, net of cash, amounted to net debt of \$230 million and net debt of \$610 million, respectively, at December 31, 2022 and 2021. A hypothetical 100 basis point increase in interest rates applied to this variable-rate short-term debt as of December 31, 2022 would have changed interest expense by approximately \$4.5 million for 2022 and \$2.4 million for 2021.

We consider our current risk related to market fluctuations in interest rates on our remaining debt portfolio, excluding fixed-rate debt converted to variable rates with fixed-to-floating instruments, to be minimal since this debt is largely long-term and fixed-rate in nature. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A 100 basis point increase in market interest rates would decrease the fair value of our fixed-rate long-term debt at December 31, 2022 and December 31, 2021 by approximately \$187 million and \$319 million, respectively. However, since we currently have no plans to repurchase our outstanding fixed-rate instruments before their maturities, the impact of market interest rate fluctuations on our long-term debt does not affect our results of operations or financial position.



Foreign Currency Exchange Rate Risk

We are exposed to currency fluctuations related to manufacturing or selling products in currencies other than the U.S. dollar. We may enter into foreign currency forward exchange contracts to reduce fluctuations in our long or short currency positions relating primarily to purchase commitments or forecasted purchases for equipment, raw materials and finished goods denominated in foreign currencies. We also may hedge payment of forecasted intercompany transactions with our subsidiaries outside of the United States. We generally hedge foreign currency price risks for periods from 3 to 12 months.

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

December 31,	2022		2021	
	Contract Amount	Primary Currencies	Contract Amount	Primary Currencies
In millions of dollars				
Foreign currency forward exchange contracts to purchase foreign currencies	\$ 58.3	Euros Malaysian ringgit	\$ 53.1	Euros Malaysian ringgit British pound
Foreign currency forward exchange contracts to sell foreign currencies	\$ 119.6	Canadian dollars Brazilian reals Japanese yen Mexican Pesos	\$ 144.7	Canadian dollars Brazilian reals Japanese yen

The fair value of foreign currency forward exchange contracts represents the difference between the contracted and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign currency forward exchange contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences. At December 31, 2022 and 2021, the net fair value of these instruments was an asset of \$3.9 million and an asset of \$2.8 million, respectively. In addition, assuming an unfavorable 10% change in year-end foreign currency exchange rates, the fair value of these instruments would have declined by \$18.4 million and \$24.8 million, respectively, generally offset by a reduction in foreign exchange associated with our transactional activities.

Commodities—Price Risk Management and Futures Contracts

Our most significant raw material requirements include cocoa products, sugar, corn products, dairy products, wheat, peanuts and almonds. The cost of cocoa products and prices for related futures contracts and costs for certain other raw materials historically have been subject to wide fluctuations attributable to a variety of factors. These factors include:

- Commodity market fluctuations;
- Currency exchanges rates;
- Imbalances between supply and demand;
- Rising levels of inflation and interest rates related to domestic and global economic conditions or supply chain issues;
- The effects of climate change and extreme weather on crop yield and quality;
- Speculative influences;
- Trade agreements among producing and consuming nations;
- Supplier compliance with commitments;
- Import/export requirements for raw materials and finished goods;
- Political unrest in producing countries;
- Introduction of living income premiums or similar requirements;
- Changes in governmental agricultural programs and energy policies; and
- Other events beyond our control such as the impacts on the business or supply chain arising from the conflict between Russia and Ukraine.



We use futures and options contracts and other commodity derivative instruments in combination with forward purchasing of cocoa products, sugar, corn products, certain dairy products, wheat products, natural gas and diesel fuel primarily to mitigate price volatility and provide visibility to future costs within our supply chain. Currently, active futures contracts are not available for use in pricing our other major raw material requirements, primarily peanuts and almonds. We attempt to minimize the effect of future raw material and energy price fluctuations by using derivatives and forward purchasing to cover future manufacturing requirements generally for 3 to 24 months. However, dairy futures liquidity is not as developed as many of the other commodity futures markets and, therefore, it can be difficult to hedge dairy costs for extended periods of time. We use diesel fuel futures to minimize price fluctuations associated with our transportation costs. Our commodity procurement practices are intended to mitigate price volatility and provide visibility to future costs, but also may potentially limit our ability to benefit from possible price decreases. Our costs for major raw materials will not necessarily reflect market price fluctuations because of our forward purchasing and hedging practices.

Cocoa Products

During 2022, average cocoa futures contract prices decreased 0.9% compared with 2021 and continued to trade in a narrow range between \$1.06 and \$1.22 per pound, based on the Intercontinental Exchange futures contract. Production was down significantly in Ghana by nearly 30%, while it was stable in the rest of West Africa. As consumption remained strong, the large surplus in the 2020 - 2021 season became a small deficit in the 2022 season. The global surplus of the 2020 - 2021 season weighed on the price outlook for the first half of 2022 and the futures market corrected to accommodate the Living Income Differential being imposed by the Ghana and Ivory Coast cocoa marketing boards, leading to fairly similar price levels to the previous year. The table below shows annual average cocoa futures prices and the highest and lowest monthly averages for each of the calendar years indicated. The prices reflect the monthly averages of the quotations at noon of the three active futures trading contracts closest to maturity on the Intercontinental Exchange.

	Cocoa Futures Contract Prices (dollars per pound)				
	2022	2021	2020	2019	2018
Annual Average	\$ 1.13	\$ 1.14	\$ 1.11	\$ 1.03	\$ 1.06
High	1.22	1.27	1.29	1.14	1.23
Low	1.06	1.04	1.00	0.90	0.88

Source: International Cocoa Organization Quarterly Bulletin of Cocoa Statistics

Our costs for cocoa products will not necessarily reflect market price fluctuations because of our forward purchasing and hedging practices, premiums and discounts reflective of varying delivery times, and supply and demand for our specific varieties and grades of cocoa liquor, cocoa butter and cocoa powder. As a result, the average futures contract prices are not necessarily indicative of our average costs.

Sugar

The price of sugar is subject to price supports under U.S. farm legislation. Such legislation establishes import quotas and duties to support the price of sugar. As a result, sugar prices paid by users in the U.S. are currently higher than prices on the world sugar market. The U.S. delivered east coast refined sugar prices traded in a range from \$0.53 to \$0.71 per pound during 2022. Prices were historically high throughout 2022 due to lack of imports by the U.S. government resulting in an extremely tight domestic raw sugar market and strong demand which resulted in a scarcity market for much of the year.

Corn Products

We use corn futures to price our corn sweetener product requirements. The conflict between Russia and Ukraine caused a tightness for global grain stocks in 2022. Corn prices traded in a range from \$5.62 to \$8.25 per bushel during 2022. Corn sweetener prices were also higher as strong demand resulted in a scarcity market during the year.



Dairy Products

During 2022 prices for fluid dairy milk ranged from a low of \$0.23 per pound to a high of \$0.26 per pound, on a Class IV milk basis. Fluid dairy milk prices were higher than 2021, driven by declines in U.S. milk production and higher global dairy demand.

Wheat Products

In 2022 we continued utilizing soft and hard wheat futures as a risk management tool for our flour purchasing. The conflict between Russia and Ukraine, in addition to poor U.S. weather, resulted in uncertainty in the wheat market and impacted global availability of supplies. Wheat stock levels were at historic 15-year lows and prices reached historic highs in 2022. Hard wheat prices traded in the range of \$7.72 to \$13.21 per bushel during 2022, while soft wheat prices traded in the range of \$7.40 to \$12.29 per bushel during 2022.

Peanuts and Almonds

Peanut prices in the U.S. ranged from a low of \$0.55 per pound to a high of \$0.64 per pound during 2022. Prices rose this year due to higher competing crop prices and a smaller peanut crop. Almond prices traded in the range of \$2.00 per pound to \$2.25 per pound during 2022. Prices were lower than 2021 as a result of large crop and high inventory levels.

Changes in the Value of Futures Contracts

We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value of futures contracts on the Intercontinental Exchange or various other exchanges. These changes in value represent unrealized gains and losses. The cash transfers offset higher or lower cash requirements for the payment of future invoice prices of raw materials, energy requirements and transportation costs.

Commodity Sensitivity Analysis

Our open commodity derivative contracts had a notional value of \$243.0 million as of December 31, 2022 and \$313.2 million as of December 31, 2021. At the end of 2022, the potential change in fair value of commodity derivative instruments, assuming a 10% decrease in the underlying commodity price, would have increased our net unrealized losses in 2022 by \$25.1 million, generally offset by a reduction in the cost of the underlying commodity purchases.



Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of The Hershey Company (the Company) as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated February 17, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.



Valuation of Accrued Liabilities for Trade Promotion Activities

Description of the Matter

The unsettled portion of the Company's obligation for trade promotion activities at December 31, 2022 was \$215.7 million. As discussed in Note 1 of the consolidated financial statements, the Company promotes its products through programs such as, but not limited to, discounts, coupons, rebates, in-store display incentives, and volume-based incentives. The Company recognizes the estimated costs of these trade promotion activities as a component of variable consideration when determining the transaction price. The unsettled portion of the Company's obligation for trade promotion activities is included in accrued liabilities in the consolidated balance sheet.

Auditing management's calculation of the unsettled portion of the Company's obligation for trade promotion activities was highly subjective and required significant judgment as a result of the nature of the required estimates and assumptions. In particular, the estimates required an analysis of the programs offered, expectations regarding customer and consumer participation, historical sales and payment trends, and experience with payment patterns associated with similar programs offered in the past. The estimated cost of these programs is sensitive to changes in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, and tested the operating effectiveness of the controls related to the Company's calculation of the accrued liabilities for trade promotion activities. For example, we tested controls over management's review of the completeness of the promotional activities as well as the significant assumptions and the data inputs utilized in the calculations.

To test the unsettled portion of the Company's obligation for trade promotion activities, we performed audit procedures that included, among others, assessing (1) the expected value estimation methodology used by management, (2) whether all material trade promotion activities were properly included in management's estimate, and (3) the significant assumptions discussed above and the underlying data used in its analyses. Specifically, when evaluating the significant assumptions, we compared them to historical trends, third party data, and assumptions used in prior periods, and inspected management's retrospective review of actual trade promotion activities compared to previous estimates. We also performed sensitivity analyses of significant assumptions to evaluate the changes in the estimate that would result from changes in the assumptions.

/s/ ERNST & YOUNG LLP

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

Philadelphia, Pennsylvania
February 17, 2023



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control over Financial Reporting

We have audited The Hershey Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, The Hershey Company (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of income, comprehensive income, cash flows, and stockholders' equity for each of the three years in the period ended December 31, 2022, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) and our report dated February 17, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.



Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania
February 17, 2023

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

For the years ended December 31,	2022	2021	2020
Net sales	\$ 10,419,294	\$ 8,971,337	\$ 8,149,719
Cost of sales	5,920,509	4,922,739	4,448,450
Gross profit	4,498,785	4,048,598	3,701,269
Selling, marketing and administrative expense	2,236,009	2,001,351	1,890,925
Long-lived asset impairment charges	—	—	9,143
Business realignment costs	1,989	3,525	18,503
Operating profit	2,260,787	2,043,722	1,782,698
Interest expense, net	137,557	127,417	149,374
Other (income) expense, net	206,159	119,081	138,327
Income before income taxes	1,917,071	1,797,224	1,494,997
Provision for income taxes	272,254	314,405	219,584
Net income including noncontrolling interest	1,644,817	1,482,819	1,275,413
Less: Net gain (loss) attributable to noncontrolling interest	—	5,307	(3,295)
Net income attributable to The Hershey Company	\$ 1,644,817	\$ 1,477,512	\$ 1,278,708
Net income per share—basic:			
Common stock	\$ 8.22	\$ 7.34	\$ 6.30
Class B common stock	\$ 7.47	\$ 6.68	\$ 5.72
Net income per share—diluted:			
Common stock	\$ 7.96	\$ 7.11	\$ 6.11
Class B common stock	\$ 7.45	\$ 6.66	\$ 5.71
Dividends paid per share:			
Common stock	\$ 3.874	\$ 3.410	\$ 3.154
Class B common stock	\$ 3.522	\$ 3.100	\$ 2.866

See Notes to Consolidated Financial Statements.



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

	For the years ended December 31,								
	2022			2021			2020		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income including noncontrolling interest			\$ 1,644,817			\$ 1,482,819			\$ 1,275,413
Other comprehensive income (loss), net of tax:									
Foreign currency translation adjustments:									
Foreign currency translation losses during period	\$ (10,340)	\$ —	(10,340)	\$ (1,500)	\$ —	(1,500)	\$ (13,767)	\$ —	(13,767)
Reclassification to earnings due to the sale of businesses	—	—	—	5,249	—	5,249	—	—	—
Pension and post-retirement benefit plans:									
Net actuarial (loss) gain	(32,970)	7,481	(25,489)	67,728	(13,929)	53,799	(39,455)	9,351	(30,104)
Reclassification to earnings	31,009	(7,392)	23,617	32,092	(8,067)	24,025	33,326	(8,240)	25,086
Cash flow hedges:									
Gains (losses) on cash flow hedging derivatives	2,056	(74)	1,982	(1,551)	(2,989)	(4,540)	(780)	1,880	1,100
Reclassification to earnings	10,200	(3,088)	7,112	18,117	(1,034)	17,083	7,779	(3,156)	4,623
Total other comprehensive income (loss), net of tax	<u>\$ (45)</u>	<u>\$ (3,073)</u>	<u>(3,118)</u>	<u>\$ 120,135</u>	<u>\$ (26,019)</u>	<u>94,116</u>	<u>\$ (12,897)</u>	<u>\$ (165)</u>	<u>(13,062)</u>
Total comprehensive income including noncontrolling interest			<u>\$ 1,641,699</u>			<u>\$ 1,576,935</u>			<u>\$ 1,262,351</u>
Comprehensive gain (loss) attributable to noncontrolling interest			—			10,556			(2,241)
Comprehensive income attributable to The Hershey Company			<u>\$ 1,641,699</u>			<u>\$ 1,566,379</u>			<u>\$ 1,264,592</u>

See Notes to Consolidated Financial Statements.



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

December 31,	2022	2021
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 463,889	\$ 329,266
Accounts receivable—trade, net	711,203	671,464
Inventories	1,173,119	988,511
Prepaid expenses and other	272,195	256,965
Total current assets	2,620,406	2,246,206
Property, plant and equipment, net	2,769,702	2,586,187
Goodwill	2,606,956	2,633,174
Other intangibles	1,966,269	2,037,588
Other non-current assets	944,989	868,203
Deferred income taxes	40,498	40,873
Total assets	\$ 10,948,820	\$ 10,412,231
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 970,558	\$ 692,338
Accrued liabilities	832,518	855,638
Accrued income taxes	6,710	3,070
Short-term debt	693,790	939,423
Current portion of long-term debt	753,578	2,844
Total current liabilities	3,257,154	2,493,313
Long-term debt	3,343,977	4,086,627
Other long-term liabilities	719,742	787,058
Deferred income taxes	328,403	288,004
Total liabilities	7,649,276	7,655,002
Stockholders' equity:		
The Hershey Company stockholders' equity		
Preferred stock, shares issued: none in 2022 and 2021	—	—
Common stock, shares issued: 163,439,248 in 2022 and 160,939,248 in 2021	163,439	160,939
Class B common stock, shares issued: 58,113,777 in 2022 and 60,613,777 in 2021	58,114	60,614
Additional paid-in capital	1,296,572	1,260,331
Retained earnings	3,589,781	2,719,936
Treasury—common stock shares, at cost: 16,588,308 in 2022 and 15,444,011 in 2021	(1,556,029)	(1,195,376)
Accumulated other comprehensive loss	(252,333)	(249,215)
Total stockholders' equity	3,299,544	2,757,229
Total liabilities and stockholders' equity	\$ 10,948,820	\$ 10,412,231

See Notes to Consolidated Financial Statements.



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

For the years ended December 31,	2022	2021	2020
Operating Activities			
Net income including noncontrolling interest	\$ 1,644,817	\$ 1,482,819	\$ 1,275,413
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	378,959	315,002	294,907
Stock-based compensation expense	65,991	66,711	57,584
Deferred income taxes	36,889	13,374	26,880
Impairment of long-lived assets (see Note 6)	—	—	9,143
Write-down of equity investments	188,286	113,756	125,579
Other	120,818	96,016	113,470
Changes in assets and liabilities, net of business acquisitions and divestitures:			
Accounts receivable—trade, net	(38,165)	(14,642)	(55,537)
Inventories	(186,963)	21,457	(151,918)
Prepaid expenses and other current assets	(14,507)	8,619	2,493
Accounts payable and accrued liabilities	216,479	39,732	41,470
Accrued income taxes	5,005	(29,682)	(16,158)
Contributions to pension and other benefit plans	(78,547)	(51,100)	(11,671)
Other assets and liabilities	(11,225)	20,822	(11,998)
Net cash provided by operating activities	<u>2,327,837</u>	<u>2,082,884</u>	<u>1,699,657</u>
Investing Activities			
Capital additions (including software)	(519,481)	(495,877)	(441,626)
Equity investments in tax credit qualifying partnerships	(275,534)	(128,417)	(87,211)
Business acquisitions, net of cash and cash equivalents acquired	—	(1,601,073)	—
Other investing activities	7,639	2,539	(2,443)
Net cash used in investing activities	<u>(787,376)</u>	<u>(2,222,828)</u>	<u>(531,280)</u>
Financing Activities			
Net (decrease) increase in short-term debt	(245,633)	869,030	41,759
Long-term borrowings, net of debt issuance costs	—	—	989,876
Repayment of long-term debt and finance leases	(4,741)	(439,444)	(704,467)
Cash dividends paid	(775,030)	(685,987)	(640,732)
Repurchase of common stock	(388,964)	(457,946)	(211,196)
Exercise of stock options	34,158	49,821	46,372
Taxes withheld and paid on employee stock awards	(35,515)	(16,610)	(20,840)
Net cash used in financing activities	<u>(1,415,725)</u>	<u>(681,136)</u>	<u>(499,228)</u>
Effect of exchange rate changes on cash and cash equivalents	9,887	(5,075)	(6,990)
Increase (decrease) in cash and cash equivalents, including cash classified as held for sale	<u>134,623</u>	<u>(826,155)</u>	<u>662,159</u>
Less: Decrease (increase) in cash and cash equivalents classified as held for sale	—	11,434	(11,434)
Net increase (decrease) in cash and cash equivalents	<u>134,623</u>	<u>(814,721)</u>	<u>650,725</u>
Cash and cash equivalents, beginning of period	329,266	1,143,987	493,262
Cash and cash equivalents, end of period	<u>\$ 463,889</u>	<u>\$ 329,266</u>	<u>\$ 1,143,987</u>
Supplemental Disclosure			
Interest paid	\$ 131,757	\$ 127,726	\$ 150,930
Income taxes paid	221,321	275,171	215,491

See Notes to Consolidated Financial Statements.



THE HERSHEY COMPANY
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Preferred Stock	Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Common Stock	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
Balance, January 1, 2020	\$ —	\$ 160,939	\$ 60,614	\$ 1,142,210	\$ 1,290,461	\$ (591,036)	\$ (323,966)	\$ 5,772	\$ 1,744,994
Net income (loss)					1,278,708			(3,295)	1,275,413
Other comprehensive (loss) income							(14,116)	1,054	(13,062)
Dividends (including dividend equivalents):									
Common Stock, \$3.154 per share					(466,777)				(466,777)
Class B Common Stock, \$2.866 per share					(173,719)				(173,719)
Stock-based compensation				56,698					56,698
Exercise of stock options and incentive-based transactions				(7,708)		33,240			25,532
Repurchase of common stock						(211,196)			(211,196)
Balance, December 31, 2020	—	160,939	60,614	1,191,200	1,928,673	(768,992)	(338,082)	3,531	2,237,883
Net income					1,477,512			5,307	1,482,819
Other comprehensive income							88,867	5,249	94,116
Dividends (including dividend equivalents):									
Common Stock, \$3.410 per share					(498,346)				(498,346)
Class B Common Stock, \$3.100 per share					(187,903)				(187,903)
Stock-based compensation				67,482					67,482
Exercise of stock options and incentive-based transactions				1,649		31,562			33,211
Repurchase of common stock						(457,946)			(457,946)
Divestiture of noncontrolling interest								(1,436)	(1,436)
Distributions to joint venture partner								(8,750)	(8,750)
Other								(3,901)	(3,901)
Balance, December 31, 2021	—	160,939	60,614	1,260,331	2,719,936	(1,195,376)	(249,215)	—	2,757,229
Net income					1,644,817			—	1,644,817
Other comprehensive loss							(3,118)	—	(3,118)
Dividends (including dividend equivalents):									
Common Stock, \$3.874 per share					(567,839)				(567,839)
Class B Common Stock, \$3.522 per share					(207,133)				(207,133)
Conversion of Class B Common Stock into Common Stock		2,500	(2,500)						—
Stock-based compensation				65,909					65,909
Exercise of stock options and incentive-based transactions				(29,668)		28,311			(1,357)
Repurchase of common stock						(388,964)			(388,964)
Balance, December 31, 2022	\$ —	\$ 163,439	\$ 58,114	\$ 1,296,572	\$ 3,589,781	\$ (1,556,029)	\$ (252,333)	\$ —	\$ 3,299,544

See Notes to Consolidated Financial Statements.

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THE HERSHEY COMPANY
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

The Hershey Company together with its wholly-owned subsidiaries and entities in which it has a controlling interest, (the “Company,” “Hershey,” “we” or “us”) is a global confectionery leader known for its branded portfolio of chocolate, sweets, mints and other great tasting snacks. The Company has more than 100 brands worldwide including such iconic brand names as *Hershey’s*, *Reese’s*, *Kisses*, *Jolly Rancher* and *Ice Breakers*, which are marketed, sold and distributed in approximately 80 countries worldwide. Hershey’s structure is designed to ensure continued focus on North America, coupled with an emphasis on profitable growth in our focus international markets. The Company currently operates through three segments that are aligned with its management structure and the key markets it serves: (i) North America Confectionery, (ii) North America Salty Snacks and (iii) International. For additional information on our segment presentation, see [Note 13](#).

Basis of Presentation

Our consolidated financial statements include the accounts of The Hershey Company and its majority-owned or controlled subsidiaries. Intercompany transactions and balances have been eliminated. We have a controlling financial interest if we own a majority of the outstanding voting common stock and minority shareholders do not have substantive participating rights, we have significant control through contractual or economic interests in which we are the primary beneficiary or we have the power to direct the activities that most significantly impact the entity’s economic performance. We use the equity method of accounting when we have a 20% to 50% interest in other companies and exercise significant influence. In addition, we use the equity method of accounting for our investments in partnership entities which make equity investments in projects eligible to receive federal historic and energy tax credits. See [Note 10](#) for additional information on our equity investments in partnership entities qualifying for tax credits. Other investments that are not controlled, and over which we do not have the ability to exercise significant influence, are accounted for under the cost method. Both equity and cost method investments are included as Other non-current assets in the Consolidated Balance Sheets. For additional information on our investments in unconsolidated affiliates, see [Note 8](#).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Our significant estimates and assumptions include, among others, pension and other post-retirement benefit plan assumptions, valuation assumptions of goodwill and other intangible assets, useful lives of long-lived assets, marketing and trade promotion accruals and income taxes. These estimates and assumptions are based on management’s best judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and the effects of any revisions are reflected in the consolidated financial statements in the period that they are determined. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Revenue Recognition

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

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



THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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associated with these programs and incentives are based upon our analysis of the programs offered, expectations regarding customer and consumer participation, historical sales and payment trends, and our experience with payment patterns associated with similar programs offered in the past. The estimated costs of these programs are reasonably likely to change in future periods due to changes in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products. Differences between estimated expense and actual program performance are recognized as a change in estimate in a subsequent period and are normally not significant. During 2022, 2021 and 2020, actual promotional costs have not deviated from the estimated amount by more than 3%. The Company's unsettled portion remaining in accrued liabilities at year-end for these activities was \$215,688 and \$174,046 at December 31, 2022 and 2021, respectively.

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

The majority of our products are confectionery or confectionery-based and, therefore, exhibit similar economic characteristics, as they are based on similar ingredients and are marketed and sold through the same channels to the same customers. In connection with our recent acquisitions, we have expanded our portfolio of salty snacking products, which also exhibit similar economic characteristics to our confectionery products and are sold through the same channels to the same customers. See [Note 13](#) for revenues reported by geographic segment, which is consistent with how we organize and manage our operations, as well as product line net sales information.

In 2022, 2021 and 2020, approximately 28%, 30% and 31%, respectively, of our consolidated net sales were made to McLane Company, Inc., one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesale clubs and mass merchandisers and the primary distributor of our products to Wal-Mart Stores, Inc.

Cost of Sales

Cost of sales represents costs directly related to the manufacture and distribution of our products. Primary costs include raw materials, packaging, direct labor, overhead, shipping and handling, warehousing and the depreciation of manufacturing, warehousing and distribution facilities. Manufacturing overhead and related expenses include salaries, wages, employee benefits, utilities, maintenance and property taxes.

Selling, Marketing and Administrative Expense

Selling, marketing and administrative expense ("SM&A") represents costs incurred in generating revenues and in managing our business. Such costs include advertising and other marketing expenses, selling expenses, research and development costs, administrative and other indirect overhead costs, amortization of capitalized software and intangible assets and depreciation of administrative facilities. Research and development costs, charged to expense as incurred, totaled \$46,943 in 2022, \$40,107 in 2021 and \$37,577 in 2020. Advertising expense is also charged to expense as incurred and totaled \$517,677 in 2022, \$511,798 in 2021 and \$516,936 in 2020. Prepaid advertising expense was \$241 as of December 31, 2022. There was no prepaid advertising expense as of December 31, 2021.

Cash Equivalents

Cash equivalents consist of highly liquid debt instruments, time deposits and money market funds with original maturities of three months or less. The fair value of cash equivalents approximates the carrying amount.

Accounts Receivable—Trade

In the normal course of business, we extend credit to customers that satisfy pre-defined credit criteria, based upon the results of our recurring financial account reviews and our evaluation of current and projected economic conditions. Our primary concentration of credit risk is associated with McLane Company, Inc., one customer served principally by our North America Confectionery segment. As of December 31, 2022, McLane Company, Inc. accounted for approximately 26% of our total accounts receivable. No other customer accounted for more than 10% of our year-end accounts receivable. We believe that we have little concentration of credit risk associated with the remainder of our customer base. Accounts receivable-trade in the Consolidated Balance Sheets is presented net of allowances for bad debts and anticipated discounts of \$26,001 and \$28,837 at December 31, 2022 and 2021, respectively.



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

Inventories are valued at the lower of cost or market value, adjusted for the value of inventory that is estimated to be excess, obsolete or otherwise unsaleable. As of December 31, 2022, approximately 53% of our inventories, representing the majority of our United States (“U.S.”) inventories, were valued under the last-in, first-out (“LIFO”) method. The remainder of our inventories in the U.S. and inventories for our international businesses were valued at the lower of first-in, first-out (“FIFO”), average cost or net realizable value. LIFO cost of inventories valued using the LIFO method was \$621,614 as of December 31, 2022 and \$589,850 as of December 31, 2021. The adjustment to LIFO, as shown in [Note 19](#), approximates the excess of replacement cost over the stated LIFO inventory value. The net impact of LIFO acquisitions and liquidations was not material to 2022, 2021 or 2020.

Property, Plant and Equipment

Property, plant and equipment is stated at cost and depreciated on a straight-line basis over the estimated useful lives of the assets, as follows: 3 to 15 years for machinery and equipment; and 25 to 40 years for buildings and related improvements. At December 31, 2022 and December 31, 2021, property, plant and equipment included assets under finance lease arrangements with net book values totaling \$72,160 and \$72,496, respectively. Total depreciation expense for the years ended December 31, 2022, 2021 and 2020 was \$253,582, \$230,638 and \$219,021, respectively, and included depreciation on assets recorded under finance lease arrangements. Maintenance and repairs are expensed as incurred. We capitalize applicable interest charges incurred during the construction of new facilities and production lines and amortize these costs over the assets’ estimated useful lives.

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. We measure the recoverability of assets to be held and used by a comparison of the carrying amount of long-lived assets to future undiscounted net cash flows expected to be generated. If these assets are considered to be impaired, we measure impairment as the amount by which the carrying amount of the assets exceeds the fair value of the assets. We report assets held for sale or disposal at the lower of the carrying amount or fair value less cost to sell.

We assess asset retirement obligations on a periodic basis and recognize the fair value of a liability for an asset retirement obligation in the period in which it is incurred if a reasonable estimate of fair value can be made. We capitalize associated asset retirement costs as part of the carrying amount of the long-lived asset.

Computer Software

We capitalize costs associated with software developed or obtained for internal use when both the preliminary project stage is completed and it is probable the software being developed will be completed and placed in service. Capitalized costs include only (i) external direct costs of materials and services consumed in developing or obtaining internal-use software, (ii) payroll and other related costs for employees who are directly associated with and who devote time to the internal-use software project and (iii) interest costs incurred, when material, while developing internal-use software. We cease capitalization of such costs no later than the point at which the project is substantially complete and ready for its intended purpose.

The unamortized amount of capitalized software totaled \$320,034 and \$260,656 at December 31, 2022 and 2021, respectively. We amortize software costs using the straight-line method over the expected life of the software, generally 3 to 7 years. Accumulated amortization of capitalized software was \$350,620 and \$321,939 as of 2022 and 2021, respectively. Such amounts are recorded within other assets in the Consolidated Balance Sheets.

We review the carrying value of software and development costs for impairment in accordance with our policy pertaining to the impairment of long-lived assets.

Goodwill and Other Intangible Assets

Goodwill and indefinite-lived intangible assets are not amortized, but are evaluated for impairment annually or more often if indicators of a potential impairment are present. Our annual impairment tests are conducted at the beginning of the fourth quarter. We test goodwill for impairment by performing either a qualitative or quantitative assessment. If we choose to perform a qualitative assessment, we evaluate economic, industry and company-specific factors in assessing the fair value of the related reporting unit. If we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying value, a quantitative test is then performed. Otherwise, no further testing is



THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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required. For those reporting units tested using a quantitative approach, we compare the fair value of each reporting unit with the carrying amount of the reporting unit, including goodwill. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, impairment is indicated, requiring recognition of a goodwill impairment charge for the differential (up to the carrying value of goodwill). We test individual indefinite-lived intangible assets by comparing the estimated fair values with the book values of each asset.

We determine the fair value of our reporting units and indefinite-lived intangible assets using an income approach. Under the income approach, we calculate the fair value of our reporting units and indefinite-lived intangible assets based on the present value of estimated future cash flows. Considerable management judgment is necessary to evaluate the impact of operating and macroeconomic changes and to estimate the future cash flows used to measure fair value. Our estimates of future cash flows consider past performance, current and anticipated market conditions and internal projections and operating plans which incorporate estimates for sales growth and profitability, and cash flows associated with taxes and capital spending. Additional assumptions include forecasted growth rates, estimated discount rates, which may be risk-adjusted for the operating market of the reporting unit, and estimated royalty rates that would be charged for comparable branded licenses. We believe such assumptions also reflect current and anticipated market conditions and are consistent with those that would be used by other marketplace participants for similar valuation purposes. Such assumptions are subject to change due to changing economic and competitive conditions.

The cost of intangible assets with finite useful lives is amortized on a straight-line basis. Our finite-lived intangible assets consist primarily of certain trademarks, customer-related intangible assets and patents obtained through business acquisitions. The weighted-average amortization period for our finite-lived intangible assets is approximately 29 years, which is primarily driven by recently acquired trademarks. If certain events or changes in operating conditions indicate that the carrying value of these assets, or related asset groups, may not be recoverable, we perform an impairment assessment and may adjust the remaining useful lives. See [Note 3](#) for additional information regarding the results of impairment tests.

Supplier Finance Program Obligations

During 2020, we entered into an agreement with a third-party financial institution to facilitate a supplier finance program which allows qualifying suppliers to sell their receivables from the Company to the financial institution. These participating suppliers negotiate their outstanding receivable arrangements directly with the financial institution, and our rights and obligations to our suppliers are not impacted. We have no economic interest in a supplier's decision to enter into these agreements. Once a qualifying supplier elects to participate in the supplier finance program and reaches an agreement with a financial institution, they elect which individual Company invoices they sell to the financial institution. However, all Company payments to participating suppliers are paid to the financial institution on the invoice due date, regardless of whether the individual invoice is sold by the supplier to the financial institution. The financial institution pays the supplier on the invoice due date for any invoices that were not previously sold under the supplier finance program. Our obligations to our suppliers, including amounts due and scheduled payment terms, are not impacted by our suppliers' decisions to sell amounts under these arrangements. The payment of these obligations is included in cash provided by operating activities in the Consolidated Statements of Cash Flows. Included in Accounts Payable in the Consolidated Balance Sheets at December 31, 2022 and 2021 were \$105,293 and \$36,386 of outstanding payment obligations, respectively, that were sold to the financial institution under the Company's supplier finance program.

Currency Translation

The financial statements of our foreign entities with functional currencies other than the U.S. dollar are translated into U.S. dollars, with the resulting translation adjustments recorded as a component of other comprehensive income (loss). Assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the balance sheet date, while income and expense items are translated using the average exchange rates during the period.



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Derivative Instruments

We use derivative instruments principally to offset exposure to market risks arising from changes in commodity prices, foreign currency exchange rates and interest rates. See [Note 5](#) for additional information on our risk management strategy and the types of instruments we use.

Derivative instruments are recognized on the Consolidated Balance Sheets at their fair values. When we become party to a derivative instrument and intend to apply hedge accounting, we designate the instrument for financial reporting purposes as a cash flow or fair value hedge. The accounting for changes in fair value (gains or losses) of a derivative instrument depends on whether we have designated it and it qualified as part of a hedging relationship, as noted below:

- Changes in the fair value of a derivative that is designated as a cash flow hedge are recorded in accumulated other comprehensive income (“AOCI”) to the extent effective and reclassified into earnings in the same period or periods during which the transaction hedged by that derivative also affects earnings.
- Changes in the fair value of a derivative that is designated as a fair value hedge, along with the offsetting loss or gain on the hedged asset or liability that is attributable to the risk being hedged, are recorded in earnings, thereby reflecting in earnings the net extent to which the hedge is not effective in achieving offsetting changes in fair value.
- Changes in the fair value of a derivative not designated as a hedging instrument are recognized in earnings in cost of sales or SM&A, consistent with the related exposure.

For derivatives designated as hedges, we assess, both at the hedge’s inception and on an ongoing basis, whether they are highly effective in offsetting changes in fair values or cash flows of hedged items. The ineffective portion, if any, is recorded directly in earnings. In addition, if we determine that a derivative is not highly effective as a hedge or that it has ceased to be a highly effective hedge, we discontinue hedge accounting prospectively.

We do not hold or issue derivative instruments for trading or speculative purposes and are not a party to any instruments with leverage or prepayment features.

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

Recent Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU modifies the measurement of expected credit losses of certain financial instruments. ASU 2016-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. The amendments in this ASU should be applied on a modified retrospective basis to all periods presented. We adopted the provisions of this ASU in the first quarter of 2020. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, *Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. This ASU modifies the disclosure requirements for fair value measurements by removing, modifying or adding certain disclosures. ASU 2018-13 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. We adopted the provisions of this ASU in the first quarter of 2020. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, *Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40), Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract*. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop



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or obtain internal-use software (and hosting arrangements that include an internal-use software license). ASU 2018-15 is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods, with early adoption permitted. The amendments in this ASU should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We adopted the provisions of this ASU in the first quarter of 2020 on a prospective basis. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU is intended to simplify various aspects related to accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and clarifying certain aspects of the current guidance to promote consistency among reporting entities. ASU 2019-12 is effective for annual periods beginning after December 15, 2020 and interim periods within those annual periods, with early adoption permitted. An entity that elects early adoption must adopt all the amendments in the same period. Most amendments within this ASU are required to be applied on a prospective basis, while certain amendments must be applied on a retrospective or modified retrospective basis. We adopted the provisions of this ASU in the fourth quarter of 2020. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU is intended to provide temporary optional expedients and exceptions to the GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. Entities may apply this ASU upon issuance through December 31, 2022 on a prospective basis. We early adopted the provisions of this ASU in the first quarter of 2022. Adoption of the new standard did not have a material impact on our consolidated financial statements.

In September 2022, the FASB issued ASU No. 2022-04, *Liabilities—Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. This ASU requires a buyer in a supplier finance program to disclose qualitative and quantitative information about the program including the program's nature, activity during the period, changes from period to period and potential magnitude. ASU 2022-04 is effective for annual periods beginning after December 15, 2022 and interim periods within those annual periods. A rollforward of obligations during the annual period, including the amount of obligations confirmed and obligations subsequently paid, is effective for annual periods beginning after December 15, 2023 with early adoption permitted. This ASU should be applied retrospectively to each period in which a balance sheet is presented, except for the amendment on rollforward information, which should be applied prospectively. We early adopted provisions of this ASU in the fourth quarter of 2022, with the exception of the amendment on rollforward information, which will be adopted in the fourth quarter of 2023. Adoption of the new standard did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Adopted

In October 2021, the FASB issued ASU No. 2021-08, *Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers*. This ASU requires an acquirer to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with *Revenue from Contracts with Customers (Topic 606)* rather than adjust them to fair value at the acquisition date. ASU 2021-08 is effective for annual periods beginning after December 15, 2022 and interim periods within those annual periods. This ASU should be applied prospectively to business combinations occurring on or after the date of adoption. Evaluation of this new standard is dependent on multiple circumstances including the timing and complexity of completed business combinations. As a result, we intend to adopt the provisions of this ASU in the first quarter of 2023.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on our consolidated financial statements or disclosures.



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

2. BUSINESS ACQUISITIONS AND DIVESTITURES

Acquisitions of businesses are accounted for as business combinations and, accordingly, the results of operations of the businesses acquired have been included in the consolidated financial statements since the respective dates of the acquisitions. The purchase price for each acquisition is allocated to the assets acquired and liabilities assumed.

In conjunction with acquisitions noted below, we used various valuation techniques to determine fair value of the assets acquired, with the primary techniques being discounted cash flow analysis, relief-from-royalty, a form of the multi-period excess earnings and the with-and-without valuation approaches, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy. Inputs to these valuation approaches require significant judgment including: (i) forecasted sales, growth rates and customer attrition rates, (ii) forecasted operating margins, (iii) royalty rates and discount rates used to present value future cash flows, (iv) the amount of synergies expected from the acquisition, (v) the economic useful life of assets and (vi) the evaluation of historical tax positions. In certain acquisitions, historical data is limited, therefore, we base our estimates and assumptions on budgets, business plans, economic projections, anticipated future cash flows and marketplace data.

2021 Activity

Pretzels Inc.

On December 14, 2021, we completed the acquisition of Pretzels Inc. (“Pretzels”), previously a privately held company that manufactures and sells pretzels and other salty snacks for other branded products and private labels in the United States. Pretzels is an industry leader in the pretzel category with a product portfolio that includes filled, gluten free and seasoned pretzels, as well as extruded snacks that complements Hershey’s snacks portfolio. Based in Bluffton, Indiana, Pretzels operates three manufacturing locations in Indiana and Kansas. Pretzels provides Hershey with deep pretzel category and product expertise and the manufacturing capabilities to support brand growth and future pretzel innovation. The cash consideration paid for Pretzels totaled \$304,334 and consisted of cash on hand and short-term borrowings. Acquisition-related costs for the Pretzels acquisition were immaterial.

The acquisition has been accounted for as a business combination and, accordingly, Pretzels has been included within the North America Salty Snacks segment from the date of acquisition. The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Goodwill	\$	166,191
Other intangible assets		26,100
Current assets acquired		30,835
Property, plant and equipment, net		100,716
Other non-current assets, primarily operating lease ROU assets		111,787
Deferred income taxes		773
Current liabilities acquired		(22,713)
Other long-term liabilities, primarily operating lease liabilities		(109,355)
Net assets acquired	\$	<u>304,334</u>

The purchase price allocation presented above has been finalized as of the third quarter of 2022 and includes an immaterial amount of measurement period adjustments. The measurement period adjustments to the initial allocation were based on more detailed information obtained about the specific assets acquired and liabilities assumed, specifically, post-closing adjustments to the working capital acquired including certain holdbacks.

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets). A portion of goodwill derived from this acquisition is deductible for tax purposes and reflects the value of leveraging our brand building expertise, supply chain capabilities and retail relationships to accelerate growth and access to the portfolio of Pretzels’ products.

Other intangible assets include trademarks valued at \$5,700 and customer relationships valued at \$20,400. Trademarks were assigned an estimated useful life of five years and customer relationships were assigned an estimated useful life of 19 years.



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Dot's Pretzels, LLC

On December 13, 2021, we completed the acquisition of Dot's Pretzels, LLC ("Dot's"), previously a privately held company that produces and sells pretzels and other snack food products to retailers and distributors in the United States, with *Dot's Homestyle Pretzels* snacks as its primary product. Dot's is the fastest-growing scale brand in the pretzel category and complements Hershey's snacks portfolio. The cash consideration paid for Dot's totaled \$891,169 and consisted of cash on hand and short-term borrowings. Acquisition-related costs for the Dot's acquisition were immaterial.

The acquisition has been accounted for as a business combination and, accordingly, Dot's has been included within the North America Salty Snacks segment from the date of acquisition. The purchase consideration was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Goodwill	\$	284,427
Other intangible assets		543,100
Current assets acquired		51,121
Property, plant and equipment, net		40,266
Other non-current assets		2,201
Other liabilities assumed, primarily current liabilities		(29,946)
Net assets acquired	\$	<u>891,169</u>

The purchase price allocation presented above has been finalized as of the third quarter of 2022 and includes an immaterial amount of measurement period adjustments. The measurement period adjustments to the initial allocation were based on more detailed information obtained about the specific assets acquired and liabilities assumed, specifically, the refinement of certain assumptions in the value of customer relationships based on an analysis of historical customer-specific data and post-closing adjustments to the working capital acquired including certain holdbacks.

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets). The goodwill derived from this acquisition is deductible for tax purposes and reflects the value of leveraging our brand building expertise, supply chain capabilities and retail relationships to accelerate growth and access to the portfolio of Dot's products.

Other intangible assets include trademarks valued at \$336,600 and customer relationships valued at \$206,500. Trademarks were assigned an estimated useful life of 33 years and customer relationships were assigned estimated useful life of 18 years.

Lily's Sweets, LLC

On June 25, 2021, we completed the acquisition of Lily's Sweets, LLC ("Lily's"), previously a privately held company that sells a line of sugar-free and low-sugar confectionery foods to retailers and distributors in the United States and Canada. Lily's products include dark and milk chocolate style bars, baking chips, peanut butter cups and other confection products that complement Hershey's confectionery and confectionery-based portfolio. The cash consideration paid for Lily's totaled \$422,210 and the Company may be required to pay additional cash consideration if certain defined targets related to net sales and gross margin are exceeded during the period from the closing date through December 31, 2021. As of the acquisition date, the estimated fair value of the contingent consideration obligation was classified as a liability of \$5,000 and was determined using a scenario-based analysis on forecasted future results. Based on financial results through December 31, 2021, the fair value was reduced during the fourth quarter of 2021 to \$1,250, with the adjustment to fair value recorded in the selling, marketing and administrative ("SM&A") expense caption within the Consolidated Statements of Income. We paid this contingent consideration during the second quarter of 2022. Acquisition-related costs for the Lily's acquisition were immaterial.



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The acquisition has been accounted for as a business combination and, accordingly, Lily’s has been included within the North America Confectionery segment from the date of acquisition. The purchase consideration, inclusive of the acquisition date fair value of the contingent consideration, was allocated to assets acquired and liabilities assumed based on their respective fair values as follows:

Goodwill	\$	175,826
Other intangible assets		235,800
Other assets acquired, primarily current assets		33,092
Other liabilities assumed, primarily current liabilities		(9,620)
Deferred income taxes		(7,888)
Net assets acquired	\$	<u>427,210</u>

The purchase price allocation presented above has been finalized as of the fourth quarter of 2021 and includes an immaterial amount of measurement period adjustments. The measurement period adjustments to the initial allocation were based on more detailed information obtained about the specific assets acquired and liabilities assumed.

Goodwill was determined as the excess of the purchase price over the fair value of the net assets acquired (including the identifiable intangible assets). The majority of goodwill derived from this acquisition is expected to be deductible for tax purposes and reflects the value of leveraging our brand building expertise, supply chain capabilities and retail relationships to accelerate growth and access to the portfolio of Lily’s products.

Other intangible assets include trademarks valued at \$151,600 and customer relationships valued at \$84,200. Trademarks were assigned an estimated useful life of 33 years and customer relationships were assigned estimated useful lives ranging from 17 to 18 years.

Lotte Shanghai Foods Co., Ltd.

In January 2021, we completed the divestiture of Lotte Shanghai Foods Co., Ltd. (“LSFC”), which was previously included within the International segment results in our consolidated financial statements. Total proceeds from the divestiture and the impact on our consolidated financial statements were immaterial and were recorded in the SM&A expense caption within the Consolidated Statements of Income.

2020 Activity

During the second quarter of 2020, we completed the divestitures of KRAVE Pure Foods, Inc. (“Krave”), which was previously included within the North America Salty Snacks segment, and the *Scharffen Berger* and *Dagoba* brands, both of which were previously included within the North America Confectionery segment results in our consolidated financial statements. Total proceeds from the divestitures and the impact on our Consolidated Statements of Income, both individually and on an aggregate basis, were immaterial.



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3. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying value of goodwill by segment for the years ended December 31, 2022 and 2021 are as follows:

	North America Confectionery	North America Salty Snacks	International	Total
Goodwill	\$ 1,854,266	\$ 121,152	\$ 375,145	\$ 2,350,563
Accumulated impairment loss	(4,973)	—	(357,375)	(362,348)
Balance at January 1, 2021	1,849,293	121,152	17,770	1,988,215
Acquired during the period	174,516	468,646	—	643,162
Measurement period adjustments	1,310	—	—	1,310
Foreign currency translation	887	—	(400)	487
Balance at December 31, 2021	2,026,006	589,798	17,370	2,633,174
Measurement period adjustments	—	(18,028)	—	(18,028)
Foreign currency translation	(7,576)	—	(614)	(8,190)
Balance at December 31, 2022	<u>\$ 2,018,430</u>	<u>\$ 571,770</u>	<u>\$ 16,756</u>	<u>\$ 2,606,956</u>

We had no goodwill impairment charges in 2022, 2021 or 2020.

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

December 31,	2022		2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Trademarks	\$ 1,701,932	\$ (190,045)	\$ 1,705,390	\$ (141,760)
Customer-related	513,188	(93,495)	504,667	(65,131)
Patents	8,053	(8,053)	8,623	(8,623)
Total	<u>2,223,173</u>	<u>(291,593)</u>	<u>2,218,680</u>	<u>(215,514)</u>
Intangible assets not subject to amortization:				
Trademarks	34,689		34,422	
Total other intangible assets	<u>\$ 1,966,269</u>		<u>\$ 2,037,588</u>	

Total amortization expense for the years ended December 31, 2022, 2021 and 2020 was \$79,690, \$52,124 and \$46,472, respectively.

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

Year ending December 31,	2023	2024	2025	2026	2027
Amortization expense	\$ 79,249	\$ 78,667	\$ 78,667	\$ 78,620	\$ 77,527

4. SHORT AND LONG-TERM DEBT

Short-term Debt

As a source of short-term financing, we utilize cash on hand and commercial paper or bank loans with an original maturity of three months or less. We maintain a \$1.5 billion unsecured revolving credit facility with the option to increase borrowings by an additional \$500 million with the consent of the lenders. This facility is scheduled to expire



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on July 2, 2024; however, we may extend the termination date for up to two additional one-year periods upon notice to the administrative agent under the facility.

The unsecured committed revolving credit agreement contains a financial covenant whereby the ratio of (a) pre-tax income from operations from the most recent four fiscal quarters to (b) consolidated interest expense for the most recent four fiscal quarters may not be less than 2.0 to 1.0 at the end of each fiscal quarter. The credit agreement also contains customary representations, warranties and events of default. Payment of outstanding advances may be accelerated, at the option of the lenders, should we default in our obligation under the credit agreement. As of December 31, 2022, we are in compliance with all affirmative and negative covenants and the financial covenant pertaining to our credit agreement. There were no significant compensating balance agreements that legally restricted these funds.

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. Our credit limit in various currencies was \$313,195 at December 31, 2022 and \$280,650 at December 31, 2021. These lines permit us to borrow at the respective banks' prime commercial interest rates, or lower. Commitment fees relating to our revolving credit facility and lines of credit are not material. Short-term debt consisted of the following:

	December 31, 2022	December 31, 2021
Short-term foreign bank borrowings against lines of credit	\$ 135,555	\$ 119,038
U.S. commercial paper	558,235	820,385
Total short-term debt	\$ 693,790	\$ 939,423
Weighted average interest rate on outstanding commercial paper	4.3 %	0.1 %

The maximum amount of short-term borrowings outstanding during 2022 and 2021 was \$937,593 and \$939,423, respectively. The weighted-average interest rate on short-term borrowings outstanding was 4.4% as of December 31, 2022 and 0.2% as of December 31, 2021.

Long-term Debt

Long-term debt consisted of the following:

December 31,	Maturity Date	2022	2021
2.625% Notes	May 1, 2023	250,000	250,000
3.375% Notes	May 15, 2023	500,000	500,000
2.050% Notes	November 15, 2024	300,000	300,000
0.900% Notes	June 1, 2025	300,000	300,000
3.200% Notes	August 21, 2025	300,000	300,000
2.300% Notes	August 15, 2026	500,000	500,000
7.200% Debentures	August 15, 2027	193,639	193,639
2.450% Notes	November 15, 2029	300,000	300,000
1.700% Notes	June 1, 2030	350,000	350,000
3.375% Notes	August 15, 2046	300,000	300,000
3.125% Notes	November 15, 2049	400,000	400,000
2.650% Notes	June 1, 2050	350,000	350,000
Finance lease obligations (see Note 7)		73,479	69,146
Net impact of interest rate swaps, debt issuance costs and unamortized debt discounts		(19,563)	(23,314)
Total long-term debt		4,097,555	4,089,471
Less—current portion		753,578	2,844
Long-term portion		\$ 3,343,977	\$ 4,086,627



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In February 2021, we repaid \$84,715 of 8.800% Debentures due upon their maturity. In May 2021, we repaid \$350,000 of 3.100% Notes due upon their maturity.

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

2023	\$	750,000
2024		300,000
2025		600,000
2026		500,000
2027		193,639
Thereafter		1,700,000

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

Interest Expense

Net interest expense consists of the following:

For the years ended December 31,	2022	2021	2020
Interest expense	\$ 148,226	\$ 139,156	\$ 160,204
Capitalized interest	(8,131)	(9,310)	(6,733)
Interest expense	140,095	129,846	153,471
Interest income	(2,538)	(2,429)	(4,097)
Interest expense, net	<u>\$ 137,557</u>	<u>\$ 127,417</u>	<u>\$ 149,374</u>

5. DERIVATIVE INSTRUMENTS

We are exposed to market risks arising principally from changes in foreign currency exchange rates, interest rates and commodity prices. We use certain derivative instruments to manage these risks. These include interest rate swaps to manage interest rate risk, foreign currency forward exchange contracts to manage foreign currency exchange rate risk, and commodities futures and options contracts to manage commodity market price risk exposures.

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. We mitigate this risk by entering into exchanged-traded contracts with collateral posting requirements and/or by performing financial assessments prior to contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualified counterparties. We do not expect any significant losses from counterparty defaults.

Commodity Price Risk

We enter into commodities futures and options contracts and other commodity derivative instruments to reduce the effect of future price fluctuations associated with the purchase of raw materials, energy requirements and transportation services. We generally hedge commodity price risks for 3- to 24-month periods. Our open commodity derivative contracts had a notional value of \$243,009 as of December 31, 2022 and \$313,200 as of December 31, 2021.

Derivatives used to manage commodity price risk are not designated for hedge accounting treatment. Therefore, the changes in fair value of these derivatives are recorded as incurred within cost of sales. As discussed in [Note 13](#), we define our segment income to exclude gains and losses on commodity derivatives until the related inventory is sold, at which time the related gains and losses are reflected within segment income. This enables us to continue to align the derivative gains and losses with the underlying economic exposure being hedged and thereby eliminate the mark-to-market volatility within our reported segment income.



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Foreign Exchange Price Risk

We are exposed to foreign currency exchange rate risk related to our international operations, including non-functional currency intercompany debt and other non-functional currency transactions of certain subsidiaries. Principal currencies hedged include the euro, Canadian dollar, Japanese yen, British pound, Brazilian real, Malaysian ringgit, Mexican peso and Swiss franc. We typically utilize foreign currency forward exchange contracts to hedge these exposures for periods ranging from 3 to 12 months. The contracts are either designated as cash flow hedges or are undesignated. The net notional amount of foreign exchange contracts accounted for as cash flow hedges was \$59,448 at December 31, 2022 and \$94,623 at December 31, 2021. The effective portion of the changes in fair value on these contracts is recorded in other comprehensive income and reclassified into earnings in the same period in which the hedged transactions affect earnings. The net notional amount of foreign exchange contracts that are not designated as accounting hedges was \$1,843 at December 31, 2022 and \$2,993 at December 31, 2021. The change in fair value on these instruments is recorded directly in cost of sales or selling, marketing and administrative expense, depending on the nature of the underlying exposure.

Interest Rate Risk

In order to manage interest rate exposure, in previous years we utilized interest rate swap agreements to protect against unfavorable interest rate changes relating to forecasted debt transactions. These swaps, which were settled upon issuance of the related debt, were designated as cash flow hedges and the gains and losses that were deferred in other comprehensive income are being recognized as an adjustment to interest expense over the same period that the hedged interest payments affect earnings.

Equity Price Risk

We are exposed to market price changes in certain broad market indices related to our deferred compensation obligations to our employees. To mitigate this risk, we use equity swap contracts to hedge the portion of the exposure that is linked to market-level equity returns. These contracts are not designated as hedges for accounting purposes and are entered into for periods of 3 to 12 months. The change in fair value of these derivatives is recorded in SM&A expense, together with the change in the related liabilities. The notional amount of the contracts outstanding at December 31, 2022 and 2021 was \$18,803 and \$24,975, respectively.

The following table presents the classification of derivative assets and liabilities within the Consolidated Balance Sheets as of December 31, 2022 and 2021:

December 31,	2022		2021	
	Assets (1)	Liabilities (1)	Assets (1)	Liabilities (1)
Derivatives designated as cash flow hedging instruments:				
Foreign exchange contracts	\$ 3,921	\$ 261	\$ 2,949	\$ 711
Derivatives not designated as hedging instruments:				
Commodities futures and options (2)	685	662	2,423	1,376
Deferred compensation derivatives	1,222	—	2,412	—
Foreign exchange contracts	246	—	550	—
	2,153	662	5,385	1,376
Total	\$ 6,074	\$ 923	\$ 8,334	\$ 2,087

- (1) Derivatives assets are classified on our Consolidated Balance Sheets within prepaid expenses and other as well as other non-current assets. Derivative liabilities are classified on our Consolidated Balance Sheets within accrued liabilities and other long-term liabilities.



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- (2) As of December 31, 2022, amounts reflected on a net basis in assets were assets of \$25,308 and liabilities of \$25,296, which are associated with cash transfers receivable or payable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for the period. The comparable amounts reflected on a net basis in liabilities at December 31, 2021 were assets of \$31,774 and liabilities of \$32,701. At December 31, 2022 and 2021, the remaining amount reflected in assets and liabilities related to the fair value of other non-exchange traded derivative instruments, respectively.

Income Statement Impact of Derivative Instruments

The effect of derivative instruments on the Consolidated Statements of Income for the years ended December 31, 2022 and 2021 was as follows:

	Non-designated Hedges		Cash Flow Hedges			
	Gains (losses) recognized in income (a)		Gains (losses) recognized in other comprehensive income ("OCI")		Gains (losses) reclassified from AOCI into income (b)	
	2022	2021	2022	2021	2022	2021
Commodities futures and options	\$ 44,569	\$ 85,402	\$ —	\$ —	\$ —	\$ —
Foreign exchange contracts	(274)	547	2,056	(1,551)	636	(7,145)
Interest rate swap agreements	—	—	—	—	(10,836)	(10,972)
Deferred compensation derivatives	(4,920)	6,004	—	—	—	—
Total	\$ 39,375	\$ 91,953	\$ 2,056	\$ (1,551)	\$ (10,200)	\$ (18,117)

- (a) Gains (losses) recognized in income for non-designated commodities futures and options contracts were included in cost of sales. Gains (losses) recognized in income for non-designated foreign currency forward exchange contracts and deferred compensation derivatives were included in selling, marketing and administrative expenses.
- (b) Gains (losses) reclassified from AOCI into income for foreign currency forward exchange contracts were included in selling, marketing and administrative expenses. Losses reclassified from AOCI into income for interest rate swap agreements were included in interest expense.

The amount of pretax net losses on derivative instruments, including interest rate swap agreements and foreign currency forward exchange contracts expected to be reclassified into earnings in the next 12 months was approximately \$7,176 as of December 31, 2022. This amount is primarily associated with interest rate swap agreements.

6. FAIR VALUE MEASUREMENTS

Accounting guidance on fair value measurements requires that financial assets and liabilities be classified and disclosed in one of the following categories of the fair value hierarchy:

Level 1 – Based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2 – Based on observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 – Based on unobservable inputs that reflect the entity's own assumptions about the assumptions that a market participant would use in pricing the asset or liability.

We did not have any Level 3 financial assets or liabilities, nor were there any transfers between levels during the periods presented.



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The following table presents assets and liabilities that were measured at fair value in the Consolidated Balance Sheets on a recurring basis as of December 31, 2022 and 2021:

	Assets (Liabilities)			
	Level 1	Level 2	Level 3	Total
December 31, 2022:				
Derivative Instruments:				
Assets:				
Foreign exchange contracts (1)	\$ —	\$ 4,167	\$ —	\$ 4,167
Deferred compensation derivatives (2)	—	1,222	—	1,222
Commodities futures and options (3)	685	—	—	685
Liabilities:				
Foreign exchange contracts (1)	—	261	—	261
Commodities futures and options (3)	662	—	—	662
December 31, 2021:				
Assets:				
Foreign exchange contracts (1)	\$ —	\$ 3,499	\$ —	\$ 3,499
Deferred compensation derivatives (2)	—	2,412	—	2,412
Commodities futures and options (3)	2,423	—	—	2,423
Liabilities:				
Foreign exchange contracts (1)	—	711	—	711
Commodities futures and options (3)	1,376	—	—	1,376

- (1) The fair value of foreign currency forward exchange contracts is the difference between the contract and current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign currency forward exchange contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturity differences.
- (2) The fair value of deferred compensation derivatives is based on quoted prices for market interest rates and a broad market equity index.
- (3) The fair value of commodities futures and options contracts is based on quoted market prices.

Other Financial Instruments

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and short-term debt approximated fair values as of December 31, 2022 and December 31, 2021 because of the relatively short maturity of these instruments.

The estimated fair value of our long-term debt is based on quoted market prices for similar debt issuances and is, therefore, classified as Level 2 within the valuation hierarchy. The fair values and carrying values of long-term debt, including the current portion, were as follows:

At December 31,	Fair Value		Carrying Value	
	2022	2021	2022	2021
Current portion of long-term debt	\$ 749,345	\$ 2,844	\$ 753,578	\$ 2,844
Long-term debt	2,854,165	4,274,304	3,343,977	4,086,627
Total	\$ 3,603,510	\$ 4,277,148	\$ 4,097,555	\$ 4,089,471



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Other Fair Value Measurements

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

2021 Activity

In connection with the acquisitions of Lily's, Dot's and Pretzels during 2021, as discussed in [Note 2](#), we used various valuation techniques to determine fair value, with the primary techniques being discounted cash flow analysis and the relief-from-royalty, a form of the multi-period excess earnings, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy.

2020 Activity

During 2020, we recorded the following impairment charges, which use significant unobservable inputs, or Level 3 inputs, as defined by the fair value hierarchy:

	2020
Adjustment to disposal group (1)	\$ 6,200
Other asset write-down (2)	2,943
Long-lived asset impairment charges	<u>\$ 9,143</u>

(1) In connection with the sale of the LSFC joint venture (disposal group previously classified as held for sale), we recorded impairment charges to adjust long-lived asset values. The fair value of the disposal group was supported by potential sales prices with third-party buyers. The sale of the LSFC joint venture was completed in January 2021.

(2) In connection with a previous sale, the Company wrote-down certain receivables deemed uncollectible.

7. LEASES

We lease office and retail space, warehouse and distribution facilities, land, vehicles, and equipment. We determine if an agreement is or contains a lease at inception. Leases with an initial term of 12 months or less are not recorded on the balance sheet.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and liabilities are based on the estimated present value of lease payments over the lease term and are recognized at the lease commencement date.

As most of our leases do not provide an implicit rate, we use our estimated incremental borrowing rate in determining the present value of lease payments. The estimated incremental borrowing rate is derived from information available at the lease commencement date.

Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. A limited number of our lease agreements include rental payments adjusted periodically for inflation. Our lease agreements generally do not contain residual value guarantees or material restrictive covenants.

For real estate, equipment and vehicles that support selling, marketing and general administrative activities the Company accounts for the lease and non-lease components as a single lease component. These asset categories comprise the majority of our leases. The lease and non-lease components of real estate and equipment leases supporting production activities are not accounted for as a single lease component. Consideration for such contracts is allocated to the lease component and non-lease components based upon relative standalone prices either observable or estimated if observable prices are not readily available.



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The components of lease expense were as follows:

Lease expense	Classification	2022	2021
Operating lease cost	Cost of sales or SM&A (1)	\$ 48,988	\$ 44,444
Finance lease cost:			
Amortization of ROU assets	Depreciation and amortization (1)	7,043	8,098
Interest on lease liabilities	Interest expense, net	4,192	4,358
Net lease cost (2)		<u>\$ 60,223</u>	<u>\$ 56,900</u>

(1) Supply chain-related amounts were included in cost of sales.

(2) Net lease cost does not include short-term leases, variable lease costs or sublease income, all of which are immaterial.

Information regarding our lease terms and discount rates were as follows:

	2022	2021
Weighted-average remaining lease term (years)		
Operating leases	15.0	15.4
Finance leases	27.7	30.0
Weighted-average discount rate		
Operating leases	3.2 %	3.1 %
Finance leases	6.1 %	6.1 %

Supplemental balance sheet information related to leases were as follows:

Leases	Classification	2022	2021
Assets			
Operating lease ROU assets	Other non-current assets	\$ 326,472	\$ 351,712
Finance lease ROU assets, at cost	Property, plant and equipment, gross	86,703	89,190
Accumulated amortization	Accumulated depreciation	(14,543)	(16,694)
Finance lease ROU assets, net	Property, plant and equipment, net	72,160	72,496
Total leased assets		<u>\$ 398,632</u>	<u>\$ 424,208</u>
Liabilities			
Current			
Operating	Accrued liabilities	\$ 31,787	\$ 36,292
Finance	Current portion of long-term debt	4,285	3,564
Non-current			
Operating	Other long-term liabilities	294,849	310,899
Finance	Long-term debt	69,194	65,582
Total lease liabilities		<u>\$ 400,115</u>	<u>\$ 416,337</u>



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The maturity of our lease liabilities as of December 31, 2022 were as follows:

	Operating leases		Finance leases		Total
2023	\$ 41,393	\$	8,289	\$	49,682
2024	38,789		7,478		46,267
2025	27,466		5,535		33,001
2026	23,596		4,036		27,632
2027	23,770		4,065		27,835
Thereafter	264,553		142,020		406,573
Total lease payments	419,567		171,423		590,990
Less: Imputed interest	92,931		97,944		190,875
Total lease liabilities	\$ 326,636	\$	73,479	\$	400,115

Supplemental cash flow and other information related to leases were as follows:

	2022		2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	\$ 45,179	\$	42,584
Operating cash flows from finance leases	4,192	\$	4,730
Financing cash flows from finance leases	4,717	\$	4,358
ROU assets obtained in exchange for lease liabilities:			
Operating leases	\$ 13,998	\$	164,951
Finance leases	9,617	\$	(6,424)

8. INVESTMENTS IN UNCONSOLIDATED AFFILIATES

We invest in partnerships that make equity investments in projects eligible to receive federal historic and renewable energy tax credits. The tax credits, when realized, are recognized as a reduction of tax expense under the flow-through method, at which time the corresponding equity investment is written-down to reflect the remaining value of the future benefits to be realized. The equity investment write-down is reflected within other (income) expense, net in the Consolidated Statements of Income (see [Note 17](#)).

Additionally, we acquire ownership interests in emerging snacking businesses and startup companies, which vary in method of accounting based on our percentage of ownership and ability to exercise significant influence over decisions relating to operating and financial affairs. These investments afford the Company the rights to distribute brands that the Company does not own to third-party customers primarily in North America. Net sales and expenses of our equity method investees are not consolidated into our financial statements; rather, our proportionate share of earnings or losses are recorded on a net basis within other (income) expense, net in the Consolidated Statements of Income.

Both equity and cost method investments are reported within other non-current assets in our Consolidated Balance Sheets. We regularly review our investments and adjust accordingly for capital contributions, dividends received and other-than-temporary impairments. Total investments in unconsolidated affiliates was \$133,029 and \$93,089 as of December 31, 2022 and December 31, 2021, respectively.

9. BUSINESS REALIGNMENT ACTIVITIES

We periodically undertake business realignment activities designed to increase our efficiency and focus our business in support of our key growth strategies. Costs associated with business realignment activities are classified in our Consolidated Statements of Income as follows:



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For the years ended December 31,	2022	2021	2020
Cost of sales	\$ 3	\$ 5,220	\$ 2,209
Selling, marketing and administrative expense	2,425	7,854	10,801
Business realignment costs	1,989	3,525	18,503
Costs associated with business realignment activities	<u>\$ 4,417</u>	<u>\$ 16,599</u>	<u>\$ 31,513</u>

Costs recorded by program in 2022, 2021 and 2020 related to these activities were as follows:

For the years ended December 31,	2022	2021	2020
International Optimization Program:			
Severance and employee benefit costs	\$ 2,001	\$ 3,982	\$ 18,977
Other program costs	2,416	12,617	10,366
Margin for Growth Program:			
Severance	—	—	(653)
Other program costs	—	—	2,823
Total	<u>\$ 4,417</u>	<u>\$ 16,599</u>	<u>\$ 31,513</u>

Amounts classified as liabilities qualifying as exit and disposal costs primarily represent employee-related and certain third-party service provider charges, however, such amounts at December 31, 2022 are not significant and are expected to be paid within the next 12 months.

2020 International Optimization Program

In the fourth quarter of 2020, we commenced a program (“International Optimization Program”) to streamline resources and investments in select international markets, including the optimization of our China operating model that will improve our operational efficiency and provide for a strong, sustainable and simplified base going forward.

The International Optimization Program is expected to be completed by the end of 2023, with total pre-tax costs anticipated to be \$50,000 to \$75,000. Cash costs are expected to be \$40,000 to \$65,000, primarily related to workforce reductions of approximately 350 positions outside of the United States, costs to consolidate and relocate production, and third-party costs incurred to execute these activities. The costs and related benefits of the International Optimization Program relate to the International segment. However, segment operating results do not include these business realignment expenses because we evaluate segment performance excluding such costs.

For the year ended December 31, 2022 and 2021, we recognized total costs associated with the International Optimization Program of \$4,417 and \$16,599. These charges predominantly included third-party charges in support of our initiative to transform our China operating model, as well as severance and employee benefit costs. Since inception, we have incurred pre-tax charges to execute the program totaling \$50,359.

Margin for Growth Program

In the first quarter of 2017, the Company’s Board of Directors (“Board”) unanimously approved several initiatives under a single program focused on improving global efficiency and effectiveness, optimizing the Company’s supply chain, streamlining the Company’s operating model and reducing administrative expenses to generate long-term savings.

For the year ended December 31, 2020, we recognized total costs associated with the Margin for Growth Program of \$2,170. These charges included other program costs, which related primarily to third-party charges in support of our initiative to improve global efficiency and effectiveness. This project was completed in mid-2020.

The costs and related benefits of the Margin for Growth Program relate approximately 63% to the North America Confectionery segment and 37% to the International segment. However, segment operating results do not include these business realignment expenses because we evaluate segment performance excluding such costs.



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10. INCOME TAXES

The components of income before income taxes were as follows:

For the years ended December 31,	2022	2021	2020
Domestic	\$ 1,816,622	\$ 1,775,361	\$ 1,405,254
Foreign	100,449	21,863	89,743
Income before income taxes	<u>\$ 1,917,071</u>	<u>\$ 1,797,224</u>	<u>\$ 1,494,997</u>

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

For the years ended December 31,	2022	2021	2020
Current:			
Federal	\$ 121,968	\$ 161,402	\$ 117,348
State	85,741	60,979	46,198
Foreign	27,656	78,650	29,158
	<u>235,365</u>	<u>301,031</u>	<u>192,704</u>
Deferred:			
Federal	34,848	26,726	24,486
State	3,393	8,253	3,746
Foreign	(1,352)	(21,605)	(1,352)
	<u>36,889</u>	<u>13,374</u>	<u>26,880</u>
Total provision for income taxes	<u>\$ 272,254</u>	<u>\$ 314,405</u>	<u>\$ 219,584</u>



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Deferred taxes reflect temporary differences between the tax basis and financial statement carrying value of assets and liabilities. The significant temporary differences that comprised the deferred tax assets and liabilities are as follows:

December 31,	2022	2021
Deferred tax assets:		
Post-retirement benefit obligations	\$ 40,100	\$ 51,026
Accrued expenses and other reserves	78,523	81,847
Stock-based compensation	19,847	21,898
Derivative instruments	3,983	—
Lease liabilities	91,099	95,503
Accrued trade promotion reserves	23,082	25,382
Net operating loss carryforwards	130,944	152,389
Capital loss carryforwards	1,999	2,522
Other	52,802	49,760
Gross deferred tax assets	442,379	480,327
Valuation allowance	(137,531)	(167,788)
Total deferred tax assets	304,848	312,539
Deferred tax liabilities:		
Property, plant and equipment, net	247,964	234,474
Acquired intangibles	193,160	168,087
Lease ROU assets	28,573	76,285
Inventories	72,602	20,105
Derivative instruments	—	1,352
Pension	11,038	11,871
Other	39,416	47,496
Total deferred tax liabilities	592,753	559,670
Net deferred tax liabilities	\$ (287,905)	\$ (247,131)
Included in:		
Non-current deferred tax assets, net	\$ 40,498	\$ 40,873
Non-current deferred tax liabilities, net	(328,403)	(288,004)
Net deferred tax liabilities	\$ (287,905)	\$ (247,131)

Changes in deferred taxes were primarily due to acquired intangibles and accelerated tax depreciation on property, plant and equipment.

The valuation allowances as of December 31, 2022 and 2021 were primarily related to various foreign jurisdictions' net operating loss carryforwards and other deferred tax assets that we do not expect to realize.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The following table reconciles the federal statutory income tax rate with our effective income tax rate:

For the years ended December 31,	2022	2021	2020
Federal statutory income tax rate	21.0 %	21.0 %	21.0 %
Increase (reduction) resulting from:			
State income taxes, net of Federal income tax benefits	3.2	2.8	2.7
Foreign rate differences	(0.1)	(0.2)	(0.5)
Historic and solar tax credits	(9.9)	(6.2)	(7.7)
Tax contingencies	0.4	1.7	0.1
Stock compensation	(0.7)	(0.5)	(0.6)
Other, net	0.3	(1.1)	(0.3)
Effective income tax rate	<u>14.2 %</u>	<u>17.5 %</u>	<u>14.7 %</u>

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

December 31,	2022		2021	
Balance at beginning of year	\$	143,305	\$	108,543
Additions for tax positions taken during prior years		17,987		40,145
Reductions for tax positions taken during prior years		(9,310)		(3,601)
Additions for tax positions taken during the current year		4,112		14,329
Settlements		—		(9,858)
Expiration of statutes of limitations		(7,749)		(6,253)
Balance at end of year	<u>\$</u>	<u>148,345</u>	<u>\$</u>	<u>143,305</u>

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$120,699 as of December 31, 2022 and \$117,552 as of December 31, 2021.

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized a net tax expense of \$4,862, \$8,924 and \$1,564 in 2022, 2021 and 2020, respectively, for interest and penalties. Accrued net interest and penalties were \$25,328 as of December 31, 2022 and \$20,466 as of December 31, 2021.

The Company and its subsidiaries file tax returns in the United States, including various state and local returns, and in other foreign jurisdictions. We are routinely audited by taxing authorities in our filing jurisdictions, and a number of these disputes are currently underway, including multi-year controversies at various stages of review, negotiation and litigation in Mexico, China, Canada and the United States. The outcome of tax audits cannot be predicted with certainty, including the timing of resolution or potential settlements. If any issues addressed in our tax audits are resolved in a manner not consistent with management's expectations, we could be required to adjust our provision for income taxes in the period such resolution occurs. Based on our current assessments, we believe adequate provision has been made for all income tax uncertainties.

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately \$22,253 within the next 12 months because of the expiration of statutes of limitations and settlements of tax audits.

As of December 31, 2022, we had approximately \$620,697 of undistributed earnings of our international subsidiaries. During 2020, previously undistributed earnings of certain international subsidiaries were no longer considered indefinitely reinvested; however, the Company had previously recognized a one-time U.S. repatriation tax due under U.S. tax reform, and as a result, only an immaterial amount of withholding tax was recognized. We intend to continue to reinvest the remainder of the earnings outside of the United States for which there would be a material tax implication to distributing, such as withholding tax, for the foreseeable future and, therefore, have not recognized additional tax expense on these earnings beyond the one-time U.S. repatriation tax due under the 2017 Tax Cuts and Jobs Act.



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

Investments in Partnerships Qualifying for Tax Credits

We invest in partnerships which make equity investments in projects eligible to receive federal historic and energy tax credits. The investments are accounted for under the equity method and reported within other non-current assets in our Consolidated Balance Sheets. The tax credits, when realized, are recognized as a reduction of tax expense under the flow-through method, at which time the corresponding equity investment is written-down to reflect the remaining value of the future benefits to be realized. For the years ended December 31, 2022, 2021 and 2020 we recognized investment tax credits and related outside basis difference benefits totaling \$228,819, \$136,243 and \$146,021, respectively, and we wrote-down the equity investment by \$188,286, \$113,756 and \$125,579, respectively, to reflect the realization of these benefits. The equity investment write-down is reflected within other (income) expense, net in the Consolidated Statements of Income (see [Note 17](#)).

Inflation Reduction Act

On August 16, 2022, the Inflation Reduction Act (“IRA”) was signed into law. The IRA enacted a 15% corporate minimum tax on certain corporations and an excise tax on share repurchases after December 31, 2022, and created and extended certain energy-related tax credits and incentives, as well as other provisions. We currently do not expect the tax-related provisions of the IRA to have a material impact on our consolidated financial statements, including our annual effective tax rate, or on our liquidity. We will continue to monitor and assess the impact the IRA may have on our business and financial results.

American Rescue Plan Act

On March 11, 2021, the American Rescue Plan Act (“ARPA”) was signed into law. The ARPA strengthens and extends certain federal programs enacted through the Coronavirus Aid, Relief, and Economic Security Act and other coronavirus disease 2019 (“COVID-19”) relief measures, and establishes new federal programs, including provisions on taxes, healthcare and unemployment benefits. The ARPA did not have a material impact on our consolidated financial statements for the years ended December 31, 2022 and 2021.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was signed into law. The CARES Act provides a substantial stimulus and assistance package intended to address the impact of the COVID-19 pandemic, including tax relief and government loans, grants and investments. The CARES Act did not have a material impact on our consolidated financial statements for the years ended December 31, 2022, 2021 and 2020.

11. PENSION AND OTHER POST-RETIREMENT BENEFIT PLANS

We sponsor a number of defined benefit pension plans. The primary plans are The Hershey Company Retirement Plan and The Hershey Company Retirement Plan for Hourly Employees. These are cash balance plans that provide pension benefits for most domestic employees hired prior to January 1, 2007. We also sponsor two post-retirement benefit plans: health care and life insurance. The health care plan is contributory, with participants’ contributions adjusted annually. The life insurance plan is non-contributory.



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

Obligations and Funded Status

A summary of the changes in benefit obligations, plan assets and funded status of these plans is as follows:

December 31,	Pension Benefits		Other Benefits	
	2022	2021	2022	2021
Change in benefit obligation				
Projected benefit obligation at beginning of year	\$ 1,076,180	\$ 1,168,838	\$ 211,490	\$ 243,308
Service cost	17,500	21,361	302	1,879
Interest cost	30,491	18,320	4,603	3,857
Actuarial (gain) loss	(184,775)	(33,984)	(28,145)	(14,787)
Settlement	(82,907)	(75,985)	—	—
Currency translation and other	(3,268)	619	(613)	113
Benefits paid	(22,936)	(22,989)	(22,748)	(22,880)
Projected benefit obligation at end of year	830,285	1,076,180	164,889	211,490
Change in plan assets				
Fair value of plan assets at beginning of year	1,098,191	1,100,245	—	—
Actual return on plan assets	(196,969)	68,361	—	—
Employer contributions	55,799	28,220	22,748	22,880
Settlement	(82,907)	(75,985)	—	—
Currency translation and other	(2,746)	339	—	—
Benefits paid	(22,936)	(22,989)	(22,748)	(22,880)
Fair value of plan assets at end of year	848,432	1,098,191	—	—
Funded status at end of year	\$ 18,147	\$ 22,011	\$ (164,889)	\$ (211,490)
Amounts recognized in the Consolidated Balance Sheets:				
Other assets	\$ 53,495	\$ 71,618	\$ —	\$ —
Accrued liabilities	(7,652)	(12,584)	(17,715)	(17,886)
Other long-term liabilities	(27,696)	(37,023)	(147,174)	(193,604)
Total	\$ 18,147	\$ 22,011	\$ (164,889)	\$ (211,490)
Amounts recognized in Accumulated Other Comprehensive Income (Loss), net of tax:				
Actuarial net (loss) gain	\$ (150,378)	\$ (132,917)	\$ 19,689	\$ 1,137
Net prior service credit	12,435	15,399	—	—
Net amounts recognized in AOCI	\$ (137,943)	\$ (117,518)	\$ 19,689	\$ 1,137

The projected benefit obligation during 2022 was impacted by actuarial gain of \$184,775 which was mainly the result of the discount rate assumption increasing from 2.7% at December 31, 2021 to 5.5% at December 31, 2022. The accumulated benefit obligation for all defined benefit pension plans was \$799,635 as of December 31, 2022 and \$1,031,197 as of December 31, 2021.



THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Plans with accumulated benefit obligations in excess of plan assets were as follows:

December 31,	2022		2021	
Projected benefit obligation	\$	79,932	\$	108,034
Accumulated benefit obligation		68,665		92,462
Fair value of plan assets		44,584		58,427

Net Periodic Benefit Cost

The components of net periodic benefit cost were as follows:

For the years ended December 31,	Pension Benefits			Other Benefits		
	2022	2021	2020	2022	2021	2020
Amounts recognized in net periodic benefit cost						
Service cost	\$ 17,500	\$ 21,361	\$ 21,734	\$ 302	\$ 1,879	\$ 159
Interest cost	30,491	18,320	26,112	4,603	3,857	6,029
Expected return on plan assets	(47,637)	(49,091)	(52,907)	—	—	—
Amortization of prior service (credit) cost	(5,651)	(6,142)	(7,308)	—	—	300
Amortization of net loss	16,060	20,556	26,952	(92)	1,593	(39)
Settlement loss	20,692	16,085	13,421	—	—	—
Total net periodic benefit cost	<u>\$ 31,455</u>	<u>\$ 21,089</u>	<u>\$ 28,004</u>	<u>\$ 4,813</u>	<u>\$ 7,329</u>	<u>\$ 6,449</u>
Change in plan assets and benefit obligations recognized in AOCI, pre-tax						
Actuarial net (gain) loss	\$ 22,609	\$ (80,047)	\$ (15,606)	\$ (26,212)	\$ (16,374)	\$ 15,266
Prior service cost (credit)	5,601	6,447	7,310	—	—	(300)
Total recognized in other comprehensive (income) loss, pre-tax	<u>\$ 28,210</u>	<u>\$ (73,600)</u>	<u>\$ (8,296)</u>	<u>\$ (26,212)</u>	<u>\$ (16,374)</u>	<u>\$ 14,966</u>
Net amounts recognized in periodic benefit cost and AOCI	<u>\$ 59,665</u>	<u>\$ (52,511)</u>	<u>\$ 19,708</u>	<u>\$ (21,399)</u>	<u>\$ (9,045)</u>	<u>\$ 21,415</u>

The non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans is reflected within other (income) expense, net in the Consolidated Statements of Income (see [Note 17](#)).

Assumptions

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

December 31,	Pension Benefits		Other Benefits	
	2022	2021	2022	2021
Discount rate	5.5 %	2.7 %	5.5 %	2.9 %
Rate of increase in compensation levels	3.4 %	3.5 %	4.0 %	N/A
Interest crediting rate	4.7 %	4.6 %	N/A	N/A



THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The weighted-average assumptions used in computing net periodic benefit cost were as follows:

For the years ended December 31,	Pension Benefits			Other Benefits		
	2022	2021	2020	2022	2021	2020
Discount rate	2.7 %	2.3 %	3.1 %	2.9 %	2.5 %	3.2 %
Expected long-term return on plan assets	4.9 %	4.8 %	5.3 %	N/A	N/A	N/A
Rate of compensation increase	3.5 %	3.5 %	3.6 %	N/A	N/A	N/A

The Company's discount rate assumption is determined by developing a yield curve based on high quality corporate bonds with maturities matching the plans' expected benefit payment streams. The plans' expected cash flows are then discounted by the resulting year-by-year spot rates. We base the asset return assumption on current and expected asset allocations, as well as historical and expected returns on the plan asset categories.

We utilize a full yield curve approach in the estimation of service and interest costs by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the relevant projected cash flows. This approach provides a more precise measurement of service and interest costs by improving the correlation between the projected cash flows to the corresponding spot rates along the yield curve. This approach does not affect the measurement of our pension and other post-retirement benefit liabilities but generally results in lower benefit expense in periods when the yield curve is upward sloping.

For purposes of measuring our post-retirement benefit obligation at December 31, 2022, we assumed a 6.7% annual rate of increase in the per capita cost of covered health care benefits for 2023, grading down to 5.0% by 2030. For purposes of measuring our post-retirement benefit obligation at December 31, 2021, we assumed a 6.2% annual rate of increase in the per capita cost of covered health care benefits for 2022, grading down to 5.0% by 2025.

The valuations and assumptions reflect adoption of the Society of Actuaries updated Pri-2012 mortality tables with MP-2021 generational projection scales, which we adopted as of December 31, 2021. The Society of Actuaries did not update the Pri-2012 mortality tables in 2022. Adoption of the updated scales did not have a significant impact on our current pension obligations or net period benefit cost since our primary plans are cash balance plans and most participants take lump-sum settlements upon retirement.

Plan Assets

We broadly diversify our pension plan assets across public equity, fixed income, diversified credit strategies and diversified alternative strategies asset classes. Our target asset allocation for our major domestic pension plans as of December 31, 2022 was as follows:

Asset Class	Target Asset Allocation
Cash	1%
Equity securities	27%
Fixed income securities	48%
Alternative investments, including real estate, listed infrastructure and other	24%

As of December 31, 2022, actual allocations were consistent with the targets and within our allowable ranges. We expect the level of volatility in pension plan asset returns to be in line with the overall volatility of the markets within each asset class.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The following table sets forth by level, within the fair value hierarchy (as defined in [Note 6](#)), pension plan assets at their fair values as of December 31, 2022:

	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Investments Using NAV as a Practical Expedient (1)	Total
Cash and cash equivalents	\$ 327	\$ 29,595	\$ —	\$ 566	\$ 30,488
Equity securities:					
Global all-cap (a)	—	—	—	206,636	206,636
Fixed income securities:					
U.S. government/agency	—	—	—	173,122	173,122
Corporate bonds (b)	—	—	—	58,646	58,646
International government/corporate bonds (c)	—	—	—	26,489	26,489
Diversified credit (d)	—	—	—	109,926	109,926
Alternative investments:					
Global diversified assets (e)	—	—	—	95,243	95,243
Real assets fund (f)	—	—	—	147,882	147,882
Total pension plan assets	<u>\$ 327</u>	<u>\$ 29,595</u>	<u>\$ —</u>	<u>\$ 818,510</u>	<u>\$ 848,432</u>

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair values as of December 31, 2021:

	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Investments Using NAV as a Practical Expedient (1)	Total
Cash and cash equivalents	\$ 534	\$ 23,715	\$ —	\$ 649	\$ 24,898
Equity securities:					
Global all-cap (a)	—	—	—	294,090	294,090
Fixed income securities:					
U.S. government/agency	—	—	—	248,579	248,579
Corporate bonds (b)	—	—	—	78,360	78,360
International government/corporate bonds (c)	—	—	—	31,922	31,922
Diversified credit (d)	—	—	—	154,004	154,004
Alternative investments:					
Global diversified assets (e)	—	—	—	97,412	97,412
Real assets fund (f)	—	—	—	168,926	168,926
Total pension plan assets	<u>\$ 534</u>	<u>\$ 23,715</u>	<u>\$ —</u>	<u>\$ 1,073,942</u>	<u>\$ 1,098,191</u>

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



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

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

The fair value of the Level 1 assets was based on quoted prices in active markets for the identical assets. The fair value of the Level 2 assets was determined by management based on an assessment of valuations provided by asset management entities and was calculated by aggregating market prices for all underlying securities.

Investment objectives for our domestic plan assets are:

- To ensure high correlation between the value of plan assets and liabilities;
- To maintain careful control of the risk level within each asset class; and
- To focus on a long-term return objective.

We believe that there are no significant concentrations of risk within our plan assets as of December 31, 2022. We comply with the rules and regulations promulgated under the Employee Retirement Income Security Act of 1974 (“ERISA”) and we prohibit investments and investment strategies not allowed by ERISA. We do not permit direct purchases of our Company’s securities or the use of derivatives for the purpose of speculation. We invest the assets of non-domestic plans in compliance with laws and regulations applicable to those plans.

Cash Flows and Plan Termination

Our policy is to fund domestic pension liabilities in accordance with the limits imposed by the ERISA, federal income tax laws and the funding requirements of the Pension Protection Act of 2006. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those plans.

We made total contributions to the pension plans of \$55,799 during 2022. In 2021, we made total contributions of \$28,220 to the pension plans. For 2023, minimum funding requirements for our pension plans are approximately \$1,746.

Total benefit payments expected to be paid to plan participants, including pension benefits funded from the plans and other benefits funded from Company assets, are as follows:

	Expected Benefit Payments					
	2023	2024	2025	2026	2027	2028-2032
Pension Benefits	\$ 115,689	\$ 88,637	\$ 88,579	\$ 91,949	\$ 75,724	\$ 326,440
Other Benefits	17,745	16,794	15,579	14,465	13,654	57,698

Savings Plans

The Company sponsors several defined contribution plans to provide retirement benefits to employees. Contributions to The Hershey Company 401(k) Plan and similar plans for non-domestic employees are based on a portion of eligible pay up to a defined maximum. All matching contributions were made in cash. Expense associated with the defined contribution plans was \$61,477 in 2022, \$58,883 in 2021 and \$52,793 in 2020.



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12. STOCK COMPENSATION PLANS

Share-based grants for compensation and incentive purposes are made pursuant to the Equity and Incentive Compensation Plan (“EICP”). The EICP provides for grants of one or more of the following stock-based compensation awards to employees, non-employee directors and certain service providers upon whom the successful conduct of our business is dependent:

- Non-qualified stock options (“stock options”);
- Performance stock units (“PSUs”) and performance stock;
- Stock appreciation rights;
- Restricted stock units (“RSUs”) and restricted stock; and
- Other stock-based awards.

As of December 31, 2022, 65.8 million shares were authorized and approved by our stockholders for grants under the EICP. The EICP also provides for the deferral of stock-based compensation awards by participants if approved by the Compensation and Human Capital Committee of our Board and if in accordance with an applicable deferred compensation plan of the Company. Currently, the Compensation and Human Capital Committee has authorized the deferral of PSU and RSU awards by certain eligible employees under the Company’s Deferred Compensation Plan. Our Board has authorized our non-employee directors to defer any portion of their cash retainer, committee chair fees and RSUs awarded that they elect to convert into deferred stock units under our Directors’ Compensation Plan.

At the time stock options are exercised or PSUs and RSUs become payable, Common Stock is issued from our accumulated treasury shares. Dividend equivalents are credited on RSUs on the same date and at the same rate as dividends paid on our Common Stock. Dividend equivalents are charged to retained earnings and included in accrued liabilities until paid.

Awards to employees eligible for retirement prior to the award becoming fully vested are amortized to expense over the period through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn the award. In addition, historical data is used to estimate forfeiture rates and record share-based compensation expense only for those awards that are expected to vest.

For the periods presented, compensation expense for all types of stock-based compensation programs and the related income tax benefit recognized were as follows:

For the years ended December 31,	2022		2021		2020	
Pre-tax compensation expense	\$	65,991	\$	66,711	\$	57,584
Related income tax benefit		9,635		11,608		8,580

Compensation expenses for stock compensation plans are primarily included in SM&A expense. As of December 31, 2022, total stock-based compensation expense related to non-vested awards not yet recognized was \$74,635 and the weighted-average period over which this amount is expected to be recognized was approximately 1.9 years.

Stock Options

The exercise price of each stock option awarded under the EICP equals the closing price of our Common Stock on the New York Stock Exchange on the date of grant. Each stock option has a maximum term of 10 years. Grants of stock options provide for pro-rated vesting, typically over a four-year period. Expense for stock options is based on grant date fair value and recognized on a straight-line method over the vesting period, net of estimated forfeitures.



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

A summary of activity relating to grants of stock options for the year ended December 31, 2022 is as follows:

Stock Options	Shares	Weighted-Average Exercise Price (per share)	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of the period	1,332,956	\$102.78	4.4 years	
Granted	4,025	\$202.03		
Exercised	(351,503)	\$99.11		
Forfeited	(6,971)	\$123.07		
Expired	(1,873)	\$103.07		
Outstanding as of December 31, 2022	<u>976,634</u>	\$104.36	3.8 years	\$ 124,240
Options exercisable as of December 31, 2022	<u>943,561</u>	\$102.54	3.7 years	\$ 121,749

The weighted-average fair value of options granted was \$37.28, \$24.12 and \$21.31 per share in 2022, 2021 and 2020, respectively. The fair value was estimated on the date of grant using a Black-Scholes option-pricing model and the following weighted-average assumptions:

For the years ended December 31,	2022	2021	2020
Dividend yields	1.9 %	2.2 %	2.1 %
Expected volatility	21.1 %	21.8 %	17.5 %
Risk-free interest rates	1.9 %	1 %	1.3 %
Expected term in years	6.3	6.3	6.7

- “Dividend yields” means the sum of dividends declared for the four most recent quarterly periods, divided by the average price of our Common Stock for the comparable periods;
- “Expected volatility” means the historical volatility of our Common Stock over the expected term of each grant;
- “Risk-free interest rates” means the U.S. Treasury yield curve rate in effect at the time of grant for periods within the contractual life of the stock option; and
- “Expected term” means the period of time that stock options granted are expected to be outstanding based on historical data.

The total intrinsic value of options exercised was \$40,882, \$38,645 and \$32,121 in 2022, 2021 and 2020, respectively.

As of December 31, 2022, there was \$826 of total unrecognized compensation expense related to non-vested stock option awards granted under the EICP, which we expect to recognize over a weighted-average period of 1.1 years.

The following table summarizes information about stock options outstanding as of December 31, 2022:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding as of 12/31/22	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/22	Weighted-Average Exercise Price
\$60.68 - \$99.90	472,273	4.1	\$96.38	472,273	\$96.38
\$99.91 - \$107.95	376,889	2.8	\$106.88	376,889	\$106.88
\$107.96 - \$202.03	127,472	5.6	\$126.44	94,399	\$116.00
\$60.68 - \$202.03	<u>976,634</u>	3.8	\$104.36	<u>943,561</u>	\$102.54



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

Performance Stock Units and Restricted Stock Units

Under the EICP, we grant PSUs to selected executives and other key employees. Vesting is contingent upon the achievement of certain performance objectives. We grant PSUs over 3-year performance cycles. If we meet targets for financial measures at the end of the applicable 3-year performance cycle, we award a resulting number of shares of our Common Stock to the participants. The number of shares may be increased to the maximum or reduced to the minimum threshold based on the results of these performance metrics in accordance with the terms established at the time of the award.

For PSUs granted, the target award is a combination of a market-based total shareholder return and performance-based components. For market-based condition components, market volatility and other factors are taken into consideration in determining the grant date fair value and the related compensation expense is recognized regardless of whether the market condition is satisfied, provided that the requisite service has been provided. For performance-based condition components, we estimate the probability that the performance conditions will be achieved each quarter and adjust compensation expenses accordingly. The performance scores of PSUs granted in 2022, 2021, and 2020 can range from 0% to 250% of the targeted amounts.

We recognize the compensation expense associated with PSUs ratably over the 3-year term. Compensation expense is based on the grant date fair value because the grants can only be settled in shares of our Common Stock. The grant date fair value of PSUs is determined based on the Monte Carlo simulation model for the market-based total shareholder return component and the closing market price of the Company's Common Stock on the date of grant for performance-based components.

In 2022, 2021 and 2020, we awarded RSUs to certain executive officers and other key employees under the EICP. We also awarded RSUs quarterly to non-employee directors.

We recognize the compensation expense associated with employee RSUs over a specified award vesting period based on the grant date fair value of our Common Stock. We recognize expense for employee RSUs based on the straight-line method. The compensation expense associated with non-employee director RSUs is recognized ratably over the vesting period, net of estimated forfeitures.

A summary of activity relating to grants of PSUs and RSUs for the period ended December 31, 2022 is as follows:

Performance Stock Units and Restricted Stock Units	Number of units	Weighted-average grant date fair value for equity awards (per unit)
Outstanding at beginning of year	1,303,521	\$146.96
Granted	313,285	\$211.85
Performance assumption change (1)	77,150	\$253.68
Vested	(516,502)	\$130.69
Forfeited	(35,775)	\$167.81
Outstanding at end of year	1,141,679	\$181.91

(1) Reflects the net number of PSUs above and below target levels based on the performance metrics.

The following table sets forth information about the fair value of the PSUs and RSUs granted for potential future distribution to employees and non-employee directors. In addition, the table provides assumptions used to determine the fair value of the market-based total shareholder return component using the Monte Carlo simulation model on the date of grant.

For the years ended December 31,	2022	2021	2020
Units granted	313,285	404,517	353,037
Weighted-average fair value at date of grant	\$ 211.85	\$ 154.83	\$ 161.30
Monte Carlo simulation assumptions:			
Estimated values	\$ 100.41	\$ 66.44	\$ 80.08
Dividend yields	1.8 %	2.2 %	2.0 %
Expected volatility	25.3 %	26.4 %	17.3 %



THE HERSHEY COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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- “Estimated values” means the fair value for the market-based total shareholder return component of each PSU at the date of grant using a Monte Carlo simulation model;
- “Dividend yields” means the sum of dividends declared for the four most recently quarterly periods, divided by the average price of our Common Stock for the comparable periods;
- “Expected volatility” means the historical volatility of our Common Stock over the expected term of each grant.

The fair value of shares vested totaled \$105,668, \$52,008 and \$56,294 in 2022, 2021 and 2020, respectively.

Deferred PSUs, deferred RSUs and deferred stock units representing directors’ fees totaled 266,469 units as of December 31, 2022. Each unit is equivalent to one share of the Company’s Common Stock.

13. SEGMENT INFORMATION

The Company reports its operations through three segments: (i) North America Confectionery, (ii) North America Salty Snacks and (iii) International. This organizational structure aligns with how our Chief Operating Decision Maker (“CODM”) manages our business, including resource allocation and performance assessment, and further aligns with our product categories and the key markets we serve.

- **North America Confectionery** – This segment is responsible for our traditional chocolate and non-chocolate confectionery market position in the United States and Canada. This includes our business in chocolate and non-chocolate confectionery, gum and refreshment products, protein bars, spreads, snack bites and mixes, as well as pantry and food service lines. This segment also includes our retail operations, including Hershey’s Chocolate World stores in Hershey, Pennsylvania; New York, New York; Las Vegas, Nevada; Niagara Falls (Ontario) and Singapore, as well as operations associated with licensing the use of certain of the Company’s trademarks and products to third parties around the world.
- **North America Salty Snacks** – This segment is responsible for our salty snacking products in the United States. This includes ready-to-eat popcorn, baked and trans fat free snacks, pretzels and other snacks.
- **International** – International is a combination of all other operating segments that are not individually material, including those geographic regions where we operate outside of North America. We currently have operations and manufacture product in Mexico, Brazil, India and Malaysia, primarily for consumers in these regions, and also distribute and sell confectionery products in export markets of Asia, Latin America, Middle East, Europe, Africa and other regions.

For segment reporting purposes, we use “segment income” to evaluate segment performance and allocate resources. Segment income excludes unallocated general corporate administrative expenses, unallocated mark-to-market gains and losses on commodity derivatives, business realignment and impairment charges, acquisition-related costs and other unusual gains or losses that are not part of our measurement of segment performance. These items of our operating income are managed centrally at the corporate level and are excluded from the measure of segment income reviewed by the CODM as well the measure of segment performance used for incentive compensation purposes.

Accounting policies associated with our operating segments are generally the same as those described in [Note 1](#).

As discussed in [Note 5](#), derivatives used to manage commodity price risk are not designated for hedge accounting treatment. These derivatives are recognized at fair market value with the resulting realized and unrealized (gains) losses recognized in unallocated derivative (gains) losses outside of the reporting segment results until the related inventory is sold, at which time the related gains and losses are reallocated to segment income. This enables us to align the derivative gains and losses with the underlying economic exposure being hedged and thereby eliminate the mark-to-market volatility within our reported segment income.

Certain manufacturing, warehousing, distribution and other activities supporting our global operations are integrated to maximize efficiency and productivity. As a result, assets and capital expenditures are not managed on a segment basis and are not included in the information reported to the CODM for the purpose of evaluating performance or allocating resources. We disclose depreciation and amortization that is generated by segment-specific assets, since these amounts are included within the measure of segment income reported to the CODM.



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

Our segment net sales and earnings were as follows:

For the years ended December 31,	2022	2021	2020
Net sales:			
North America Confectionery	\$ 8,536,480	\$ 7,682,416	\$ 7,084,860
North America Salty Snacks	1,029,405	555,424	438,224
International	853,409	733,497	626,635
Total	\$ 10,419,294	\$ 8,971,337	\$ 8,149,719
Segment income (loss):			
North America Confectionery	\$ 2,811,066	\$ 2,475,873	\$ 2,274,584
North America Salty Snacks	159,935	100,777	75,845
International	107,927	74,170	(14)
Total segment income	3,078,928	2,650,820	2,350,415
Unallocated corporate expense (1)	735,542	614,875	520,632
Unallocated mark-to-market losses (gains) on commodity derivatives	78,182	(24,376)	6,429
Long-lived asset impairment charges (see Note 6)	—	—	9,143
Costs associated with business realignment activities (see Note 9)	4,417	16,599	31,513
Operating profit	2,260,787	2,043,722	1,782,698
Interest expense, net (see Note 4)	137,557	127,417	149,374
Other (income) expense, net (see Note 17)	206,159	119,081	138,327
Income before income taxes	\$ 1,917,071	\$ 1,797,224	\$ 1,494,997

(1) Includes centrally-managed (a) corporate functional costs relating to legal, treasury, finance, and human resources, (b) expenses associated with the oversight and administration of our global operations, including warehousing, distribution and manufacturing, information systems and global shared services, (c) non-cash stock-based compensation expense, (d) acquisition-related costs and (e) other gains or losses that are not integral to segment performance.

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

For the years ended December 31,	2022	2021	2020
Net gains on mark-to-market valuation of commodity derivative positions recognized in income	\$ (44,569)	\$ (85,402)	\$ (6,593)
Net gains on commodity derivative positions reclassified from unallocated to segment income	122,751	61,026	13,022
Net losses (gains) on mark-to-market valuation of commodity derivative positions recognized in unallocated derivative losses (gains)	\$ 78,182	\$ (24,376)	\$ 6,429

As of December 31, 2022, the cumulative amount of mark-to-market gains on commodity derivatives that have been recognized in our consolidated cost of sales and not yet allocated to reportable segments was \$8,735. Based on our forecasts of the timing of the recognition of the underlying hedged items, we expect to reclassify net pretax gains on commodity derivatives of \$1,228 to segment operating results in the next twelve months.



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Depreciation and amortization expense included within segment income presented above is as follows:

For the years ended December 31,	2022	2021	2020
North America Confectionery	\$ 228,399	\$ 213,113	\$ 198,951
North America Salty Snacks	68,600	29,744	27,362
International	23,148	22,754	24,533
Corporate	58,812	49,391	44,061
Total	\$ 378,959	\$ 315,002	\$ 294,907

Additional information regarding our net sales and long-lived assets disaggregated by geographical region is as follows:

For the years ended December 31,	2022	2021	2020
Net sales:			
United States	\$ 9,121,166	\$ 7,807,606	\$ 7,042,804
Other	1,298,128	1,163,731	1,106,915
Total	\$ 10,419,294	\$ 8,971,337	\$ 8,149,719
Long-lived assets:			
United States	\$ 2,272,811	\$ 2,099,786	\$ 1,836,114
Other	496,891	486,401	449,141
Total	\$ 2,769,702	\$ 2,586,187	\$ 2,285,255

14. EQUITY AND TREASURY STOCK ACTIVITY

We had 1,055,000,000 authorized shares of capital stock as of December 31, 2022. Of this total, 900,000,000 shares were designated as Common Stock, 150,000,000 shares were designated as Class B Common Stock (“Class B Stock”) and 5,000,000 shares were designated as Preferred Stock. Each class has a par value of one dollar per share.

Holders of the Common Stock and the Class B Stock generally vote together without regard to class on matters submitted to stockholders, including the election of directors. The holders of Common Stock have 1 vote per share and the holders of Class B Common Stock have 10 votes per share. However, the Common Stock holders, voting separately as a class, are entitled to elect one-sixth of the Board. With respect to dividend rights, the Common Stock holders are entitled to cash dividends 10% higher than those declared and paid on the Class B Common Stock.

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 2022, 2,500,000 shares of Class B Common Stock were converted to Common Stock by Hershey Trust Company, as trustee for the Milton Hershey School Trust (the “School Trust”). During 2021 and 2020, no shares of Class B Stock were converted into Common Stock.



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

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

For the years ended December 31,	2022	2021	2020
Shares issued	221,553,025	221,553,025	221,553,025
Treasury shares at beginning of year	(15,444,011)	(13,325,898)	(12,723,592)
Stock repurchases:			
Shares repurchased in the open market under pre-approved share repurchase programs	—	(871,144)	(951,138)
Milton Hershey School Trust repurchase	(1,000,000)	—	—
Shares repurchased in the open market to replace Treasury Stock issued for stock options and incentive compensation	(824,701)	(2,005,500)	(450,000)
Stock issuances:			
Shares issued for stock options and incentive compensation	680,404	758,531	798,832
Treasury shares at end of year	(16,588,308)	(15,444,011)	(13,325,898)
Net shares outstanding at end of year	<u>204,964,717</u>	<u>206,109,014</u>	<u>208,227,127</u>

In July 2018, our Board of Directors approved a \$500,000 share repurchase authorization to repurchase shares of our Common Stock. As of December 31, 2022, \$109,983 remained available for repurchases of our Common Stock under this program. In May 2021, our Board of Directors approved an additional \$500,000 share repurchase authorization. This program is to commence after the existing 2018 authorization is completed and is to be utilized at management's discretion. We are authorized to purchase our outstanding shares in open market and privately negotiated transactions. The program has no expiration date and acquired shares of Common Stock will be held as treasury shares. Purchases under approved share repurchase authorizations are in addition to our practice of buying back shares sufficient to offset those issued under incentive compensation plans.

Hershey Trust Company

Hershey Trust Company, as trustee for the School Trust and as direct owner of investment shares, held 39,630 shares of our Common Stock as of December 31, 2022. As trustee for the School Trust, Hershey Trust Company held 58,112,012 shares of the Class B Common Stock as of December 31, 2022, and was entitled to cast approximately 80% of all of the votes entitled to be cast on matters requiring the vote of both classes of our common stock voting together. Hershey Trust Company, as trustee for the School Trust, or any successor trustee, or Milton Hershey School, as appropriate, must approve any issuance of shares of Common Stock or other action that would result in it not continuing to have voting control of our Company.

Stock Purchase Agreements

In February 2023, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company purchased 1,000,000 shares of the Company's Common Stock from the School Trust at a price equal to \$239.91 per share, for a total purchase price of \$239,910. As a result of this repurchase, our July 2018 share repurchase authorization program was completed in February 2023.

In February 2022, the Company entered into a Stock Purchase Agreement with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company purchased 1,000,000 shares of the Company's Common Stock from the School Trust at a price equal to \$203.35 per share, for a total purchase price of \$203,350.



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

15. COMMITMENTS AND CONTINGENCIES

Purchase obligations

We enter into certain obligations for the purchase of raw materials. These obligations are primarily in the form of forward contracts for the purchase of raw materials from third-party brokers and dealers. These contracts minimize the effect of future price fluctuations by fixing the price of part or all of these purchase obligations. Total obligations consisted of fixed price contracts for the purchase of commodities and unpriced contracts that were valued using market prices as of December 31, 2022.

The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. We mitigate the variability of these costs to the extent that we have entered into commodities futures contracts or other commodity derivative instruments to hedge our costs for those periods. Increases or decreases in market prices are offset by gains or losses on commodities futures contracts or other commodity derivative instruments. Taking delivery of and making payments for the specific commodities for use in the manufacture of finished goods satisfies our obligations under the forward purchase contracts. For each of the three years in the period ended December 31, 2022, we satisfied these obligations by taking delivery of and making payment for the specific commodities.

As of December 31, 2022, we had entered into agreements for the purchase of raw materials with various suppliers. Subject to meeting our quality standards, the purchase obligations covered by these agreements were as follows as of December 31, 2022:

<i>in millions</i>	2023	2024	2025	2026	2027
Purchase obligations	\$ 1,871.0	\$ 202.6	\$ 12.5	\$ 12.5	\$ 12.5

Environmental contingencies

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. Our asbestos management program is compliant with current applicable regulations, which require that we handle or dispose of asbestos in a special manner if such facilities undergo major renovations or are demolished. We do not have sufficient information to estimate the fair value of any asset retirement obligations related to these facilities. We cannot specify the settlement date or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected present value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal of significant quantities of asbestos.

Legal contingencies

On February 12, 2021, Issouf Coubaly, individually and on behalf of proposed class members, filed a complaint (Coubaly v. Nestlé U.S.A. et al., 1:21-cv-00386-DLF (D.D.C. Feb. 12, 2021)) in the District Court of the District of Columbia, seeking injunctive relief and unspecified damages for alleged violations of child labor and human trafficking laws under the Trafficking Victims Protection Reauthorization Act. The Company was among several defendants named in the suit. The defendants filed a joint motion to dismiss the case on July 30, 2021, and on June 28, 2022, the District Court granted the motion and dismissed the case without prejudice. On July 22, 2022, the plaintiffs filed an appeal in the U.S. Court of Appeals for the District of Columbia challenging the dismissal of the case. The Company continues to believe that the suit, including the appeal, is without merit and is defending vigorously against the appeal.

In addition to the above-referenced matter, the Company is subject to certain legal proceedings and claims arising out of the ordinary course of our business, which cover a wide range of matters including trade regulation, product liability, advertising, contracts, environmental issues, patent and trademark matters, labor and employment matters, human and workplace rights matters and tax. While it is not feasible to predict or determine the outcome of such proceedings and claims with certainty, in our opinion these matters, both individually and in the aggregate, are not expected to have a material effect on our financial condition, results of operations or cash flows.



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Collective Bargaining

As of December 31, 2022, the Company employed approximately 18,075 full-time and 1,790 part-time employees worldwide. Collective bargaining agreements covered approximately 6,470 employees, or approximately 33% of the Company's employees worldwide. During 2023, agreements will be negotiated for certain employees at five facilities, four of which are outside of the United States, comprising approximately 67% of total employees under collective bargaining agreements. We currently expect that we will be able to renegotiate such agreements on satisfactory terms when they expire.

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16. EARNINGS PER SHARE

We compute basic earnings per share for Common Stock and Class B common stock using the two-class method. The Class B common stock is convertible into Common Stock on a share-for-share basis at any time. In June 2022, 1,500,000 shares of Class B Common Stock were converted to Common Stock by Hershey Trust Company, as trustee for the School Trust. The computation of diluted earnings per share for Common Stock assumes the conversion of Class B common stock using the if-converted method, while the diluted earnings per share of Class B common stock does not assume the conversion of those shares.

We compute basic and diluted earnings per share based on the weighted-average number of shares of Common Stock and Class B common stock outstanding as follows:

For the years ended December 31,	2022		2021		2020	
	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock	Common Stock	Class B Common Stock
Basic earnings per share:						
Numerator:						
Allocation of distributed earnings (cash dividends paid)	\$ 567,897	\$ 207,133	\$ 498,084	\$ 187,903	\$ 467,013	\$ 173,719
Allocation of undistributed earnings	637,438	232,349	574,772	216,753	464,802	173,174
Total earnings—basic	\$ 1,205,335	\$ 439,482	\$ 1,072,856	\$ 404,656	\$ 931,815	\$ 346,893
Denominator (shares in thousands):						
Total weighted-average shares—basic	146,713	58,822	146,120	60,614	147,832	60,614
Earnings Per Share—basic	<u>\$ 8.22</u>	<u>\$ 7.47</u>	<u>\$ 7.34</u>	<u>\$ 6.68</u>	<u>\$ 6.30</u>	<u>\$ 5.72</u>
Diluted earnings per share:						
Numerator:						
Allocation of total earnings used in basic computation	\$ 1,205,335	\$ 439,482	\$ 1,072,856	\$ 404,656	\$ 931,815	\$ 346,893
Reallocation of total earnings as a result of conversion of Class B common stock to Common stock	439,482	—	404,656	—	346,893	—
Reallocation of undistributed earnings	—	(1,201)	—	(1,098)	—	(822)
Total earnings—diluted	\$ 1,644,817	\$ 438,281	\$ 1,477,512	\$ 403,558	\$ 1,278,708	\$ 346,071
Denominator (shares in thousands):						
Number of shares used in basic computation	146,713	58,822	146,120	60,614	147,832	60,614
Weighted-average effect of dilutive securities:						
Conversion of Class B common stock to Common shares outstanding	58,822	—	60,614	—	60,614	—
Employee stock options	571	—	609	—	600	—
Performance and restricted stock units	469	—	415	—	368	—
Total weighted-average shares—diluted	206,575	58,822	207,758	60,614	209,414	60,614
Earnings Per Share—diluted	<u>\$ 7.96</u>	<u>\$ 7.45</u>	<u>\$ 7.11</u>	<u>\$ 6.66</u>	<u>\$ 6.11</u>	<u>\$ 5.71</u>

The earnings per share calculations for the years ended December 31, 2022, 2021 and 2020 excluded 5, 43 and 15 stock options (in thousands), respectively, that would have been antidilutive.



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17. OTHER (INCOME) EXPENSE, NET

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

For the years ended December 31,	2022	2021	2020
Write-down of equity investments in partnerships qualifying for historic and renewable energy tax credits (see Note 8)	\$ 188,286	\$ 113,756	\$ 125,579
Non-service cost components of net periodic benefit cost relating to pension and other post-retirement benefit plans (see Note 11)	18,466	5,177	12,560
Other (income) expense, net	(593)	148	188
Total	\$ 206,159	\$ 119,081	\$ 138,327

18. RELATED PARTY TRANSACTIONS

Hershey Trust Company, as trustee for the trust established by Milton S. and Catherine S. Hershey that has as its sole beneficiary the School Trust, maintains voting control over The Hershey Company.

In any given year, we may engage in certain transactions with Hershey Trust Company, Milton Hershey School, the Milton Hershey School Trust and companies owned by and/or affiliated with any of the foregoing. Most transactions with these related parties are immaterial and do not require disclosure, but certain transactions are more significant in nature and have been deemed material for disclosure.

A summary of material related party transactions with Hershey Trust Company and/or its affiliates for the year ended December 31, 2022 is as follows:

Sale and Donation of Property, Plant and Equipment

In May 2022, the Company entered into a Purchase and Sale Agreement (the “Purchase Agreement”) with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company agreed to sell certain real and personal property consisting of approximately six acres of land located in Hershey, Pennsylvania, together with portions of a building located on the land. Additionally, in June 2022, the Company entered into a Donation Agreement with Hershey Trust Company, as trustee for The M.S. Hershey Foundation, pursuant to which the Company agreed to donate a portion of the building concurrently with the closing of the Purchase Agreement. The sale and donation transactions closed in June 2022. Total proceeds from the sale were approximately \$6,300 (net of transaction and closing costs), resulting in a loss of \$13,568, which was recorded in the SM&A expense caption within the Consolidated Statements of Income. The fair values of the disposed assets were supported by a proposed sales price submitted by a third-party buyer received prior to executing the Purchase Agreement.

Stock Purchase Agreements

In February 2023 and February 2022, the Company entered into Stock Purchase Agreements with Hershey Trust Company, as trustee for the School Trust, pursuant to which the Company purchased shares of its Common Stock from the School Trust (see [Note 14](#)).



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

19. SUPPLEMENTAL BALANCE SHEET INFORMATION

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

December 31,	2022	2021
Inventories:		
Raw materials	\$ 372,612	\$ 395,358
Goods in process	137,298	110,008
Finished goods	855,217	649,082
Inventories at FIFO	1,365,127	1,154,448
Adjustment to LIFO	(192,008)	(165,937)
Total inventories	<u>\$ 1,173,119</u>	<u>\$ 988,511</u>
Prepaid expenses and other:		
Prepaid expenses	\$ 143,888	\$ 129,287
Other current assets	128,307	127,678
Total prepaid expenses and other	<u>\$ 272,195</u>	<u>\$ 256,965</u>
Property, plant and equipment:		
Land	\$ 155,963	\$ 154,494
Buildings	1,545,053	1,508,139
Machinery and equipment	3,592,251	3,443,500
Construction in progress	416,220	294,824
Property, plant and equipment, gross	5,709,487	5,400,957
Accumulated depreciation	(2,939,785)	(2,814,770)
Property, plant and equipment, net	<u>\$ 2,769,702</u>	<u>\$ 2,586,187</u>
Other non-current assets:		
Pension	\$ 53,495	\$ 71,618
Capitalized software, net	320,034	260,656
Operating lease ROU assets	326,472	351,712
Investments in unconsolidated affiliates	133,029	93,089
Other non-current assets	111,959	91,128
Total other non-current assets	<u>\$ 944,989</u>	<u>\$ 868,203</u>
Accrued liabilities:		
Payroll, compensation and benefits	\$ 293,865	\$ 291,446
Advertising, promotion and product allowances	337,024	305,050
Operating lease liabilities	31,787	36,292
Other	169,842	222,850
Total accrued liabilities	<u>\$ 832,518</u>	<u>\$ 855,638</u>
Other long-term liabilities:		
Post-retirement benefits liabilities	\$ 147,174	\$ 193,604
Pension benefits liabilities	27,696	37,023
Operating lease liabilities	294,849	310,899
Other	250,023	245,532
Total other long-term liabilities	<u>\$ 719,742</u>	<u>\$ 787,058</u>
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	\$ (110,364)	\$ (100,025)
Pension and post-retirement benefit plans, net of tax	(118,254)	(116,381)
Cash flow hedges, net of tax	(23,715)	(32,809)
Total accumulated other comprehensive loss	<u>\$ (252,333)</u>	<u>\$ (249,215)</u>



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

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act"), as of December 31, 2022. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2022.

Design and Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

Management's report on the Company's internal control over financial reporting appears on the following page. There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2022 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We rely extensively on information systems and technology to manage our business and summarize operating results. We are in the process of a multi-year implementation of a new global enterprise resource planning ("ERP") system, which will replace our existing operating and financial systems. The ERP system is designed to accurately maintain the Company's financial records, enhance operational functionality and provide timely information to the Company's management team related to the operation of the business. The implementation is expected to occur in phases over the next several years. During the third quarter of 2022, we completed the implementation of our new ERP system for one operating segment which is included in our International segment. The portion of the transition to the new ERP system which we have completed to date did not result in significant changes in our internal control over financial reporting. However, as the next phases of the updated processes are rolled out in connection with the ERP implementation, we will give appropriate consideration to whether these process changes necessitate changes in the design of and testing for effectiveness of internal controls over financial reporting.



MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of The Hershey Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework (2013 edition)*. Based on this assessment, management concluded that, as of December 31, 2022, the Company's internal control over financial reporting was effective based on those criteria.

The Company's independent auditors have audited, and reported on, the Company's internal control over financial reporting as of December 31, 2022.

Item 9B. OTHER INFORMATION

None.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

None.



PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information regarding executive officers of the Company required by Item 401 of SEC Regulation S-K is incorporated herein by reference from the disclosure included under the caption “Supplemental Item. Information About Out Executive Officers” at the end of Part I of this Annual Report on Form 10-K.

The information required by Item 401 of SEC Regulation S-K concerning the directors and nominees for director of the Company, together with a discussion of the specific experience, qualifications, attributes and skills that led the Board to conclude that the director or nominee should serve as a director at this time, will be located in the Proxy Statement in the section entitled “Proposal No. 1 – Election of Directors,” which information is incorporated herein by reference.

Information regarding the identification of the Audit Committee as a separately-designated standing committee of the Board and information regarding the status of one or more members of the Audit Committee as an “audit committee financial expert” will be located in the Proxy Statement in the section entitled “Corporate Governance – Committees of the Board,” which information is incorporated herein by reference.

Information regarding our Code of Conduct applicable to our directors, officers and employees is located in Part I of this Annual Report on Form 10-K, under the heading “Available Information.”

Item 11. EXECUTIVE COMPENSATION.

Information regarding the compensation of each of our named executive officers, including our Chief Executive Officer that is required by this Item 11 will be located in the Proxy Statement in the section entitled “Compensation Discussion & Analysis” and is incorporated herein by reference. Information regarding the compensation of our directors will be located in the Proxy Statement in the section entitled “Non-Employee Director Compensation,” which information is incorporated herein by reference.

The information required by Item 407(e)(4) of SEC Regulation S-K will be located in the Proxy Statement in the section entitled “Compensation Committee Interlocks and Insider Participation,” which information is incorporated herein by reference.

The information required by Item 407(e)(5) of SEC Regulation S-K will be located in the Proxy Statement in the section entitled “Compensation Committee Report,” which information is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information concerning ownership of our voting securities by certain beneficial owners, individual nominees for director, the named executive officers, including persons serving as our Chief Executive Officer and Chief Financial Officer, and directors and executive officers as a group, will be located in the Proxy Statement in the section entitled “Share Ownership of Directors, Management and Certain Beneficial Owners,” which information is incorporated herein by reference.

Information regarding all of the Company’s equity compensation plans will be located in the Proxy Statement in the section entitled “Compensation Committee Report – Equity Compensation Plan Information,” which information is incorporated herein by reference.



Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

Information regarding transactions with related persons will be located in the Proxy Statement in the section entitled “Certain Transactions and Relationships,” which information is incorporated herein by reference. Information regarding director independence will be located in the Proxy Statement in the section entitled “Corporate Governance – Director Independence,” which information is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Information regarding “Principal Accounting Fees and Services,” including the policy regarding pre-approval of audit and non-audit services performed by our Company’s independent auditors, will be located in the Proxy Statement in the section entitled “Information about Our Independent Auditors,” which information is incorporated herein by reference.



PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Item 15(a)(1): Financial Statements

The audited consolidated financial statements of The Hershey Company and its subsidiaries and the Report of Independent Registered Public Accounting Firm thereon, as required to be filed, are located under Item 8 of this Annual Report on Form 10-K.

Item 15(a)(2): Financial Statement Schedule

Schedule II—Valuation and Qualifying Accounts for The Hershey Company and its subsidiaries for the years ended December 31, 2022, 2021 and 2020 is filed as part of this Annual Report on Form 10-K as required by Item 15(c).

We omitted other schedules because they are not applicable or the required information is set forth in the consolidated financial statements or notes thereto.

Item 15(a)(3): Exhibits

The following exhibits are filed as part of, or incorporated by reference into, this Annual Report on Form 10-K.

EXHIBIT INDEX

Exhibit Number	Description
3.1	The Company's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2005.
3.2	The Company's By-laws, as amended and restated as of February 21, 2017, are incorporated by reference from Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2018.
4.1	The Company has issued certain long-term debt instruments, no one class of which creates indebtedness exceeding 10% of the total assets of the Company and its subsidiaries on a consolidated basis. These classes consist of the following: <ol style="list-style-type: none">1) 2.625% Notes due 20232) 3.375% Notes due 20233) 2.050% Notes due 20244) 0.900% Notes due 20255) 3.200% Notes due 20256) 2.300% Notes due 20267) 7.200% Debentures due 20278) 2.450% Notes due 20299) 1.700% Notes due 203010) 3.375% Notes due 204611) 3.125% Notes due 204912) 2.650% Notes due 205013) Other Obligations The Company undertakes to furnish copies of the agreements governing these debt instruments to the Securities and Exchange Commission upon its request.
4.2	The Company's Description of Common Stock and Class B Common Stock registered under Section 12 of the Exchange Act.*
10.1(a)	<i>Kit Kat</i> ® and <i>Rolo</i> ® License Agreement (the "License Agreement") between the Company and Rowntree Mackintosh Confectionery Limited is incorporated by reference from Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1980. [#]



- 10.1(b) Amendment to the License Agreement is incorporated by reference from Exhibit 19 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 1988.[#]
- 10.1(c) Assignment of the License Agreement by Rowntree Mackintosh Confectionery Limited to Société des Produits Nestlé SA as of January 1, 1990 is incorporated by reference from Exhibit 19 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.[#]
- 10.2 *Peter Paul/York* Domestic Trademark & Technology License Agreement between the Company and Cadbury Schweppes Inc. (now Kraft Foods Ireland Intellectual Property Limited) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Company's Current Report on Form 8-K dated September 8, 1988.[#]
- 10.3 *Cadbury* Trademark & Technology License Agreement between the Company and Cadbury Limited (now Cadbury UK Limited) dated August 25, 1988, is incorporated by reference from Exhibit 2(a) to the Company's Current Report on Form 8-K dated September 8, 1988.[#]
- [10.4\(a\) Trademark and Technology License Agreement between Huhtamäki \(now Iconic IP Interests, LLC\) and the Company dated December 30, 1996, is incorporated by reference from Exhibit 10 to the Company's Current Report on Form 8-K filed February 26, 1997.](#)
- [10.4\(b\) Amended and Restated Trademark and Technology License Agreement between Huhtamäki \(now Iconic IP Interests, LLC\) and the Company is incorporated by reference from Exhibit 10.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999.](#)
- [10.5 Five Year Credit Agreement dated as of July 2, 2019, among the Company and the banks, financial institutions and other institutional lenders listed on the respective signature pages thereof \("Lenders"\), Bank of America, N.A., as administrative agent for the Lenders, JPMorgan Chase Bank, N.A., Citibank, N.A. and PNC Bank, National Association, as syndication agents, Royal Bank of Canada, as documentation agent, and BofA Securities, Inc., JPMorgan Chase Bank, N.A., Citibank, N.A., PNC Capital Markets LLC and RBC Capital Markets, as joint lead arrangers and joint book managers, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 2, 2019.](#)
- [10.6 Stock Purchase Agreement, dated February 14, 2022, between Milton Hershey School Trust, by its trustee, Hershey Trust Company, and The Hershey Company, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed February 16, 2022.](#)
- [10.7 Amended and Restated Master Supply Agreement between the Company and Barry Callebaut, AG, dated August 31, 2021.[†]](#)
- [10.8 The Company's Equity and Incentive Compensation Plan, amended and restated February 22, 2011, and approved by our stockholders on April 28, 2011, is incorporated by reference from Appendix B to the Company's proxy statement filed March 15, 2011.⁺](#)
- [10.9\(a\) Form of Notice of Award of Restricted Stock Units \(February 22, 2017 - February 25, 2019 version\) is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.⁺](#)
- [10.9\(b\) Form of Notice of Award of Restricted Stock Units \(February 26, 2019 - February 22, 2021 version\) is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.⁺](#)
- [10.9\(c\) Form of Notice of Award of Restricted Stock Units \(effective February 23, 2021\) is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 2021.⁺](#)
- [10.9\(d\) Form of Notice of Award of Restricted Stock Units \(3-year vest, effective February 23, 2021\) is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 2021.⁺](#)
- [10.10\(a\) Form of Notice of Special Award of Restricted Stock Units \(pro-rata vest, February 22, 2017 - February 25, 2019 version\) is incorporated by reference from Exhibit 10.2\(a\) to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.⁺](#)
- [10.10\(b\) Form of Notice of Special Award of Restricted Stock Units \(pro-rata vest, February 26, 2019 - February 22, 2021 version\) is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.⁺](#)
- [10.10\(c\) Form of Notice of Special Award of Restricted Stock Units \(pro-rata vest, effective February 23, 2021\) is incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 2021.⁺](#)
- [10.10\(d\) Form of Notice of Special Award of Restricted Stock Units \(3-year cliff vest, February 22, 2017 - February 25, 2019 version\) is incorporated by reference from Exhibit 10.2\(b\) to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.⁺](#)
- [10.10\(f\) Form of Notice of Special Award of Restricted Stock Units \(3-year cliff vest, effective February 26, 2019\) is incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.⁺](#)



- 10.11(a) [Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan \(pre-February 15, 2016 version\) is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 24, 2012.](#)⁺
- 10.11(b) [Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan \(February 15, 2016 - February 21, 2017 version\) is incorporated by reference from Exhibit 10.12\(b\) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.](#)⁺
- 10.11(c) [Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan \(February 22, 2017 - February 25, 2019 version\) is incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.](#)⁺
- 10.11(d) [Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan \(February 26, 2019 - February 22, 2021 version\) is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.](#)⁺
- 10.11(e) [Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan \(effective February 23, 2021\) is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 2021.](#)⁺
- 10.12(a) [Form of Notice of Award of Performance Stock Units \(February 22, 2017 - February 25, 2019 version\) is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 2, 2017.](#)⁺
- 10.12(b) [Form of Notice of Award of Performance Stock Units \(February 26, 2019 - February 22, 2021 version\) is incorporated by reference from Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.](#)⁺
- 10.12(c) [Form of Notice of Award of Performance Stock Units \(effective February 23, 2021\) is incorporated by reference from Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 2021.](#)⁺
- 10.13(a) [Form of Notice of Special Award of Performance Stock Units \(February 22, 2017 - February 22, 2021 version\) is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 5, 2017.](#)⁺
- 10.13(b) [Form of Notice of Special Award of Performance Stock Units \(effective February 23, 2021\) is incorporated by reference from Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarter ended April 4, 2021.](#)⁺
- 10.14 [The Long-Term Incentive Program Participation Agreement is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 18, 2005.](#)⁺
- 10.15 [The Company's Deferred Compensation Plan, Amended and Restated as of June 27, 2012, is incorporated by reference from Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.](#)⁺
- 10.16(a) [The Company's Supplemental Executive Retirement Plan, Amended and Restated as of October 2, 2007, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007.](#)⁺
- 10.16(b) [First Amendment to the Company's Supplemental Executive Retirement Plan, Amended and Restated as of October 2, 2007, is incorporated by reference from Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.](#)⁺
- 10.17 [The Company's Compensation Limit Replacement Plan, Amended and Restated as of January 1, 2009, is incorporated by reference from Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.](#)⁺
- 10.18 [The Company's Executive Benefits Protection Plan \(Group 3A\), Amended and Restated as of June 27, 2012, is incorporated by reference from Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.](#)⁺
- 10.19 [The Company's Executive Benefits Protection Plan \(Group 3\), Amended and Restated as of June 27, 2012, is incorporated by reference from Exhibit 10.18 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.](#)⁺
- 10.20(a) [Employee Confidentiality and Restrictive Covenant Agreement, amended as of February 18, 2013, is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013.](#)⁺
- 10.20(b) [Employee Confidentiality and Restrictive Covenant Agreement, amended as of October 10, 2016, is incorporated by reference from Exhibit 10.21\(b\) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2016.](#)⁺
- 10.20(c) [Employee Confidentiality and Restrictive Covenant Agreement, amended as of September 8, 2021, is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended October 4, 2021.](#)⁺



10.21	Executive Employment Agreement, effective as of March 1, 2017, by and between the Company and Michele G. Buck is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed February 24, 2017. ⁺
10.22	The Company's Directors' Compensation Plan, Amended and Restated as of December 2, 2008, is incorporated by reference from Exhibit 10.8 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. ⁺
21.1	Subsidiaries of the Registrant. [*]
23.1	Consent of Ernst & Young LLP. [*]
31.1	Certification of Michele G. Buck, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. [*]
31.2	Certification of Steven E. Voskuil, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. [*]
32.1	Certification of Michele G. Buck, Chief Executive Officer, and Steven E. Voskuil, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. ^{**}
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
104	The cover page from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022, formatted in Inline XBRL and contained in Exhibit 101.
*	Filed herewith
**	Furnished herewith
+	Management contract, compensatory plan or arrangement
†	Portions of this exhibit have been omitted pursuant to Item 601(b)(10)(iv) of Regulation S-K
#	Pursuant to Instruction 1 to Regulation S-T Rule 105(d), no hyperlink is required for any exhibit incorporated by reference that has not been filed with the SEC in electronic format

Item 16. FORM 10-K SUMMARY

None.



SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 17th day of February, 2023.

THE HERSHEY COMPANY
(Registrant)

By: _____

/s/ STEVEN E. VOSKUIL

Steven E. Voskuil

Senior Vice President, Chief Financial Officer

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

Signature	Title	Date
/s/ MICHELE G. BUCK Michele G. Buck	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 17, 2023
/s/ STEVEN E. VOSKUIL Steven E. Voskuil	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	February 17, 2023
/s/ JENNIFER L. MCCALMAN Jennifer L. McCalman	Vice President, Chief Accounting Officer (Principal Accounting Officer)	February 17, 2023
/s/ ANTHONY J. PALMER Anthony J. Palmer	Lead Independent Director	February 17, 2023
/s/ PAMELA M. ARWAY Pamela M. Arway	Director	February 17, 2023
/s/ JAMES W. BROWN James W. Brown	Director	February 17, 2023
/s/ VICTOR L. CRAWFORD Victor L. Crawford	Director	February 17, 2023
/s/ ROBERT M. DUTKOWSKY Robert M. Dutkowsky	Director	February 17, 2023
/s/ MARY KAY HABEN Mary Kay Haben	Director	February 17, 2023
/s/ JAMES C. KATZMAN James C. Katzman	Director	February 17, 2023
/s/ M. DIANE KOKEN M. Diane Koken	Director	February 17, 2023
/s/ ROBERT M. MALCOLM Robert M. Malcolm	Director	February 17, 2023
/s/ JUAN R. PEREZ Juan R. Perez	Director	February 17, 2023
/s/ WENDY L. SCHOPPERT Wendy L. Schoppert	Director	February 17, 2023



THE HERSHEY COMPANY AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
For the Years Ended December 31, 2022, 2021 and 2020

Description	Balance at Beginning of Period	Additions		Deductions from Reserves	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
In thousands of dollars					
For the year ended December 31, 2022					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$ 28,837	\$ 228,463	\$ —	\$ (231,299)	\$ 26,001
Valuation allowance on net deferred taxes (b)	184,896	9,578	—	(56,943)	137,531
Inventory obsolescence reserve (c)	19,472	44,497	—	(34,615)	29,354
Total allowances deducted from assets	<u>\$ 233,205</u>	<u>\$ 282,538</u>	<u>\$ —</u>	<u>\$ (322,857)</u>	<u>\$ 192,886</u>
For the year ended December 31, 2021					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$ 24,975	\$ 198,608	\$ —	\$ (194,746)	\$ 28,837
Valuation allowance on net deferred taxes (b)	193,310	9,759	—	(18,173)	184,896
Inventory obsolescence reserve (c)	17,703	27,657	—	(25,888)	19,472
Total allowances deducted from assets	<u>\$ 235,988</u>	<u>\$ 236,024</u>	<u>\$ —</u>	<u>\$ (238,807)</u>	<u>\$ 233,205</u>
For the year ended December 31, 2020					
Allowances deducted from assets					
Accounts receivable—trade, net (a)	\$ 24,966	\$ 180,764	\$ —	\$ (180,755)	\$ 24,975
Valuation allowance on net deferred taxes (b)	206,743	2,603	—	(16,036)	193,310
Inventory obsolescence reserve (c)	22,049	27,162	—	(31,508)	17,703
Total allowances deducted from assets	<u>\$ 253,758</u>	<u>\$ 210,529</u>	<u>\$ —</u>	<u>\$ (228,299)</u>	<u>\$ 235,988</u>

(a) Includes allowances for doubtful accounts, anticipated discounts and write-offs of uncollectible accounts receivable.

(b) Includes adjustments to the valuation allowance for deferred tax assets that we do not expect to realize, as well as the release of valuation allowances.

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



Certain identified information has been excluded from the exhibit because it is both (i) not material and (ii) is the type of information that the registrant treats as private or confidential. Double asterisks denote omissions.

**AMENDED AND RESTATED
MASTER SUPPLY AGREEMENT**

Between

THE HERSHEY COMPANY

and

BARRY CALLEBAUT AG

Dated this 31st day of August 2021

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EXHIBITS

Exhibit A – Product Categories [**]

Exhibit B – Quality

B-1 Quality Specifications

B-2 Review of Compliance with Quality Policies and Standards

Exhibit C – Transfer Prices and Pricing for Ingredients, Packaging, Tolling Fee, Established Yields

C-1 Base Tolling Fees

[**]

Exhibit D – Facility Addenda

D-1 – Robinson, Illinois

D-2 – Monterrey, México

[**]

Exhibit E – Insurance Requirements

Exhibit F – Hershey Competitors

Exhibit G – Non-Compete Agreement

Exhibit H – Key Performance Indicators

Exhibit I – Transition Services

Exhibit J – Code of Conduct [**]

Exhibit K – Data Security Addendum

Exhibit L – New Products [**]

AMENDED AND RESTATED
MASTER SUPPLY AGREEMENT

This **AMENDED AND RESTATED MASTER SUPPLY AGREEMENT** (this “**Agreement**”) is entered into this 31st day of August, 2021 (the “**Effective Date**”).

BETWEEN:

THE HERSHEY COMPANY, a corporation organized and existing under the laws of the State of Delaware, with a principal place of business at 19 E Chocolate Ave, Hershey, Pennsylvania 17033 (hereinafter individually referred to as “**Hershey**” or a “**Party**”),

and

BARRY CALLEBAUT AG, a corporation organized and existing under the laws of Switzerland, with a principal place of business at Hardturmstrasse 181, 8500 Zurich, Switzerland (hereinafter individually referred to as “**Callebaut**” or a “**Party**”).

Hershey and Callebaut may collectively be referred to herein as the “**Parties**”.

BACKGROUND:

Hershey and Callebaut are Parties to the Master Innovation and Supply Agreement dated July 13, 2007, as amended by the First Amendment dated April 14, 2011, [**] (collectively, the “**Original Master Agreement**”). In connection with the Original Master Agreement, Hershey and Callebaut or their respective Affiliates executed the Global Supply Agreement dated July 13, 2007, [**] (collectively, the “**Global Supply Agreement**”), the Robinson Supply Agreement dated July 13, 2007, [**] (collectively, the “**Robinson Supply Agreement**”), the Monterrey Supply Agreement dated July 13, 2007 (the “**Monterrey Supply Agreement**”), [**], the Product Development & Innovation Agreement dated July 13, 2007 and the Executive Summary thereto (the “**Development Agreement**”), the Lease Agreement for the facility in Robinson, Illinois (the “**Robinson Lease**”), the Lease Agreement for the facility in Monterrey, Mexico, [**] (the “**Monterrey Lease**”), [**]. The Global Supply Agreement, Robinson Supply Agreement, Monterrey Supply Agreement, [**] are collectively referred to as the “**Supply Agreements.**” The Robinson Lease and Monterrey Lease are collectively referred to as the “**Leases.**” The Supply Agreements, Leases and Development Agreement are collectively referred to as the “**Related Agreements.**”

[**].

The Original Master Agreement expires on December 31, 2022. The Parties desire to amend and restate the Original Master Agreement to extend the term and to reflect the amendments since the Original Master Agreement was executed and incorporate the agreed upon modifications to the terms of the Original Master Agreement and the Related Agreements, the terms of which will be collectively incorporated in this Agreement, as set forth below.

1. DEFINITIONS

In addition to the terms defined elsewhere in this Agreement, whenever used in this Agreement the following terms shall have the respective meanings set out below:

“**Affiliate**” means any present or future company that, directly or indirectly, controls, is controlled by, or is under common control with Hershey or Callebaut, as applicable, provided that with respect to Callebaut the definition shall be limited to Barry Callebaut AG and its wholly-owned subsidiaries. For the sake of clarity, no Affiliate of Hershey is bound by the terms of this Agreement unless expressly stated in this Agreement, including with respect to the Lease for the Monterrey, Mexico Facility, Hershey’s Affiliate, HERSMEX S. de R.L. de C.V., the landlord under such Lease.

“**Available Production Capacities**” means the available production capacities by Product-type for the Products [**], as mutually-agreed by the Parties after considering Product-type ([**]) and timing of demand, that Callebaut will exercise Commercially Reasonable Efforts to satisfy throughout each calendar year of the Term commencing on the first full calendar year of the Agreement. The Available Production Capacities to meet the ongoing required volume will be evaluated as needed based on the then latest Forecasted Production Plan and Callebaut’s rolling [**] reported available production capacity by Product-type and the Parties will negotiate [**].

“[**]” means [**].

“**Annual Plan Volume**” has the meaning set forth in Section 3.2.1.

“[**]” means [**] manufactured for retail or bulk supply identified in the then-current Product Profile for [**] accessible via the Hershey Vendor Portal.

“**Base Tolling Fee**” means each of the base tolling fees set forth in **Schedule C-1 to Exhibit C**, subject to [**] calculated as set forth in **Schedule C-7**.

“**Business Day**” means any day other than a Saturday or Sunday or any other day which shall be a statutory or civic holiday or day on which banking institutions are closed in North America.

“**BOL**” has the meaning set forth in Section 3.11.2.

“**Certificate of Analysis**” means the certificate of analysis for each of the Products and Materials (excluding Materials manufactured by Hershey or any of its Affiliates) containing the information set forth in the Quality Specifications and Product Profiles.

“**Callebaut**” means the company identified in the introductory paragraph of this Agreement.

“**Callebaut Indemnitee**” has the meaning set forth in Section 14.2.1.

“**Callebaut Products**” means products independently developed and sold by Callebaut to its customers and which are sold to Hershey as Products under this Agreement.

“**Callebaut Raw Materials**” has the meaning set forth in Section 3.4.2(d)(i).

“**Claim**” means all claims, demands, suits, actions, or other proceedings.

“**Cocoa Ingredient**” means cocoa liquor, cocoa butter and/or cocoa powder.

“**Code of Conduct**” means, with respect to Hershey, The Hershey Company Supplier Code of Conduct, and with respect to Callebaut, the Callebaut Supplier Code and the Callebaut Employee Code of Conduct, [**].

“**Commercially Reasonable Efforts**” means [**].

“**Confidential Information**” has the meaning set forth in Section 8.1.

“**Effective Date**” has the meaning set forth in the Preamble.

“[**]” means the [**] manufactured for retail or bulk supply identified in the then-current Product Profile for [**] accessible via the Hershey Vendor Portal.

“**Established Yield**” means the waste, loss and/or overweight allowance for certain of the Materials used to produce each Product.

“**Excess Inventory**” means any Products or Materials that become excess or obsolete due to (a) changes in the Quality Specifications, (b) Callebaut ordering more Materials than required to meet the Forecasted Production Plan (provided such surplus order was approved by Hershey), (c) incorrect forecasting by Hershey, (d) Hershey’s discontinuation of a Product, or (e) Hershey’s revocation of its approval of a supplier of Materials except, with respect to Callebaut Raw Materials, where such revocation is due to the Callebaut Raw Materials failing to meet the Quality Specifications or the supplier failing to comply with Callebaut’s supplier Code of Conduct.

“**Exhibit**” and “**Exhibits**” means **Exhibits A-L** described in the Table of Contents of this Agreement, including the sub-Exhibits attached thereto, each of which is incorporated by reference in this Agreement as if fully set forth herein. The Exhibits may be amended from time to time as agreed by the Parties in writing.

“**Expiration Date**” means the date that the Term of this Agreement expires, as set forth in the Section 9.1.

“**Facility**” and “**Facilities**” means each and all manufacturing facilities owned or leased by Callebaut that are used to manufacture the Products as set forth in the **Exhibit D** and as further described in each Facility Addendum.

“**Facility Addendum**” (and, collectively, the “**Facility Addenda**”) means the addendum attached to this Agreement as **Exhibit D**, with each Facility Addendum attached to **Exhibit D** as **Schedule D-1 through D-9** [**].

“[**]” has the meaning set forth in Section 3.4.4.

“**Force Majeure Event**” means any acts of God, war, flood, drought, earthquake, fire, explosion, hurricane, tornado, [**], omissions or impositions by local, state, provincial, federal or national

government authorities, or any similar causes beyond the affected Party's reasonable control, whether and which by exercise of reasonable diligence could not have been prevented by such Party; provided, that such occurrence is not intentional or deliberately done or brought about for the purposes of excusing performance under the Agreement; and provided further that any adverse financial condition or financial inability of the affected Party, absent the occurrence of an event listed above, will not constitute a Force Majeure Event.

"Forecasted Production Plan" means a rolling [**] estimate provided by Hershey to Callebaut identifying by Product the quantity of each Product Hershey may order or require from Callebaut during such [**] period.

"Governmental or Regulatory Authority" means any court, tribunal, arbitrator, authority, agency, commission, official or other instrumentality of the United States (including, without limitation, the United States Food and Drug Administration, the United States Public Health Service, and the United States Department of Agriculture), any foreign country (including, without limitation, Mexico's Ministry of Health and the Canadian Food Inspection Agency), or any domestic or foreign state, commonwealth, county, city, village, town or other subdivision.

"Hershey Indemnitee" has the meaning set forth in Section 14.1.1.

"Hershey Marks" means Hershey's trademarks, service marks, names, identifying symbols, logos, tag lines, domain names, URLs or any other indicia of origin related to, owned by, used or associated with Hershey or its Affiliates or the goodwill thereof.

"Hershey Raw Materials" has the meaning set forth in Section 3.4.2(d)(i).

"Hershey Vendor Portal" means [**].

"Incoterms" means the Incoterms 2020, ICC Rules for the Use of Domestic and International Trade Terms, published by the International Chamber of Commerce, or as may be updated from time to time.

"Intellectual Property" means all intellectual property throughout the world, including all: (a) inventions (whether or not patentable), discoveries, improvements, and designs, in each case whether or not protectable under patent laws, patents and patent applications, including reissues, divisions, continuations, continuations in part, renewals, extensions and reexaminations thereof, (b) trade names, corporate names and other names, trademarks, service marks, trade dress, logos, symbols, graphics, and other similar designations of source and all goodwill associated with the foregoing, any and all common law rights therein, and registrations and applications for registration thereof and reissues, extensions and renewals of any of the foregoing, (c) copyrights and copyrightable works, (d) confidential or proprietary information (including trade secrets and Confidential Information), processes and methods (including manufacturing), formulae, algorithms, ideas, and know how, (e) rights of publicity, privacy, and rights to personal information, and (f) all rights in the foregoing and in other similar intangible assets, including designs.

"Intermediate Ingredients and Finished Products" means those products that are manufactured, produced, packaged and labeled [**].

“**Laws**” means all statutes, rules, regulations, orders, guidelines, ordinances, and other pronouncements having legal effect in the United States, any foreign country, or any domestic or foreign state, commonwealth, province, county, city, town, village, or other political subdivisions, or of any Governmental or Regulatory Authority, including without limitation laws applicable to manufacturing activities related to food and drugs, including without limitation the U.S. Food, Drug and Cosmetic Act, the Food Safety Modernization Act and Current Good Manufacturing Practices, and all manufacturing, safety and remediation standards, together with all rules, regulations and guides promulgated under any such laws and any directives issued by any Governmental or Regulatory Authority.

“**Lease**” means a lease agreement between Hershey and Callebaut for Callebaut’s access and use of the Facility land and/or premises for Callebaut’s performance of the Services described in this Agreement and the applicable Facility Addendum. Where Hershey and Callebaut have entered into a Lease, such Lease is attached to the applicable Facility Addendum and incorporated by reference therein.

“**Loss**” or “**Losses**” means all damages, losses, judgments, payments made in settlement, liabilities, fines, penalties, assessments, costs, and expenses, including without limitation reasonable attorneys’ fees, disbursements, court costs, and all other costs of litigation or defending a Claim.

“**Materials**” means all ingredients, flavors, blends, mixes and raw materials, together with the packaging materials and all other materials used in manufacturing, producing and/or packaging of the Products. Materials includes the Hershey Raw Materials and Callebaut Raw Materials.

“**Materials Cost**” means Callebaut’s landed cost of the Materials (where landed cost is Callebaut’s purchase price for the Materials, plus the costs incurred in delivering the Materials to the Facility(ies)) and in bringing the Materials into condition for use at the point of manufacture. Landed cost includes, but is not limited to, [**].

“[**]” means [**].

“**Monterrey Facility Addendum**” is attached to this Agreement as **Schedule D-2 to Exhibit D** and [**] in such **Schedule D-2**.

“**Monterrey Lease**” means the Lease attached to **Schedule D-2** as **Attachment D-2.1** and incorporated by reference therein.

“[**]” has the meaning set forth in Section 13.

“**New Callebaut Innovation Product**” means a product that is developed independently by Callebaut for introduction to the market generally.

“[**]” means [**].

“**New Products [**]**” has the meaning set forth in Section 16.11.

“**Nonconforming Products**” has the meaning set forth in Section 12.3.7.

“**North America**” means the United States, Canada and Mexico.

“**Operating Assets**” means the equipment, furniture, and fixtures that Callebaut owns or leases, or must acquire and related modifications to the Facility, in each case that Callebaut must obtain/deploy or complete to perform the Services with respect to the Products.

“**Order**” means a purchase order (PO), stock transport order (STO), or some as uniquely defined in Monterrey’s and Robinson’s Facility Addenda submitted to Callebaut by Hershey or its Affiliates authorized by Hershey to purchase Products pursuant to the terms of this Agreement.

“**[**]**” means the [**] manufactured for retail or bulk supply identified in the then-current Product Profile accessible via the Hershey Vendor Portal.

“**[**] Facility Addendum**” is attached to this Agreement as **Schedule D-3 to Exhibit D** and [**] in such **Schedule D-3**.

“**Person**” includes natural persons, partnerships, firms, and other unincorporated bodies, corporate bodies, and all other legal persons however constituted.

“**Product**” or “**Products**” means the [**], and any other products or Product Categories, as set forth on Exhibit A of this Agreement, manufactured in accordance with the then-current Product Profiles established by Hershey and accessible via the Hershey Vendor Portal.

“**Product Categories**” means [**] and Intermediate Ingredients and Finished Products.

“**Product Portfolio Extension**” means a product that is comparable to one or more Products, which Hershey would like to add to the portfolio of Products manufactured by Callebaut.

“**Product Profile**” means the Quality Specifications established by Hershey and the Product Recipe for each Product in each Product Category. The Product Profiles are accessible via the Hershey Vendor Portal and may be amended by the Parties from time to time in writing.

“**Product Recipe**” means the formulation for each Product documented by Callebaut and approved by Hershey using the Product Quality Specifications (PQS), [**]. The Product Recipe for each Product is maintained by Callebaut in the Recipe Book and is accessible via the Hershey Vendor Portal.

“**Production Lot**” means: (i) for [**] not to exceed [**] of production; (ii) for [**] limited to [**] or a maximum of [**] of production; (iii) for [**] not to exceed [**]; and (iv) for Intermediate Ingredients and Finished Products for purposes of quality and regulatory lot trace checks (e.g. net weights) a shift’s production following Hershey’s coding format or Callebaut’s coding format in select instances. A production shift can last up [**].

“**Quality Expectations**” means the standards and specifications applicable to Callebaut’s performance of the Services and supply of all Products under this Agreement, as described in Exhibit B of this Agreement, attached hereto and incorporated by reference herein, and as may be amended by Hershey from time to time.

“**Quality Manuals**” means Hershey’s Co-Manufacturing/Co-Packaging Quality Manual and Hershey’s Partners in Quality: Supplier Quality Expectations Manual.

“**Quality Specifications**” means the following as set forth in the Hershey Vendor Portal: (a) Product Quality Specifications (PQS), (b) [**] (c) Quality Standards and Tolerances (d) [**], (e) Packaging and Load Integrity Specifications, (f) the [**], and (g) any additional product or packaging requirements, as communicated by Hershey to Callebaut from time to time and subject to the review procedures set forth in Section 3.1.3.

“**Recall**” has the meaning set forth in Section 3.10.8.

“**Records**” has the meaning set forth in Section 3.14.1.

“**Relationship Manager**” has the meaning set forth in Section 5.1.

“**Representative(s)**” means, with respect to a Person, any of such Person’s Affiliates and any of its or their respective directors, officers, members, employees, agents, or advisors.

“**Robinson Facility Addendum**” is attached to this Agreement as **Schedule D-1 to Exhibit D** and [**] in such **Schedule D-1**.

“**Robinson Lease**” means the Lease attached to **Schedule D-1 as Attachment D-1.1** and incorporated by reference therein.

“[**]” has the meaning set forth in Section 3.2.1.

“**Seizure**” means any action by any Governmental Authority to take possession of a Product.

“**Semester**” has the meaning set forth in Section 3.4.2(d)(ii).

“**Services**” means manufacturing Products in accordance with Quality Specifications and performing those services that Callebaut will perform for Hershey pursuant to this Agreement and as may be further described in the Exhibits hereto.

“[**]” means [**].

“**Steering Committee**” has the meaning set forth in Section 4.

“**Subcontractor**” means any third party that performs all or part of a Party’s obligations under this Agreement.

“**Taxes**” means all taxes, charges, fees, imposts, levies and other assessments imposed by any federal, state, provincial or local government authority, including, without limitation, net income, capital, sales, use, ad valorem, transfer taxes, value added tax, personal, franchise, profits, inventory, gross receipts, license, excise, tariff and withholding, payroll, employment, social security, unemployment, fees and taxes for the privilege of doing business, severance, stamp, occupation, property, rollback and estimated taxes, customs duties, fees, assessments and other governmental charges of any kind whatsoever, together with all interest, penalties, fines, additions

to tax or additional amounts imposed by any governmental or other taxing authority with respect to such amounts. Notwithstanding the foregoing, for purposes of the second sentence of Section 3.7.4 only, Taxes do not include any employment, income, property or similar taxes.

“**Term**” has the meaning set forth in Section 9.1.

“**Tolling Fee**” has the meaning set forth in Section 3.4.1.

“**[**]**” means [**].

“**Transfer Price**” means the purchase price that Hershey will pay for each Product, as set forth in the applicable [**] and further described in Section 3.4.1.

“**Transition Period**” means the date beginning on the earlier of (a) [**] prior to the expiration of this Agreement or (b) either Party’s notice of termination to the other Party, and ending [**] following the effective date of expiration or termination.

“**Transition Services**” means the services to be provided by Callebaut during the Transition Period, as such services are further described in **Exhibit I**.

2. **TERMINATION OF RELATED AGREEMENTS**

On the Effective Date, the Original Master Agreement and Related Agreements, excluding the Leases, will terminate and have no further force or effect except for those provisions identified in this Agreement or that expressly or by their nature survive termination of the Related Agreements; provided, where there are inconsistencies in such surviving provisions and the terms and conditions of this Agreement, then the terms and conditions of this Agreement will control.

Notwithstanding the foregoing, certain economic and operations planning terms (the “**Retained Terms**”) will remain in effect until December 31, 2022, as further described in **Schedule C-2** to **Exhibit C**, attached to this Agreement and incorporated by reference herein. Thereafter, on January 1, 2023 (the “**Commencement Date**”) all terms of this Agreement, including without limitation as set forth in **Exhibit C** and **Schedule C-3**, will be effective. [**].

In addition, the [**] relating to the New Products [**] will remain in effect in accordance with the terms of Section 16.11.

3. **SUPPLY OF PRODUCTS**

3.1. **Production of Products**

3.1.1. Callebaut will produce, package and deliver the Products for Hershey only at Callebaut’s Facilities and from production lines identified in **Exhibit D**. Each Facility and production line must be approved for use by Hershey on a Product by Product basis. Callebaut shall produce the Products in accordance with the Product Profiles, including the Quality Specifications set forth in **Exhibit B**, attached to this Agreement and incorporated by reference herein and accessible via the Hershey Vendor Portal, and any additional terms set forth in each applicable Facility Addendum. The Parties may mutually agree to add or remove Facilities by

entering into a new Facility Addendum (for added Facilities) and an agreed termination of a Facility Addendum (for removed Facilities). Each Facility Addendum will identify the following with regard to that Facility: (a) the specific Products and the production lines that Callebaut is approved to manufacture and that Callebaut will manufacture (whether or not such manufacturing is planned); (b) [**]; (c) Hershey's rights, if any, to [**]; (d) a listing of Hershey Equipment located at the Facility; (e) an executed Lease amendment attached to the Facility Addendum (with respect to the [**]); (f) any certification requirements specific to Products manufactured at each Facility; (g) shared services, if any, and (h) all other Facility-specific terms, either existing or as may be added by the Parties in writing.

3.1.2. The Product Categories to be supplied by Callebaut to Hershey under this Agreement are described in **Exhibit A** and accessible on the Hershey Vendor Portal. The information contained in such Hershey Vendor Portal includes without limitation, with respect to each Product, the Materials (including the component ingredients and packaging materials related to the manufacturing of the Products at each Facility), the Product Profile, the Established Yield and Transfer Price for each Product. The Hershey Vendor Portal also contains the Product Recipe for each Product. Products may be added to this Agreement as mutually agreed by the Parties and may be deleted from this Agreement at Hershey's sole discretion, subject to the terms of Section 3.2.6. Products added to this Agreement and any proposed changes to existing Products must be within the then-current technical capabilities for performance of the Services at the applicable Facility. [**]. The Tolling Fees for such Products will be determined in accordance with Section 3.4.1.

3.1.3. Callebaut acknowledges that the Quality Specifications may be revised upon prior written notice by Hershey, in its sole discretion, at any time during the term of this Agreement. The Parties agree to confer to (a) assess if the revision requires a change to a Product Recipe(s); (b) mutually agree to the reasonable time period necessary for implementation of the revision, and (c) assess if the revision is not feasible for Callebaut's current manufacturing capabilities, in which case the Parties will mutually agree on the appropriate course of action. [**].

3.1.4. All specifications for Materials used in the manufacture of Product will be entered and maintained by suppliers on the Callebaut Supplier Relationship Management Portal. Selected Hershey personnel will be granted access to the Callebaut Supplier Relationship Management Portal, as needed.

3.1.5. Callebaut agrees to [**] manufacture Products existing at the Effective Date and any Products added pursuant to Section 3.1.2, (the "**Callebaut Equipment**") unless specified otherwise in this Agreement or in a Facility Addendum or otherwise in writing between the Parties.

3.2. Operations Planning

The Parties agree to plan the production of the Products in accordance with the following principles:

3.2.1. On or before [**] of each year during the Term, Hershey will provide to Callebaut the plan of the 12-month demand for the upcoming calendar year (January to December) by Product and Facility (the "**Annual Plan Volume**"). The Annual Plan Volume does [**]. Once

agreed by the Parties, the Annual Plan Volume will be accessible via the Hershey Vendor Portal and will become effective on January 1st of the subsequent year. [**] for each Facility to be used by the Parties [**]. Each [**] will be subject to the terms and conditions of this Agreement. The [**] will provide the item number and the Transfer Price applicable to each Product [**] in accordance with the terms of this Agreement and the applicable Facility Addendum and will be used by Hershey [**].

3.2.2. Each [**] during the Term, Hershey will provide Callebaut with its Forecasted Production Plan of desired production of Products for the subsequent rolling [**] period. Additionally, for all Facilities, Hershey will further identify via Orders, the daily shipments, inclusive of Saturdays, Sundays and non-business days if Hershey requires shipments on such days. Except as set forth in this Section 3.2 and in a Facility Addendum, such Forecasted Production Plan is [**].

3.2.3. Hershey [**] from Callebaut (i) only the [**] production of Paste Products reflected in the relevant Forecasted Production Plan for the Facilities for [**] after such Forecasted Production Plan was received and the [**]; and (ii) the [**] production of [**] and Intermediate Ingredients and Finished Products reflected in the relevant Forecasted Production Plan. Except as set forth in this Section 3.2.3 and [**], Hershey will not be obligated to purchase from Callebaut any minimum volume of Products.

3.2.4. Callebaut's designated Representatives within the Facilities will plan the shipments outlined in each Forecasted Production Plan on a daily and/or shift basis.

3.2.5. Callebaut will plan its production capacity such that it can satisfy both the Annual Plan Volume [**]. Callebaut will supply Hershey's actual demand of Products, as set forth in the Orders issued by Hershey or its authorized Affiliates and accepted by Callebaut. [**]. The Parties will confer at the time of delivery of the Annual Plan Volume and [**], and continually at the time of delivery [**] Callebaut will supply Hershey's demand. In the event [**], or should Hershey need to change or modify demand within [**] for [**] Orders and within [**] for [**] and [**] Orders, the Parties agree to undertake Commercially Reasonable Efforts to identify actions to remedy the constraints [**].

3.2.6. If Callebaut believes Products and/or Materials in its inventory have become Excess Inventory, Callebaut will provide notice to Hershey within [**] and provide such information and documentation related to the Excess Inventory as may be reasonably requested by Hershey to evaluate Callebaut's designation of the Products and Materials. Where the Parties mutually determine Products and/or Materials constitute Excess Inventory, Hershey will be financially responsible for the Products or Materials in Excess Inventory on the date on which Products or Materials become Excess Inventory. [**], subject to the following conditions:

(a) Callebaut will exercise Commercially Reasonable Efforts to minimize the financial impact to Hershey for the Excess Inventory, [**]. The Parties will collaborate in good-faith in assessing the use of Excess Inventory of Materials pursuant to this Section 3.2.6(a). [**];

(b) under no circumstances will Hershey be responsible for Excess Inventory of Materials which, when ordered by Callebaut, represented more than a [**] supply of the Materials [**] (except with regard to production of promotion or “one time” Products, for which responsibility for Excess Inventory which will be mutually agreed by the Parties in writing), and

(c) notwithstanding (b) above, Callebaut may enter into supply contracts for Materials for a period of longer than [**] (particularly where such longer term supply contracts are necessary to ensure uninterrupted supply of Products to Hershey) with the prior written approval from Hershey, and in such case, the Parties will agree in writing to Hershey’s responsibility for any Excess Inventory of such Materials beyond the [**] inventory described in (b).

Title and risk of loss of Excess Inventory will pass to Hershey upon Hershey’s reimbursement to Callebaut in accordance with this Section 3.2.6.

3.2.7. Notwithstanding anything contained in this Section 3.2, subject to Callebaut’s compliance with the Product Profiles, [**] (including without limitation any new Products which may be added pursuant to Section 3.1.2), provided that the mix is reasonably comparable to the mix of liquid and solid Products existing as of the immediately preceding calendar year in the Term, produced at any Facility and ordered in quantities and time frames that can be commercially reasonably achieved. [**].

3.3. Continuity of Supply; Business Interruption Planning; Force Majeure

3.3.1 Continuity of Supply. To ensure continuity of supply of Products, the Parties may designate [**] in Callebaut’s manufacturing network for mutually agreed Product/Hershey delivery plant combinations. The Products with assigned [**] are identified in **Exhibit D** and may be amended by the Parties in writing from time to time. Callebaut’s production of Products at any [**] will be subject to the terms of this Agreement, including without limitation the Facility Addenda.

[**].

3.3.2. Business Interruption Planning. If during the Term, through no fault of Hershey, Callebaut is delayed or unable to deliver Products in accordance with the terms of this Agreement or any Facility Addendum, and provided such delay or inability is not due to a Force Majeure event in accordance with Section 3.3.3, [**].

3.3.3. Force Majeure. Without limiting the foregoing rights and obligations with respect to continuity of supply and business interruption planning, the failure or delay of either Party to perform any obligation under this Agreement by reason of Force Majeure will not be deemed to be a breach of this Agreement; provided, the Party so prevented from complying herewith will (a) have provided notice of such event to the other Party (including an explanation of the Force Majeure and its cause and status), (b) have used reasonable diligence to avoid such Force Majeure or ameliorate its effects, (c) if the affected Party is Callebaut, have implemented any applicable business interruption plan, and (d) continue to take Commercially Reasonable Efforts to comply as fully as possible with the provisions of this Agreement. For the sake of clarity,

epidemics or pandemics, raw material or labor shortages or strikes are not, in themselves, Force Majeure events; provided that, the Parties acknowledge and agree that a Force Majeure event may result from an epidemic or pandemic (e.g., a general shelter in place or quarantine order in a jurisdiction where a Facility, [**] or Hershey's manufacturing facilities is located or an approved supplier of a Party is located may cause raw material or labor shortages, provided the operations of such Facility, [**], Hershey manufacturing facility or approved supplier is not otherwise considered an "essential service" and not subject to such order). Notwithstanding the foregoing, [**], subject to Hershey approval, at the applicable Transfer Price for such [**]. Where a Force Majeure event prevents Hershey from accepting delivery of Products at one of its manufacturing facilities, Callebaut will use Commercially Reasonable Efforts [**] Hershey manufacturing facility. [**]. If a Force Majeure event continues for a period of [**] or longer, then the Party not affected by such Force Majeure event shall be entitled to terminate this Agreement at any time thereafter during which such Force Majeure is continuing.

3.4. Product Pricing and Procurement

3.4.1. The price to be paid by Hershey to Callebaut for the Products will be referred to as the "Transfer Price," determined by [**]. The Tolling Fee will include the applicable Base Tolling Fees set forth in **Exhibit C** ([**], as further described below and in **Schedule C-7**). Callebaut shall provide Hershey with [**] as further described below, and upon the Parties finalizing such Tolling Fee for each Product, it will be uploaded into the Hershey Vendor Portal. An example of the [**] is set forth in **Schedule C-6 to Exhibit C**.

3.4.2. Hershey will pay Callebaut a Transfer Price as specified in the Hershey Vendor Portal for the Products, at costs to be established in accordance with the provisions of this Section 3.4 and the templates set forth in Exhibit C. Transfer Prices will be established no later than [**] for the following calendar year (January through December), and as needed for new Products throughout the year, subject to the provisions of Section 3.4.2(d) below. Transfer Prices referenced in this Section 3.4.2 will be [**], as follows.

a. By [**] of each year during the Term, [**] and [**] will be evaluated as of [**] of each year. [**] is set forth in **Schedule C-7 to Exhibit C**.

b. The [**] for [**] will be calculated [**] will be calculated [**] will be based on [**]. In each instance, the [**] from [**] of the prior year will be used as the denominator and the [**] for [**] of the current year will be used as the numerator.

c. [**] will be applied to the Base Tolling Fee for use commencing on January 1st of the subsequent calendar year, as further described in **Schedule C-7 to Exhibit C**. The Parties will work cooperatively in good faith to minimize the impact of any [**].

d. Hershey and Callebaut agree to establish [**] and the corresponding [**] included in the Transfer Prices as follows:

(i) By the [**] following delivery of the Annual Plan Volume, Hershey and Callebaut will review the estimated volumes of Materials which will be required to produce the Annual Plan Volume for each Product for the upcoming calendar year. [**]. The Parties agree that [**], one of the following methods will be used [**]:

- (A) [**];
- (B) [**]; or
- (C) [**].

[**]. At any time during production, Hershey may require Callebaut to change [**], subject to fulfillment and consumption of [**] Callebaut may have made to [**], provided that such [**] are not inconsistent with the then-current Forecasted Production Plan issued by Hershey.

ii. By the [**] following the delivery of the Annual Plan Volume to Callebaut by Hershey, Hershey will provide Callebaut [**] and Callebaut will provide Hershey [**] necessary to establish yearlong pricing for each Product. Callebaut also will provide substantiating documentation for any year-end adjustments necessary to [**] expected to be on hand at the end of December. [**]. If the Parties reach an agreement on the [**], Callebaut will use that [**] in its calculation of Transfer Prices to Hershey for the [**].

iii. Each year during the Term, prior to [**], Callebaut will have entered all agreed upon [**] into [**] and will provide Hershey with Transfer Prices for each Product by appropriate unit of measure (e.g., case, pound).

iv. Transfer Prices [**] in accordance with this Agreement for a period of one year (January – December). These Transfer Prices will be used in the [**] and will be subject to change [**], except in the case of a [**] agreed by both Parties. The Parties agree to work cooperatively in good faith to minimize changes to Transfer Prices during [**].

v. If Products are added during the year, Hershey and Callebaut will create Transfer Prices by unit of measure following [**] in this Section 3.4 and **Exhibit C** ([**]) (defined below) at least [**] prior to commencement of production of such new Products.

vi. In the event that a change in the Product Profile results in an increase or decrease in actual Transfer Prices, Hershey and Callebaut will review documented changes [**] and the new Transfer Price [**] under the modified Product Profile are delivered. The Parties will [**] between the original Transfer Price and the revised Transfer Price [**], unless or until the revised Transfer Price is established [**].

vii. [**].

viii. The Relationship Manager for each Party will address all pricing questions and other operating issues arising under this Agreement.

e. With respect to Materials constituting commodities, the Parties will ensure mutually agreed [**] by [**] of each year ([**] physical inventories, firm purchase commitments (including firm purchase commitments between Hershey and Callebaut) [**].

3.4.3.

(a) The Tolling Fee to be included in the Transfer Price for any Product Portfolio Extension will be an amount equal to the following:

- (i) The then-current Base Tolling Fee [**] for the Product that the Parties mutually agree is most [**]; plus
- (ii) Applicable Tolling Fee adjustments [**]; plus
- (iii) Mutually-agreed adjustments [**]; plus
- (iv) [**]; and plus
- (v) [**].

following: (b) The Tolling Fee to be included in the Transfer Price for any [**] will be an amount equal to the

- (i) The then current Base Tolling Fee for the [**] at which the [**] is to be manufactured; plus
- (ii) Applicable Tolling Fee adjustments [**]; plus
- (iii) Mutually-agreed adjustments [**]; plus
- (iv) [**]; plus
- (v) [**].; and plus
- (vi) [**].

The work undertaken by the Parties for [**] will, in each instance, include development of the proposed Tolling Fee as an early project milestone.

(c) Should the Parties not agree to the Tolling Fee for a Product Portfolio Extension or a [**], including after referring the disagreement to the Steering Committee for resolution where appropriate, then work will be terminated on the project and such product will not be added to the portfolio of Products.

3.4.4. For New Callebaut Innovation Products that the Parties agree may fit Hershey's go-to-market strategy, Callebaut will present its concepts in detail to Hershey [**].

3.5. Established Yields.

3.5.1. The Established Yield for all [**] Products delivered to Hershey [**] and for Products delivered to Hershey [**], as further described in **Exhibit C**. Hershey will not reimburse or otherwise compensate Callebaut for any additional ingredients and packaging components required as a result of Callebaut's failure to comply with Established Yields.

3.5.2. Hershey and Callebaut will review any issues with Established Yields as needed. Should the Parties agree to adjust the Established Yields, the new Established Yields will be effective as of the date mutually agreed by the Parties.

3.6. Currency

3.6.1. Callebaut will invoice, and Hershey will pay, all amounts in [**].

3.6.2. Each invoice will contain the detail specified by Hershey, including the item number for each Product and the prices set forth in the then-current applicable [**]. Callebaut will issue its invoice at the time such Products are shipped or delivered to Hershey in accordance with the delivery terms set forth in the Facility Addenda, but in no event will invoices be issued later than [**] following the shipping date. Callebaut will comply with reasonable invoice submission procedures provided by Hershey, including without limitation electronic invoice submission. The date of receipt of electronic invoices will be the date following the date the invoice is successfully transmitted.

3.6.3. By [**] of each year during the Term, for use in the following calendar year, [**].

3.7. Payments for Products

3.7.1. Callebaut and Hershey will facilitate the delivery of Products in accordance with the delivery terms set forth in Section 3.11 and as further described in the Facility Addenda. Hershey will pay any invoiced amount following receipt of such invoice from Callebaut on the payment terms of [**], except in the case of good faith dispute and provided the invoice is accurate and complete. All payments will be electronically transferred to the designated bank account of the Party to which such payments are due. Hershey's payment of an invoice will not constitute a waiver of any of its rights under this Agreement, including the right to reject or revoke acceptance of Nonconforming Products.

3.7.2. Hershey may withhold payment of any invoiced amounts it disputes in good faith; however, Callebaut may not, in response to the dispute or otherwise, suspend performance of its obligations under this Agreement or any Order. The Parties will use Commercially Reasonable Efforts to resolve the dispute in a timely manner.

3.7.3. [**].

3.7.4. Callebaut shall be liable for all Taxes that may be levied against Callebaut in connection with Callebaut's performance under this Agreement. Notwithstanding the foregoing, if Callebaut will be liable for any Taxes solely as a result of Callebaut's adherence to Hershey's specification of the location for the manufacture of the Products or the specific ingredients or processes for producing the Products under the Product Profiles, then Callebaut will notify Hershey of the imposition of such Taxes and Callebaut will pay such Taxes in accordance with applicable Laws and Hershey will reimburse Callebaut for the cost of such Taxes through the Reconciliation Process (provided that custom duties may instead be included in the Transfer Prices), provided that Callebaut provides a copy of the tax returns that were filed with the applicable governmental entity or such other documentation acceptable to Hershey in reasonable

form and content as proof of payment of such Taxes. Finally, the Parties will cooperate in good faith and file any required documents to (i) reduce, mitigate or eliminate the amount of Taxes imposed relating to any Party's performance under this Agreement and (ii) seek any available refunds of Taxes paid to a governmental authority, in which case each Party that bore the economic cost of the Taxes will be entitled to receive a proportional amount of the refund of such Taxes from the Governmental or Regulatory Authority.

3.8. Productivity

3.8.1. Hershey and Callebaut recognize the need to provide the highest quality product at the [**]. To accomplish this objective, Hershey and Callebaut agree to cooperate in a continuing effort to improve the productivity of all processing operations [**]. Hershey's and Callebaut's productivity efforts will be directed and managed by a joint continuous improvement team (which shall include the Relationship Managers). Any resulting savings from such efforts [**] between the Parties as set forth in Sections 3.8.3 and 3.8.4 below. Where applicable, the [**] formula will be applied over the [**] immediately following the date of implementation of the Product Profile [**] (the "**Productivity Period**"), and the resulting [**] will be implemented through a Transfer Price [**] during such Productivity Period, as further described in Section 3.8.5.

3.8.2. These productivity efforts should target, but are not limited to, [**].

3.8.3. [**] will receive [**]% of all continuous improvement [**] resulting from reductions in unit costs for Materials, as well as minimizing the cost of all sampling/testing of the Products, [**].

3.8.4. Continuous improvement [**] resulting from reductions in costs [**] (including without limitation [**] resulting from production output and labor reductions) shall be allocated as follows:

[**]

3.8.5. [**] of continuous improvement [**] resulting from such productivity efforts in this Section 3.8 will be included as [**] and thereafter will be incorporated in the Transfer Price as [**] of applicable continuous improvement savings from such productivity efforts will be included as a [**] in the [**] Process.

3.9. Supply of Materials

3.9.1. Callebaut is responsible for ensuring adequate supply of all Materials, including responsibility for contracting, arranging and taking delivery, inventory management, storage, inspection, and quality control of all Materials used in accordance with the Product Profiles, provided, however, that Callebaut will use only suppliers that have been previously [**], which suppliers will be set forth in the Hershey Vendor Portal. [**] of any supplier in its sole discretion at any time, and such [**] will be updated in the Hershey Vendor Portal. Callebaut will honor all payment terms of the suppliers on a timely basis (except in the event of a good faith dispute). Callebaut will be responsible for its contracts with third-party suppliers, [**].

3.9.2. [**]. Callebaut's [**] of the Hershey-designated supplier will not be unreasonably withheld. In connection with such supplier [**], Callebaut may rely on Hershey's information and documentation for its designated supplier or Callebaut may independently evaluate the supplier.

3.9.3. Except as otherwise set forth in the Facility Addenda, for Hershey Raw Materials supplied [**] will invoice [**], and [**] will pay any amount due to [**] hereunder on payments terms of [**], except in each instance in the event of a good faith dispute. [**] payment of an invoice will not constitute a waiver of any of its rights under this Agreement, including the right to reject or revoke acceptance of nonconforming [**] Raw Materials. [**] may [**] payment of any [**] invoiced amounts it disputes in good faith; however, [**] may not, in response to such good faith dispute, suspend performance of its obligations under this Agreement or any Order. The Parties will use Commercially Reasonable Efforts to resolve the dispute in a timely manner.

3.9.4. [**].

3.9.5. All payments will be electronically transferred to the designated bank account of Hershey in accordance with the applicable payment terms. [**] will exercise Commercially Reasonable Efforts to use [**] Raw Materials purchased from [**] or [**] solely for the manufacture of Products and not use such inventory for any other purpose or product that it may produce. [**] also will not resell the inventory purchased [**] suppliers pursuant to [**] contract without [**] prior written consent. [**]. Notwithstanding the foregoing, nothing contained in this paragraph will relieve Callebaut from producing the Products in accordance with the Quality Specifications and applicable Product Profile and at the agreed upon Transfer Prices.

3.9.6. Upon delivery, [**] that all Materials, including any [**] Raw Materials, in accordance with [**] established quality assurance protocols applicable to component ingredients and raw materials communicated to [**] in writing prior to the Effective Date, are (a) in good and merchantable condition and fit for use for the purposes intended, and (b) in compliance with the Quality Specifications applicable to Materials. Callebaut will withhold from use in the manufacture of Products any Materials determined by Callebaut not to be in conformity with the Quality Specifications. If the nonconforming Materials are [**] Raw Materials, [**] will [**] of the nonconformity following its discovery of such nonconformity. Neither [**] approval of a supplier, [**] supply of any [**] Raw Materials, [**] direct purchase of Materials from a supplier, nor any other agreement, arrangement, or business relationship between [**] and any supplier will operate to release [**] from its obligations under this Section 3.9.6 or its representations and warranties as to the Products supplied to [**].

[**].

3.9.7. [**] will maintain [**] in sufficient amounts to [**] of the Products set forth on the [**] issued by [**] to [**], but, unless [**] provides prior written consent, shall maintain no more than [**] based on the then current [**]. Callebaut acknowledges that certain ingredients used in the Products have a limited shelf life and will only use ingredients that are within their expected shelf life as established by the supplier or by Hershey if the shelf life established by Hershey differs from that established by the supplier and is mutually agreed to by the Parties. Callebaut also agrees to utilize the Materials on a "first expiration-first out" basis. Callebaut will

use Commercially Reasonable Efforts to reduce its inventories of Materials to the lowest feasible levels by the expiration of this Agreement unless otherwise directed by Hershey.

3.10. Quality Assurance

3.10.1. Callebaut shall manufacture and supply the Products and maintain the Facilities (including disposing of all waste and other materials) in compliance with the Product Profiles, applicable Laws (including without limitation the Laws applicable to the Products in the jurisdictions in which the Products will be distributed and sold), and this Agreement. Callebaut will be liable for any penalties, fines, or costs incurred or assessed against Hershey as a result of Callebaut's failure to manufacture Products and maintain the Facilities in conformance with this Section 3.10.1. Callebaut acknowledges receipt and understanding of the information and requirements contained in the Product Profiles, and Callebaut agrees to implement and maintain quality assurance programs that meet the minimum requirements and expectations contained in the Quality Specifications. Callebaut acknowledges that Hershey may periodically and in its sole discretion revise and/or update the Product Profiles by written notice to Callebaut, subject to the review procedures set forth in Section 3.1.3. Callebaut agrees to implement such revisions according to reasonable timeframes requested by Hershey, subject to any applicable changes in Transfer Prices as set forth in Section 3.1. Should such revisions require capital expenditures to achieve compliance by Callebaut, the Parties shall negotiate in good faith the scope, timing and changes in Transfer Prices of necessary for implementation.

3.10.2. All Products delivered by Callebaut to Hershey shall conform to the terms of this Agreement, including without limitation the representations and warranties set forth in Section 12.3 and the Product Profile for each Product. [**]. All water used in connection with the Products, whether it be for processing or cleaning, shall meet the applicable United States Environmental Protection Agency Canadian, or Mexican safe drinking water standards dependent upon the location of each Facility. All required testing will be done at Callebaut's expense, which expense shall be included as part of the Transfer Prices.

3.10.3. Upon receipt of Products at Hershey's designated manufacturing or storage facility (which may or may not be the place of delivery), Hershey may, but is not obligated to, perform receipt inspections to confirm that the Products conform to this Agreement. Hershey's (a) performance of a receipt inspection, (b) acceptance of delivery of any Product into a Hershey facility, or (c) acknowledgment of receipt on packing slips, bills of lading, or other documents, will not be deemed acceptance of Nonconforming Products or be considered evidence that any Product conforms with this Agreement. Hershey may inspect Products that are delivered in quantity by sampling; provided, however, such sampling shall not constitute acceptance of all such Products as a unit. No Products will be deemed to be part of a commercial unit (e.g., case pack) requiring acceptance of their entirety.

3.10.4. Hershey may reject or revoke acceptance of any Products that are Nonconforming Products (as further described in Section 12.3.7) by providing notice to Callebaut of the rejection or revocation [**], after discovering that the Products are Nonconforming Products.

3.10.5. Callebaut shall [**] to the requirements of this Agreement. [**].

3.10.6. Callebaut shall remove or dispose of any Product that Hershey deems a Nonconforming Product in accordance with the terms set forth in Section 12.3.7.

3.10.7. Callebaut agrees to support Hershey in ongoing efforts to reduce consumer complaints and increase consumer satisfaction in accordance with the complaint resolution procedures set forth in the Quality Specifications, as otherwise contained in the Hershey Vendor Portal related to the Products, and as further described in Section 14.1.3. Upon Hershey's request, Callebaut will [**] provide reasonable assistance to Hershey in investigating any concern of Hershey or any customer or consumer complaints or questions relating to the Products, which may include chemical, physical, or microbiological analysis of returned Products, analysis of retained samples, and review of the Lot. Callebaut shall provide to Hershey [**] of its factual determination and conclusions from any investigation [**] set forth in the Quality Specifications. All of the foregoing actions by Callebaut will be taken at Callebaut's own expense.

3.10.8. In the event that (a) a Governmental or Regulatory Authority issues a request, order, or directive for, or a court of competent jurisdiction orders, a recall, market withdrawal, stock recovery, product correction, or advisory safety communication relating to any Product or Materials (or to any product in which a Product has been incorporated), (b) Hershey is advised by Callebaut, or otherwise required, or determines in its sole discretion, that any Product (or any product in which a Product has been incorporated) should be withdrawn, retrieved, recalled, or otherwise recovered for any reason, including because the Products do not meet the Product Profiles, or (c) there is any Seizure of a Product for any reason whatsoever (each such action described in clauses (a), (b) and/or (c), collectively or individually, a "**Recall**"), then Callebaut, at its own expense, will fully cooperate with and use diligent efforts to assist Hershey in all activities associated with implementing the Recall, including providing information and cooperating with Hershey regarding any communication with any Governmental or Regulatory Authority concerning a potential or actual Recall. Callebaut further will comply with the current Hershey Global Recall Manual set forth [**] in the Hershey Vendor Portal and incorporated by reference herein. Hershey will be solely responsible for administering any Recall, including handling returns, and will have sole discretion with regard to all decisions concerning any Recall strategy and execution. At Hershey's option, Hershey may direct Callebaut to, and upon such direction Callebaut will, conduct any Recall. Hershey, in its sole discretion, will determine the final disposition of the Products subject to any Recall and the manner, text, and timing of any publicity to be given relating to any Recall.

3.10.9. Callebaut shall bear the full cost and expense (including fines and damages and costs to Hershey and to third parties) and will indemnify and hold Hershey harmless of and from any Recall (including, but not limited to, the cost of disposing of the recalled Product) resulting from, or related to, in whole or in part: (a) a failure of any Product to conform to the Product Profiles (including, without limitation, the Products being adulterated or misbranded) or any warranty, covenant or representation made by Callebaut herein, or other requirement set forth in this Agreement (except where the Recall is due solely to the Product Profile established by Hershey or Hershey Raw Materials supplied by Hershey); (b) the failure by Callebaut to comply with any applicable Laws, or (c) the negligent or intentional act or omission of Callebaut in connection with the production of the Products hereunder.

3.10.10. [**] of any incident that occurs in a Facility with respect to [**], processes, Materials, or other [**] that may impact the food safety or quality of any products including, but not limited to, the Products. Callebaut must notify the Relationship Manager [**] of the occurrence of such incident.

3.11. Delivery, Title Transfer, Risk of Loss and Insurance

3.11.1. [**] will coordinate all deliveries of the Products. For Products shipped via common carriers, [**] will provide a list of approved common carriers and wash stations to be used for shipment of the Products. All common carrier shipments will be full truckload or container quantities unless pre-approved by [**] in writing. [**] will be responsible for paying all shipping costs associated with the transportation of the Products and all Products will be shipped FCA at the applicable Facility (Incoterms 2020) [**] on the carrier at each Facility, unless otherwise expressly set forth in the applicable Facility Addendum.

3.11.2. For each load in which the Products are shipped, Callebaut must provide a Bill of Lading (“**BOL**”) indicating the Order number, description, quantity, Certificate of Analysis, and other identifying information corresponding to the information in the applicable Order or reasonably necessary to facilitate delivery in accordance with the Order. The BOL must be easily accessible. [**] must complete a [**] in [**] as proof-of-delivery issued to [**] for each shipment of Products. All shipping documents must reference the applicable Order number.

3.11.3. Title to Products will be and remain with [**] from the date such Products are delivered by [**] either directly to [**] or to the carrier for transportation to [**] designee. [**] will bear the risk of loss to Products (either while in storage or in process at the Facilities or any storage facility utilized by [**] with [**] consent) until such Products are delivered as specified in the applicable Facility Addendum.

3.11.4. Callebaut shall carry and maintain Insurance coverage as defined in **Exhibit E**. The limits specified in **Exhibit E** are based upon factors existing at the commencement of this Agreement. [**]. Hershey shall be named as an additional insured on the general commercial liability and automobile liability policies. Callebaut shall pay all premiums when due and within such period of time as is necessary to keep such insurance in full force and effect. Current certificates of insurance shall be provided to Hershey to evidence the coverage required by this Section 3.11.4. Callebaut shall provide [**] advance written notice of any cancellation or material change to the relevant policy.

3.12. Hershey Equipment

3.12.1. All equipment, including without limitation, all tooling, cutting dies, films, plates, cylinders, jigs, fixtures, molds, patterns, templates, masters, gauges and similar items, used by Callebaut in its performance of this Agreement and fully paid by Hershey, as well as the equipment supplied or financed by Hershey listed on a Facility Addendum (as may be amended from time to time) (collectively, the “**Hershey Equipment**”) is, and will remain at all times, the sole personal property of Hershey. Hershey will retain title to and ownership of the Hershey Equipment at all times, including while it is in the Callebaut’s Facility. Callebaut will hold the Hershey Equipment on a bailment basis and will be responsible for loss or damage to the Hershey

Equipment resulting from Callebaut's negligence or willful misconduct. Callebaut will not remove the Hershey Equipment from the Facilities without Hershey's prior written approval. All replacement parts, additions, improvements, and accessories to the Hershey Equipment will become part of the Hershey Equipment and the Parties' respective responsibility for the maintenance and repair costs will be set forth in the applicable Facility Addendum. Callebaut will provide Hershey with a list and condition of all Hershey Equipment in its possession upon request. Callebaut's continuing obligations with respect to Hershey Equipment are set forth in the Facility Addendum for the Facility in which such Hershey Equipment is located.

3.12.2. All Hershey Equipment will be maintained and repaired in accordance with the manufacturer's instructions and will be kept in good working condition and in compliance with the Quality Expectations and all applicable Laws. Any additional requirements applicable to equipment located at a specific Facility will be described in the applicable Facility Addendum.

3.12.3. Not later than [**] after Hershey's request upon the expiration or termination of this Agreement or a Facility Addendum for any reason, [**], Callebaut will release [**] to Hershey or Hershey's carrier any requested Hershey Equipment located in all Facilities (with respect to expiration or termination of the Agreement) or the applicable Facility (with respect to termination of a Facility Addendum) [**], as applicable. If Callebaut does not release [**] the Hershey Equipment in accordance with this Section 3.12.3, then Hershey may, [**].

3.12.4. Callebaut hereby authorizes Hershey and its agents, on Hershey's behalf and as its attorneys-in-fact, to prepare, execute on Callebaut's behalf, if necessary, and file such Uniform Commercial Code financing statements and amendments thereto and similar documents as Hershey deems necessary to evidence or protect Hershey's ownership interests in the Hershey Equipment. Callebaut expressly waives the benefit of any Laws that would otherwise entitle it to assert a lien over the Hershey Equipment, and Callebaut will keep the Hershey Equipment free of all security interests, claims, demands, liens, and any other encumbrances.

3.12.5. Callebaut will not be permitted to utilize the Hershey Equipment in connection with the manufacturing or production of any non-Hershey products [**].

3.13. Facility Leases

Where Hershey owns the premises and/or real property at which a Facility is located, Hershey will lease the premises and/or real property to Callebaut in accordance with the lease terms set forth in the Lease, as amended, attached to the applicable Facility Addendum. The modified lease terms will be memorialized in the Facility Addendum and in each Lease. The term of the Lease for a Facility premises is co-terminus with this Agreement and will be extended upon renewal of this Agreement or terminate concurrently with the expiration or termination of this Agreement or termination of the Facility Addendum for the leased Facility premises, in each case without further notice or action from either Party (except where notice or action is required by applicable Laws). With respect to such Leases, only the parties to such Leases are bound by the obligations contained therein (i.e., an Affiliate of Hershey and/or Callebaut) and no obligation, right or liability is conferred upon a Party to this Agreement that is not a party to the Monterrey Lease or Robinson Lease.

3.14.1 Records, Audits and Inspections

3.14.1. Callebaut shall keep complete and accurate records with respect to the production of the Products in compliance with the respective Product Profiles, including without limitation: (a) Callebaut's manufacturing process, quality assurance measures, and all other procedures utilized in the production process, including information specific to Production Lot numbers, analysis, testing, shipments, certifications, and validations; (b) all payments under this Agreement and all Orders, including those from and/or to any Hershey Raw Materials suppliers, Subcontractor, or other non-party; and (c) traceability records sufficient to identify a Subcontractor or Materials supplier's name and lot codes used to produce the Products (collectively "**Records**"). Callebaut shall allow Hershey or its designees reasonable access to these Records insofar as they relate to the Products, potential product recalls, potential product claims and government inquiries. These Records will be maintained for a period of not less than [**].

3.14.2. During the Term and for a period of [**] thereafter, upon Hershey's request and with reasonable advance notice, Callebaut shall make all Records available for inspection or copying to Hershey or its auditors (including without limitation any third-party auditor designated by Hershey or its customers, subject to such auditor's agreement to be bound by reasonable confidentiality obligations with respect to such Records) and will cooperate in good faith in any such audit. In addition, Callebaut shall also require its Subcontractors and suppliers to allow Hershey or its designee to audit and inspect each such Subcontractor's and supplier's records with respect to the performance of any part of the Services or supply of the Materials. All audits will be conducted in a manner that does not unreasonably disrupt or delay Callebaut's performance of services for its customers. If any audit or inspection reveals an error or irregularity in the amounts paid to Callebaut hereunder, an appropriate adjustment will be made within [**] after the conclusion of the audit or inspection by either Callebaut or Hershey, as applicable, as directed by Hershey. Hershey will bear the costs of such audit or inspection, unless such audit or inspection is conducted subsequent to Callebaut's default or overcharge, in which case Callebaut shall pay for all audit or inspection costs incurred by Hershey. In either event, Callebaut shall pay all expenses incurred by Callebaut in supporting the audit and inspection.

3.14.3. Hershey shall have the right (but not the obligation) to inspect, or cause its designee to inspect, any facility, materials, system, or equipment used by Callebaut in manufacturing, packaging, labeling, handling, shipping, or storing the Products, or in performing any other service under this Agreement. Hershey will provide Callebaut with at least [**] prior notice of any such inspection and Hershey will conduct such inspection in a manner as to not unreasonably disrupt Callebaut's business. Hershey will [**] of such inspections. Any inspection by Hershey or its designee will not, and does not, relieve Callebaut from its obligations under this Agreement.

3.14.4. Callebaut shall notify Hershey in writing promptly upon any inspections, audits, actions, or correspondence (where such correspondence notes a material discrepancy) by a Governmental or Regulatory Authority or any third-party food safety auditor that (a) relates to the manufacture, packaging, labeling, storage, or shipping of Products or Materials, or (b) could likely result in a material disruption of the supply of the Products. [**]. Callebaut will be responsible for the costs of any third-party food safety audits, including audits conducted to meet requirements of the Act and any implementing regulations. Callebaut also will be responsible for any and all

costs, including fines, penalties, and corrective actions, that are incurred as the result of a Governmental or Regulatory Authority inspection or food safety audit.

3.15. Hershey Vendor Portal

In connection with Callebaut's performance of the Services and supply of the Products under this Agreement, Hershey will provide Callebaut with access credentials for the Hershey Vendor Portal for the agreed upon number of Callebaut personnel to be used only as expressly authorized by Hershey under this Agreement and in the terms of service made available by Hershey through the Hershey Vendor Portal. Access credentials are assigned to a specific individual and may not be shared. Callebaut acknowledges and agrees that such access credentials and all information contained in the Hershey Vendor Portal constitutes Hershey's Confidential Information and includes Hershey Trade Secret Information. Callebaut shall ensure that all personnel to which access credentials are provided will be bound by confidentiality obligations that are at least as stringent as the confidentiality obligations set forth in this Agreement. In addition, Callebaut will at all times during the Term, comply with Hershey's "Data Security Addendum," attached to this Agreement as Exhibit K and incorporated by reference herein.

4. STEERING COMMITTEE

A steering committee comprised of [**] designated by each Party (the "**Steering Committee**") has been established to assess performance and address issues arising under this Agreement. Each Party shall assign Representatives from their management teams to guide the relationship between the Parties, ensure compliance with this Agreement, resolve issues and disputes (provided, nothing in this Section 4 will limit a Party's right to resolve a dispute in accordance with Section 20), measure and assess performance, and evaluate proposals from either side. At least [**] of each Party shall participate on the Steering Committee. The respective individuals from each Party responsible for [**] to attend Steering Committee meetings. The Steering Committee will meet no less frequently than [**].

5. STANDARDS FOR PERFORMANCE

5.1. Each Party must designate one of its [**] employees to be responsible for managing the relationship between Callebaut and Hershey relating to this Agreement (such person, the "**Relationship Manager**"). Each Party will designate its Relationship Manager in writing to the other Party within [**] following the Effective Date and will notify the other Party in writing at least [**] in advance of any change in the Relationship Manager. The Relationship Manager shall have authority to [**]. At least [**], the Relationship Managers for each Party must confer to discuss each Party's respective performance hereunder and any other issues associated herewith as may be raised by the Relationship Managers. Such meetings may be conducted in person or by telephone or video conference, as agreed upon by the Parties and at a time mutually acceptable to the Parties. [**].

5.2. The Parties [**] performance metrics (the "**KPIs**") by which performance under this Agreement is evaluated, as further described in **Exhibit H**, attached to this Agreement and incorporated by reference herein. [**] will review their [**] performance on such KPIs on a

scorecard (the “**Performance Scorecard**”) at each joint [**] meeting (the “**Core Management [**] Team Meeting**”) and the [**] implement corrective actions to address any failed KPIs.

5.3. Prior to each Steering Committee meeting, [**] will complete [**] Performance Scorecard [**] for the period since last review by the Steering Committee. Performance Scorecard reports will be reviewed at each Steering Committee meeting. The Performance Scorecards are intended to be actionable reports to identify opportunities [**] in quality and service and actions to address deficiencies noted on the Performance Scorecard, [**] will provide corrective action plans and results [**] with the severity of the issue.

6. NON-COMPETE AGREEMENT

The parties agree to the Non-Compete provisions set forth in **Exhibit G**.

7. NON-SOLICITATION

Except as expressly permitted in this Agreement, including any Facility Addendum, during the Term the Parties agree not to solicit for employment the executive, management and technical personnel having working knowledge of the matters contemplated by this Agreement and the relationship of the Parties hereunder. The Parties further agree that public advertisements or postings of job openings in the ordinary course of a Party’s business are not considered solicitation hereunder.

8. CONFIDENTIALITY

8.1. “Confidential Information” shall mean Proprietary Information and Trade Secret Information and includes without limitation all information accessible via the Hershey Vendor Portal. With respect to information disclosed by Hershey to Callebaut, Confidential Information will mean all non-public information and include without limitation all information Callebaut may receive and has received since [**] from Hershey regarding the processing, production, marketing, distribution, selling and strategic plans, and quantities of the Products and the recipes for the Products that Hershey requests Callebaut to manufacture, process, package and deliver and any insights, costing/financial information, productivity, research/developmental activities, location of manufacturing or Hershey manufacturing processes used in the production of the Products. With respect to information disclosed by Callebaut to Hershey, Confidential Information will mean all non-public information and include without limitation all information Hershey may receive and has received since [**] from Callebaut concerning Callebaut’s facilities, financial and production capabilities, processing, production, marketing, distribution, selling and strategic plans of Callebaut Products and recipes, ingredients, suppliers, product specifications, production output, sales volumes, costing/financial information, productivity and research/developmental activities.

8.2. “Proprietary Information” shall mean that information of a Party that is not otherwise Trade Secret Information but that such Party treats as confidential, including, with respect to the Disclosing Party, all confidential or proprietary information pertaining to, owned or controlled by such Party or its Affiliates which is disclosed or otherwise provided to or obtained or discovered by the other Party or any of its Representatives under or in connection with this Agreement, regardless of whether disclosed directly or indirectly, orally, in writing or by access to or inspection of equipment, ingredients, materials, products, processes, ideas or other

information of or used by the Disclosing Party without regard to whether the information is marked as “confidential.” Confidential Information of Hershey includes, without limitation, all information pertaining to the Quality Specifications and the Products. Confidential Information of Callebaut includes Callebaut’s processes and methods related to production and operation of each Facility. Confidential Information with respect to either Party includes all other information comprising or pertaining to operations, samples, recipes, products, specifications, services, methods, know-how, trade secrets, formulas, techniques, strategies, inventions (whether or not patentable), ideas, models, prototypes, business prospects and partners, marketing plans and strategies, business operations, financial data, customer and vendor relationships, personnel information, pricing or pricing methods, assets, systems and Intellectual Property.

8.3. “Trade Secret Information” shall mean that information of a Party which that Party considers to be confidential and proprietary in nature which relates to the product and ingredient formulas and production processes which are critical to the ongoing and future business of such Party, the unauthorized disclosure or use of which could result in materially adverse technical and/or commercial results to that Party whether disclosed in writing, orally or by observation (including without limitation by e-mail or other electronic communication).

8.4. Any Confidential Information disclosed or otherwise disseminated from one Party (hereafter, the “**Disclosing Party**”) to the other Party (hereafter, the “**Receiving Party**”) whether such information is conveyed orally or in written form (including without limitation by e-mail or other electronic communication) or by observation or in any other manner, shall be treated and regarded as confidential and proprietary information, which is the exclusive and sole property of the Disclosing Party in accordance with the following provisions:

8.4.1. All Trade Secret Information disclosed or otherwise provided to a Receiving Party hereunder after the date of this Agreement shall either (i) be disclosed in writing (including electronic documents) bearing a legend or other statement that the disclosed information is classified as “Confidential” by the Disclosing Party; or (ii) with respect to information provided orally or by providing access to restricted areas for observation purposes, subsequently identified as “Confidential” by the Disclosing Party in a written document and provided to the Receiving Party within [**] of disclosure. All product and ingredient formulas and production processes of one Party received by the other Party relating to the Products shall be deemed Trade Secrets unless otherwise explicitly specified by the Disclosing Party at the time of the disclosure. Proprietary Information may also bear a legend or other statement classifying the information as “CONFIDENTIAL” but such designation will not cause such Proprietary Information to be treated as Trade Secret Information.

8.4.2. If the Receiving Party disagrees with the identification of a Trade Secret set forth in any Disclosing Party documentation, it shall raise such issue with the Relationship Manager of the Disclosing Party and the Relationship Managers shall revise the identification as may be necessary to satisfy both the Disclosing Party and the Receiving Party consistent with the collaborative spirit of this Agreement.

8.4.3. A Receiving Party shall keep all Confidential Information received from a Disclosing Party strictly confidential and secret and shall not divulge, communicate or transmit such Confidential Information to any other Persons. A Receiving Party shall permit disclosure of

such Confidential Information only to such of its directors, officers, employees, contractors (other than competitors of the Disclosing Party), and advisors who need such information for the purpose of implementing this Agreement and the agreements which are exhibits hereto, provided that such Persons are subject to confidentiality and use restrictions equivalent to those contained herein. If a Receiving Party desires to share Confidential Information with a Person outside of the scope of this Agreement, it shall first obtain the consent of the Disclosing Party. A Receiving Party shall use at least such efforts to maintain the confidentiality of such Confidential Information as it uses to protect the confidentiality of its own Confidential Information, but in no event shall a Receiving Party use less than Commercially Reasonable Efforts to maintain such confidentiality.

8.4.4. A Receiving Party shall not utilize Trade Secret Information it has received from a Disclosing Party in any manner, except for the limited purposes authorized in this Agreement or the agreements which are Exhibits hereto. Proprietary Information may be freely used but not disclosed except as otherwise permitted hereunder by the Parties.

8.4.5. These obligations of confidentiality and restrictions on use of Confidential Information shall survive the termination or expiration of this Agreement for a period of [**], except for Trade Secret Information which shall remain subject to obligations of confidentiality and restrictions on use indefinitely. Upon the later of (a) the termination or expiration of this Agreement and (b) the termination or expiration of a Receiving Party's authorization to use specific Confidential Information, the Receiving Party shall return all documents and other materials containing Confidential Information that were disclosed by the Disclosing Party to the Disclosing Party together with all copies and other embodiments thereof or otherwise dispose of such documents and materials (provided that each Receiving Party (i) may retain one copy of the Confidential Information for archival purposes, and (ii) will not be required to destroy any electronic copy of Confidential Information which is retained pursuant to such Receiving Party's standard electronic backup and archival procedures if (A) personnel whose functions are not primarily information technology in nature do not have access to such retained copies and (B) personnel whose functions are primarily information technology in nature have access to such copies only as reasonably necessary for the performance of their information technology duties (e.g., for purposes of system recovery)) in accordance with the Disclosing Party's written direction. In the event of inadvertent disclosure of Trade Secret Information, the Disclosing Party shall have the right and obligation to promptly request return of such Trade Secret Information and the Receiving Party shall use reasonable efforts to promptly collect and return all such Trade Secret Information.

8.4.6. Confidential Information does not include information that: (a) at the time of disclosure to the Receiving Party, is public; (b) after disclosure to the Receiving Party, becomes public, through no fault of Receiving Party; or (c) the Receiving Party can prove was in its possession at the time of the disclosure to it, and had not been acquired, directly or indirectly, from the Disclosing Party. The Receiving Party must prove the existence of any of the foregoing exceptions. Personal identifiable information remains Confidential Information, even if it qualifies as one of these exceptions. If the Receiving Party is required by law to disclose any Confidential Information, it agrees to provide the Disclosing Party with notice (but only to the extent legally permissible) of the request(s) at least [**] prior to disclosure of any Confidential Information.

8.4.7. The Receiving Party will notify the Disclosing Party immediately if it discovers any inadvertent disclosure or unauthorized use of the Disclosing Party's Confidential Information and will promptly take reasonable steps to prevent any further disclosure or unauthorized use. In the event of a breach or threatened breach of the provisions of this Section 8, the non-breaching Party shall be entitled to seek and be granted (without posting a bond) specific performance or injunctive relief from any court of competent jurisdiction restraining the breaching Party from disclosing, in whole or in part, any of the above-referenced information or from rendering any service to any person, firm, corporation, association, or other entity to whom such information has been disclosed or is threatened to be disclosed. Nothing in this Section 8.4.7 shall be construed as prohibiting the non-breaching Party from pursuing any other remedies available at law or in equity for such breach or threatened breach, including the recovery of damages.

8.4.8. Except as otherwise mutually agreed by the Parties in connection with the performance of their respective obligations under this Agreement, neither Party will analyze or reverse engineer any of the other Party's products, samples, ingredients, production processes, or (with respect to Hershey) the Quality Specifications that are not available in the marketplace. The obligations in the preceding sentence will survive the expiration or termination of the Agreement and continue in perpetuity. Callebaut acknowledges and agrees that the obligations of this Section 8.4.8 include without limitation Confidential Information disclosed by Hershey pursuant to the Mutual Non-Disclosure Agreement dated [**] and the formulas and non-public processes disclosed by Hershey in connection with Callebaut's production of Products, all of which constitute Hershey's Trade Secret Information.

9. TERM

9.1. The Agreement will commence on the Effective Date and will expire on December 31, 2027 (respectively the "**Term**" and the "**Expiration Date**"), unless terminated sooner in accordance with Section 10. The Term shall be deemed to include any Transition Period, and the Transition Services will be subject to the terms and conditions of this Agreement.

9.2. If the Parties desire to extend the Term, then at least [**] prior to the expiration of the Term, the Parties will engage in good faith negotiations for up to [**] regarding extension of the Term and the terms applicable to such extended Term. If, prior to the start of the [**] period either Party does not intend to renew this Agreement, or if the Parties fail to agree to the terms applicable to an extension of the Term, either Party or both Parties will provide notice of intent not to renew and for the remainder of the Term, the Parties will perform the Transition Services described in this Agreement and the Facility Addenda.

10. TERMINATION

10.1. In addition to the termination rights related to a Force Majeure event set forth in Section 3.3.3, either Party shall be entitled to terminate this Agreement at any time upon the occurrence of any of the following:

- (a) if the other Party files a voluntary petition in bankruptcy, is declared bankrupt, makes an assignment for the benefit of creditors or suffers the appointment of a receiver or a trustee of its assets that is not dismissed within [**], or

- (b) if the other Party breaches any of the following terms of the Agreement and such breach is not cured within [**] following delivery of notice of default in accordance with Section 17 from the non-breaching Party, if curable:
- i. Material breach by the other Party of any representation and warranty, including the representations and warranties contained in Sections 12.3 and 12.4;
 - ii. Material violation by the other Party of any applicable Laws;
 - iii. Material failure of the other Party or its Subcontractors to comply with its own Code of Conduct; and
 - iv. Material breach of any other term of the Agreement not described in Sections 10.1(b)(i)-(iii).

10.2. In addition, Hershey shall be entitled to terminate this Agreement at any time upon the occurrence of any of the following:

- (a) a breach by Callebaut of the conditions of the Non-Compete Agreement attached to this Agreement as **Exhibit G**;
- (b) Callebaut's failure to address [**] and failure to cure within [**] following delivery of notice of default in accordance with Section 17;
- (c) the disposition by Callebaut, in whole or in part, of its business (other than to its one or more of Affiliates) and such disposal materially and adversely affects the ability of Callebaut to duly perform under this Agreement or any Exhibit hereto;
- (d) a direct or indirect change of control in the legal or beneficial ownership of Callebaut and such change of control is in favor of:
 - (i) [**];
 - (ii) [**]; or
 - (iii) [**].

10.3. Termination of this Agreement will automatically and without further notice from the terminating Party terminate all Orders issued by Hershey prior to the date of such termination and the obligations of the Parties under the Exhibits hereto (except for each Party's obligations with respect to the Transition Services as set forth in Section 10.4.2), including without limitation the termination of all Facility Addenda, except for those covenants and obligations that expressly or by their nature survive expiration or termination of this Agreement or such Exhibits.

10.4. Upon the expiration or termination of this Agreement (the "**Termination Date**"):

10.4.1. Hershey will:

- (a) pay Callebaut for (i) the Products ordered and delivered prior to the Termination Date, provided that such Products have been accepted by Hershey or are accepted by Hershey within a reasonable time after the Termination Date; (ii) all costs in respect of Materials and Excess Inventory as specified in Section 3.2.6; (iii) the price of Materials [**]; and (iv) and costs and expenses for Transition Services as such costs and expenses are incurred throughout the Transition Period in accordance with **Exhibit I** and the payment terms of this Agreement;
- (b) purchase from Callebaut all of Callebaut's then-existing inventory of Products that were produced pursuant to the then-current Forecasted Production Plan, including [**] but excluding any Nonconforming Products; and
- (c) [**].

10.4.2. Callebaut will:

- (a) provide the Transition Services set forth in **Exhibit I** throughout the Transition Period, including the continued fulfillment of Orders as requested by Hershey; and
- (b) deliver to Hershey any Hershey Equipment set forth on any Facility Addendum and any Materials and Products purchased by Hershey in accordance with Section 10.4.1(a)(ii) and Section 10.4.1(b) above.

11. INDEPENDENT CONTRACTORS

Nothing in this Agreement or any Exhibit hereto is intended or shall be deemed to constitute a partnership, agency, employer/employee or joint venture relationship between the Parties. Neither Party shall be deemed to be or to have been acting on the behalf of the other Party by reason of any action under this Agreement. All activities by the Parties under this Agreement be performed by them as independent contractors. Neither Party shall incur any debt or make any commitment for or on behalf of the other Party, except to the extent specifically required under this Agreement.

12. REPRESENTATIONS AND WARRANTIES

12.1. Callebaut's Representations. Callebaut hereby represents and warrants to Hershey that, during the Term of this Agreement:

12.1.1. Callebaut has full power to execute and perform its obligations under this Agreement, to perform the covenants and transactions contemplated hereby, and, without limitation, to grant Hershey the rights described in this Agreement and the Exhibits attached hereto;

12.1.2. Callebaut is not a party to, nor will it become a party to during the Term, any agreement which restricts or otherwise is in conflict with the terms of this Agreement;

12.1.3. all corporate action on the part of Callebaut, its officers and directors necessary for the authorization, execution and delivery of this Agreement and the performance of all obligations of Callebaut hereunder have been taken;

12.1.4. this Agreement constitutes a valid and legally binding obligation of Callebaut enforceable in accordance with its terms;

12.1.5. Callebaut will implement and maintain a supply chain security program that complies with the standards established by the Customs-Trade Partnership Against Terrorism (C TPAT) program of the United States Customs and Border Protection Agency.

12.1.6. Callebaut shall obtain and maintain, at its sole expense, all permits, licenses, registrations, certificates, approvals, and other authorizations from any Governmental or Regulatory Authority that are necessary for Callebaut to manufacture the Products and perform under this Agreement, including without limitation all required Facility registrations, certifications, permits and licenses, as further described in Section 3.10.6. and the Facility Addenda; and

12.1.7. Callebaut shall remain in compliance with all applicable Laws throughout the Term of this Agreement.

12.2. Hershey's Representations. Hershey hereby represents and warrants to Callebaut that, during the Term of this Agreement:

12.2.1. Hershey has full power to execute and perform its obligations under this Agreement and to perform the covenants and transactions contemplated hereby;

12.2.2. Hershey is not a party to, nor will it become a party to during the Term, any agreement which restricts or otherwise is in conflict with the terms of this Agreement;

12.2.3. all corporate action on the part of Hershey, its officers and directors, necessary for the authorization, execution and delivery of this Agreement and the performance of all obligations of Hershey hereunder have been taken;

12.2.4. this Agreement constitutes a valid and legally binding obligation of Hershey enforceable in accordance with its terms;

12.2.5. Hershey shall remain in compliance with all applicable Laws throughout the Term of this Agreement.

12.3. Product Warranties. Callebaut further hereby represents, warrants and covenants to Hershey that, during the Term of this Agreement:

12.3.1. All Products, when delivered to Hershey, will not be adulterated or misbranded, or prohibited from distribution and sale within the meaning of applicable Laws in the

United States (the Federal Food, Drug, and Cosmetic Act (the “Act”), Canada (the Food and Drugs Act, the Consumer Packaging and Labelling Act and the Safe Food for Canadians Act) and Mexico (the General Health Law), or within the meaning of any other applicable Laws, including state, provincial, and local food laws and regulations in the jurisdictions in which the Products are packaged or intended to be sold and shall not be articles which may not, under the provisions of Section 404 or 505 of the Act, be introduced into interstate commerce. Callebaut further warrants that its processing of the Products hereunder shall be in accordance with the Food Safety Modernization Act (FSMA), including applicable Hazard Analysis and Risk-Based Preventative Controls (HARPC) and current Good Manufacturing Practices (cGMPs) regulations promulgated by the United States Food and Drug Administration.

12.3.2. The Products will be fit for human consumption and will be free of defects in materials, workmanship, and design.

12.3.3. Callebaut has registered its Facilities and maintains active registrations as required under all Laws of the jurisdiction in which the Products are to be manufactured, packaged, stored, or sold including, but not limited to, the Act, as amended by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 and the FSMA. Callebaut is required to contact Hershey [**] in the event that any Facility registration is revoked, suspended, or otherwise invalid, and also when any Facility or any Products are affected by security violations, theft, or other incidents that may impair Product integrity.

12.3.4. The Products and Callebaut Raw Materials will: (a) be manufactured in accordance, and will conform in all respects, with all applicable Laws; (b) conform in all respects with the Quality Specifications, Orders, and the requirements of this Agreement; (c) be of first quality and made of new materials and components including rework as specified in the Product Profiles; and (d) be delivered with good and rightfully transferred title, free and clear of any security interests, liens or other encumbrances.

12.3.5. All information regarding the Products or the Materials provided by or on behalf of Callebaut to Hershey or to any Governmental or Regulatory Authority will be complete and accurate in all respects.

12.3.6. Callebaut will assign to Hershey all applicable warranties extended to Callebaut with respect to all products, or portions thereof, not manufactured by Callebaut; however, Callebaut’s extension of warranties will not relieve Callebaut of its obligation to repair or replace defective products or any other obligations set forth in this Agreement.

12.3.7. All representations and warranties herein will survive the acceptance of and payment for the Products, as well as the termination or expiration of this Agreement. If Hershey discovers that any Product fails to conform to any of the warranties in 12.3.1 through 12.3.2 or any requirement of this Agreement (each such Product, a “**Nonconforming Product(s)**”), then Hershey will give Callebaut written notice of the nonconformity within a [**] after discovery, but in no event shall notice be given [**] of the Products. Callebaut will, at Hershey’s option and at Callebaut’s sole expense, [**]. Callebaut’s obligation under the prior sentence includes reimbursing Hershey for all Losses incurred by Hershey arising from or related to Callebaut supplying Nonconforming Products, [**]. If requested by Hershey, Callebaut must [**] retrieve

the Nonconforming Products at its cost. If, upon Hershey's request, any Nonconforming Product is not [**] as required above, then Hershey may, [**], obtain such Products or similar Products from an alternate manufacturer and [**] under this Agreement or at law). [**].

12.4. Hershey Raw Materials Warranties. With respect to Hershey Raw Materials supplied directly by Hershey pursuant to a purchase order or agreement between Hershey and Callebaut, Hershey hereby represents and warrants to Callebaut that such Hershey Raw Materials, when delivered by Hershey, will be in accordance, and will conform in all respects, with all applicable Laws and the requirements of this Agreement. In addition, Hershey will cooperate in good faith with Callebaut to enforce all product warranties as to the Hershey Raw Materials that Hershey receives under its agreements with its suppliers. All warranties herein will survive the acceptance of and payment for the Hershey Raw Materials, as well as the termination or expiration of this Agreement.

12.5. Disclaimer of Warranties. Except as expressly set forth in this Agreement (whether in this Section or elsewhere in the Agreement or Exhibits), neither Party makes, and each such Party hereby specifically disclaims, any and all representations and warranties express or implied, arising by law or otherwise, arising under or relating to this Agreement or the subject matter of this Agreement.

13. CODE OF CONDUCT

Concurrently with the execution of this Agreement, [**] attached to this Agreement as **Exhibit J** (the "[**]").

14. INDEMNIFICATION

14.1. Callebaut Indemnity.

14.1.1 Callebaut shall defend and indemnify Hershey and its Affiliates, and their respective officers, directors, employees, agents, successors and permitted assigns (Hershey, its Affiliates and each of the foregoing, a "**Hershey Indemnitee**"), against all third party Claims (including Claims by any Person or any Governmental or Regulatory Authority) brought against any Hershey Indemnitee and all Losses paid to the third party bringing the Claim in each case where the Claim is arising out of, caused by, happening in connection with, or otherwise related to:

(a) Callebaut's (or its Affiliates' or its Subcontractors') and its and their personnel's actions or inactions under or relating to this Agreement (including Callebaut's, its Affiliates' or its Subcontractors' performance of the Services or the manufacture, production, loading, transportation, unloading, storage, handling, packaging, labeling or use of the Materials and/or Products),

(b) Callebaut's (or its Affiliates' or its Subcontractors') and its and their personnel's breach of this Agreement (including any breach of any representation or warranty in this Agreement), including any allegation, claim or assertion that if true would be a breach of this Agreement, or violation of any Law, or

(c) any allegation of infringement, misappropriation or violation of any Intellectual Property rights of any Person with respect to (i) Product Recipes developed by Callebaut or its Affiliates or Subcontractors or (ii) the performance of the Services or the manufacture, production, loading, transportation, unloading, storage, handling, packaging, labeling or use of the [**] and/or any Products.

14.1.2. Notwithstanding the foregoing, Callebaut will not have any defense or indemnity obligations under Section 14.1.1(a) or (b) above when the third party Claim or Losses are caused solely:

(a) by the action or inaction of any Hershey Indemnitee which action or inaction constitutes a breach of this Agreement by a Hershey Indemnitee;

(b) by Callebaut's reliance on and adherence to the Quality Specifications or written directions provided by Hershey; or

(c) by the use of Hershey Raw Materials which were defective at the time of delivery to Callebaut, and provided such defect was not (a) known by Callebaut, its Affiliates or its Subcontractors prior to use of the Hershey Raw Materials, or (b) should have been discoverable by Callebaut, its Affiliates, or its Subcontractors prior to use based on inspection, testing, sampling and validation as required under Section 3.9.6 of this Agreement.

14.1.3. Callebaut further acknowledges that Hershey has an interest in resolving customer and consumer Claims and/or Losses quickly and in a manner that minimizes the negative impact of the experience to the consumer. Callebaut further acknowledges that packages of Product produced by Callebaut may have a toll-free number for customers and consumers to call in order to make comments about Products. Callebaut hereby agrees that Hershey may, without advance notice to Callebaut, handle customer Claims or Losses regarding the Products or the Materials, provided such Claims or Losses can be settled for less than \$[**] per individual. In the event the Claim or Loss is a result of actions or inactions of Callebaut for which it would be responsible to indemnify Hershey under this Agreement, Callebaut agrees to reimburse Hershey for the Losses and costs of settling these Claims, notwithstanding the fact that it may not have been notified of such Claim or Loss prior to settlement. Settlements for amounts greater than \$[**] will be reviewed with Callebaut prior to settlement in order to obtain Callebaut's approval. Hershey agrees to notify Callebaut of all claims as soon as possible.

14.1.4. Hershey shall have the right, but not the duty, to participate, at its own cost, in the defense of any relevant Claim (including litigation) with attorneys of Hershey's selection.

14.2. Hershey Indemnity.

14.2.1. Hershey shall defend and indemnify Callebaut and its Affiliates, and their respective officers, directors, employees, agents, successors and permitted assigns (Callebaut, its Affiliates and each of the foregoing a "**Callebaut Indemnitee**"), against all third party Claims brought against any Callebaut Indemnitee and all Losses paid to the third party bringing the Claim in each case where the Claim is solely arising out of, caused by, happening in connection with, or otherwise related to:

(a) Hershey's (or its Affiliates') and its and their personnel's actions or inactions under or relating to this Agreement;

(b) Callebaut's reliance on and adherence to the Product Profiles or written directions provided by Hershey (or its Affiliates), including any allegation that the Product Profiles infringe, misappropriate or violate any Intellectual Property rights of any Person;

(c) the use of [**] Raw Materials which were defective at the time of delivery to [**] and provided such defect was not (i) known by Callebaut, its Affiliates or its Subcontractors prior to use of the Hershey Raw Materials, or (ii) should have been discoverable by Callebaut, its Affiliates, or its Subcontractors prior to use based on inspection, testing, sampling and validation as required under Section 3.9.6 of this Agreement; or

(d) any breach by Hershey or any Affiliate of Hershey of the terms of this Agreement.

14.2.2. Callebaut shall have the right, but not the duty, to participate, at its own cost, in the defense of any Claim (including litigation) with attorneys of Callebaut's selection.

14.3. Indemnification Procedures.

14.3.1. Within a reasonable time after a Callebaut Indemnitee or Hershey Indemnitee, as the case may be (the "**Indemnified Party**") receives written notice of an actual or potential Claim for which a Party (the "**Indemnifying Party**") has defense and indemnity obligations, the Indemnified Party must notify the Indemnifying Party of the Claim; provided, however, the failure of the Indemnified Party to provide notice of the Claim shall not relieve the Indemnifying Party of its obligations under this Section 14 (Indemnification), except to the extent that such failure materially prejudices the Indemnifying Party's defense of the Claim. The Indemnified Party will, at the Indemnifying Party's cost and expense, provide all reasonable assistance requested by the Indemnifying Party in connection with the defense and settlement of the Claim. The Indemnified Party will provide to the Indemnifying Party all documents related to the Claim (other than documents subject to the attorney client privilege). Neither the Indemnified Party nor the Indemnifying Party will settle any Claim for which the Indemnifying Party has assumed the defense thereof without the prior written consent of the other Party, such consent not to be unreasonably withheld, conditioned or delayed.

14.3.2. Callebaut's and Hershey's defense and indemnification obligations in this **Section 14 (Indemnification)** shall survive the termination or expiration of this Agreement.

14.4. Consequential Damages.

14.4.1. Anything contained in this Agreement to the contrary notwithstanding, except in connection with (a) the award of such damages to a third party for which a Party must indemnify the other Party and/or its Affiliates, and their respective officers, directors, employees, agents, successors and permitted assigns under this Section 14 or (b) Callebaut's breach of the non-compete agreement included as **Exhibit G** of this Agreement, neither Party hereto shall have any liability under any provision of this Agreement (whether pursuant to this Section 14 or pursuant to any cause of action or complaint initiated by or on behalf of any Party) for any punitive,

consequential, indirect or special damages, loss of business reputation, or lost future profits, regardless of whether the relevant claim is based on warranty, contract, tort (including negligence or strict liability) or otherwise. Each Party hereto agrees to take all reasonable action to mitigate any Losses it may suffer or incur upon and after becoming aware of any event which could reasonably be expected to give rise to any Losses.

15. NON-EXCLUSIVITY

The relationship between the Parties is non-exclusive. This Agreement does not give Callebaut the exclusive right to manufacture the Products or perform any other service set forth herein. [**], Hershey has the right to manufacture its own Products or perform any other service set forth in this Agreement or to retain companies other than Callebaut to manufacture products and perform services that are the same or similar to the Products and Services supplied and performed by Callebaut under this Agreement.

16. INTELLECTUAL PROPERTY RIGHTS

16.1. Each Party and its Affiliates are and will continue to be the owner of all rights, title and interests in and to all Intellectual Property owned by such Party and its Affiliates as of the date of this Agreement.

16.2. All rights in and to all Intellectual Property made, created, developed or conceived by or for Hershey and its Affiliates [**], including: (a) [**], (b) the Hershey Raw Materials, Product Profiles (excluding Product Profiles of Callebaut Products sold to Hershey as Products), Product Portfolio Extensions, Quality Specifications, Product Recipes (excluding Product Recipes of Callebaut Products sold to Hershey as Products), Quality Manuals, Hershey Marks, Confidential Information disclosed to Callebaut or its Affiliates or Subcontractors by Hershey or its Affiliates, (c) the name “Hershey”, (e) the names of Hershey’s Affiliates, and (f) all modifications, changes, derivatives, improvements and enhancements to any of the foregoing (collectively, the “**Hershey Intellectual Property**”), are owned solely and exclusively by Hershey and/or its Affiliates.

16.3. For clarity, the Hershey Intellectual Property shall exclude all rights in and to any Intellectual Property made, developed, or owned by Callebaut independent from the provision of Services under this Agreement or services under any other agreement with Hershey, including (y) the manufacturing processes used by Callebaut to [**], and (z) the Intellectual Property rights in Callebaut-developed equipment and manufacturing processes that (i) are used in Callebaut’s business for its customers generally, and/or (ii) were developed or acquired independently of Callebaut’s services for Hershey (collectively, the “**Callebaut Intellectual Property**”).

16.4. Except for the express licenses set forth below in this Section, Callebaut has no right, title, or interest, and shall not claim any right, title, or interest, in or to any Hershey Intellectual Property, and Hershey has no right, title or interest, and shall not claim any right, title or interest, in or to any Callebaut Intellectual Property. Furthermore, neither Party will claim any right to use any other Party’s Intellectual Property, except a limited right to use, if any, granted under this Agreement.

16.5. Callebaut will not (a) sell or distribute or cause to be sold or distributed to anyone other than Hershey or its Affiliates, either directly or indirectly, any Products or any goods that

display, use, practice, exploit or incorporate any Hershey Intellectual Property or (b) use any Hershey Intellectual Property in any way without Hershey's prior written consent. Except for the express licenses set forth below in this Section, neither Party shall be deemed to have granted the other Party a license to, or granted the other Party any rights in, any such Party's Intellectual Property by entering into this Agreement. Callebaut further agrees that it will in no way utilize the Hershey Intellectual Property (including any pictures of the Products) in any advertising or communication regarding Callebaut, unless Callebaut obtains Hershey's prior written consent to such use.

16.6. Hershey hereby grants to Callebaut and its Affiliates, during the Term of this Agreement, a non-exclusive, non-transferrable, non-assignable, limited license, without the right to sublicense, to use the Hershey Intellectual Property internally solely at the Facilities for the sole and exclusive purpose of manufacturing and packaging Products for sale by Callebaut and its Affiliates to Hershey and its Affiliates. Except for the foregoing licenses, no other licenses or rights, express or implied, are granted by Hershey to Callebaut under this Agreement.

16.7. Callebaut agrees to reasonably promptly disclose and describe to Hershey all improvements, modifications, changes, derivatives, and enhancements to any Hershey Intellectual Property, if any, including to the Products, that are or were made, created, developed or conceived by Callebaut, its Affiliates, and its Subcontractors either alone, jointly between/among them, or jointly with Hershey or any of its Affiliates (collectively, "**Hershey IP Improvements**"). All Hershey IP Improvements shall be Hershey Intellectual Property and owned by Hershey. In addition, all feedback, suggestions, and ideas to the extent related to any Hershey Intellectual Property that is communicated to Hershey by Callebaut, its Affiliates and its Subcontractors will be Hershey Intellectual Property, including the results of and output from any reverse engineering of Products or Hershey Raw Materials that is done by Callebaut, its Affiliates and its Subcontractors, either alone, jointly, or jointly with Hershey or any of its Affiliates.

16.8. Callebaut, on behalf of itself and its Affiliates, hereby does and will irrevocably assign to Hershey all of Callebaut's and its Affiliates' right, title and interest in and to any and all Hershey IP Improvements and all associated records. Such assignment to occur at the time the Hershey IP Improvement is first conceived, made, derived, developed, written or created, and regardless of when the Hershey IP Improvement is first conceived, made, derived, developed, written or created. To the extent any of the rights, title and interest in and to Hershey IP Improvements cannot be assigned to Hershey, Callebaut, on behalf of itself and its Affiliates, hereby grants to Hershey an exclusive (even as to Callebaut), royalty-free, transferable, irrevocable, worldwide, fully paid-up license (with rights to sublicense through multiple tiers of sublicensees) to fully use, practice and exploit those non-assignable rights, title and interest, including the right to make, use, sell, offer for sale, import, have made, and have sold, the Hershey IP Improvements. Callebaut represents and warrants to Hershey that Callebaut and its Affiliates have written agreements with their employees and Subcontractors pursuant to which such employees and Subcontractors assign to Callebaut and its Affiliates all Intellectual Property conceived, made, derived, developed, written or created by them for Callebaut or its Affiliates.

16.9. Callebaut agrees, on behalf of itself and its Affiliates and Subcontractors, to perform, during and after the term of this Agreement, all acts that Hershey deems necessary or desirable to permit and assist Hershey, at its expense, in obtaining, perfecting and enforcing the

full benefits, enjoyment, rights and title throughout the world in the Hershey IP Improvements. If Hershey is unable for any reason to secure Callebaut's or its Affiliates' signature to any document required to file, prosecute, register or memorialize the assignment of any rights under any Hershey IP Improvements as provided under this Agreement, Callebaut agrees, on behalf of itself and its Affiliates, and does hereby irrevocably designate and appoint Hershey and Hershey's duly authorized officers and agents as Callebaut's and its Affiliates' agents and attorneys-in-fact to act for and on Callebaut's and its Affiliates' behalf and instead of Callebaut and its Affiliates, to take all lawfully permitted acts to further the filing, prosecution, registration, memorialization of assignment, issuance and enforcement of rights in, to and under the Hershey IP Improvements, all with the same legal force and effect as if executed by Callebaut and its Affiliates. The foregoing is deemed a power coupled with an interest and is irrevocable.

16.10. If Callebaut or its Affiliates incorporate or permit to be incorporated into any Hershey Intellectual Property any Callebaut Intellectual Property, then Callebaut, on behalf of itself and its Affiliates, hereby grants to Hershey a non-exclusive, royalty-free, transferable, perpetual, irrevocable, worldwide, fully paid-up license (with rights to sublicense through multiple tiers of sublicensees) to fully use, practice and exploit the Callebaut Intellectual Property in connection with the development, manufacture and sale of Hershey's or its Affiliates products. Notwithstanding the foregoing, Callebaut agrees that Callebaut and its Affiliates will not incorporate, or permit to be incorporated, any Callebaut Intellectual Property into any Hershey Intellectual Property without Hershey's prior written consent. Callebaut shall disclose information requested by Hershey for any Callebaut Intellectual Property that Callebaut incorporates or permits to be incorporated into any Hershey Intellectual Property in order for Hershey to fully use, practice and exploit the Intellectual Property rights relating to such Callebaut Intellectual Property.

16.11. The [**] executed by the Parties pursuant to the Development Agreement (the "**New Products [**]**"), attached to this Agreement as **Exhibit L**, will continue in development by the Parties and will be subject exclusively to the terms and conditions of this Agreement and the terms and conditions of the [**].

17. NOTICE

Any notice, requests, demands, and other communications required or permitted under this Agreement, shall be in writing and sent to the persons executing this Agreement at the addresses set forth in the first paragraph this Agreement (or to such other persons and addresses as either Party may hereafter specify in writing to the other) with a required copy to:

<p>The Hershey Company 19 East Chocolate Avenue Hershey, PA 17033 U.S.A. Attn: Law Department Email: [**]</p>	<p>Barry Callebaut AG Hardturmstrasse 1818 500 Zurich, Switzerland Attn: President, North America Email: [**]</p> <p>With copy to: Barry Callebaut U.S.A. LLC 600 West Chicago Avenue Suite 860 Chicago, IL 60654 Attn: Law Department Email: [**]</p>
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18. NO WAIVER

The failure of either Party to assert a right under this Agreement or to insist upon compliance with any terms or conditions of this Agreement shall not constitute a waiver of that right or excuse the subsequent performance or nonperformance of any term or condition by the other Party.

19. ASSIGNMENTS

19.1. This Agreement will be assignable to a successor in interest of substantially all of a Party's assets upon written notice to the other Party, subject to Hershey's termination rights set forth in Section 10. In addition, a Party may assign this Agreement to its Affiliate upon written notice to the other Party. Except as set forth above in this paragraph, neither Party may assign this Agreement without the prior written consent of the other Party. Any assignment made without such consent will be null and void and will be a material breach of the Agreement. Consent to any assignment or encumbrance will not constitute a waiver of the provisions of this Section as to any future assignment or encumbrance.

19.2. Callebaut will not subcontract the performance of its obligations hereunder, or permit any other arrangement having similar effect, without the prior written consent of Hershey; provided, Callebaut may subcontract performance of its obligations to its Affiliate upon Hershey's prior written consent. Callebaut is responsible to Hershey for the acts and omissions of any of its Subcontractors and the Subcontractor's employees and Subcontractors. Nothing in this Agreement will create any contractual or agency relationship between any Subcontractor and Hershey. Hershey has no obligation to pay or ensure payments to the Subcontractors.

20. GOVERNING LAW

This Agreement will be governed by New York law, without regard to any conflicts of law provisions. The Parties hereby submit to the exclusive jurisdiction of the Courts of the Southern District of New York and agree that such Courts are the proper venue with respect to any dispute

arising under this Agreement. The 1980 United Nations Convention on Contracts for the International Sale of Goods or any version thereafter will not apply to this Agreement.

21. RIGHTS AND REMEDIES CUMULATIVE

The rights and remedies set forth in this Agreement are cumulative and are in addition to all other rights and remedies that may be available to a Party under this Agreement, at law and in equity.

22. RECEIPT OF DOCUMENTS

Callebaut has received Hershey manuals, policies, guidelines and other documents referred to in this Agreement and Callebaut will perform its obligations hereunder in accordance with them.

23. REVIEW OF AGREEMENT

The Parties represent that they have read carefully and fully understand the terms of this Agreement and all attachments hereto. The Parties acknowledge that they are executing this Agreement voluntarily and knowingly, and that they have not relied on any representations, promises, or agreements of any kind made to them in connection with their decision to accept the terms of this Agreement, other than those set forth in this Agreement.

24. CONSTRUCTION

The Parties to the Agreement have had the opportunity to consult legal counsel regarding the terms hereof, and, therefore, this Agreement will not be construed for or against either Party hereto. The words “Including”, “includes”, and “include” shall mean “including, without limitation”, “includes, without limitation” or “include, without limitation” respectively.

25. ENTIRE AGREEMENT AND HEADINGS

This Agreement, Orders, and all Exhibits attached or explicitly incorporated into this Agreement, contain the entire understanding of the Parties concerning the subject matter hereof and supersede any other agreements or understandings. Notwithstanding the foregoing, this Agreement does not terminate any non-disclosure agreements (NDAs) between the Parties in effect as of the Effective Date unless expressly superseded by the Original Master Agreement (provided, the governing law and dispute resolution terms contained in Section 20 will apply to such NDAs, and in event of a conflict between this Agreement and such NDA with respect to the subject matter hereof, this Agreement shall control). This Agreement, Orders, and Exhibits attached or explicitly incorporated into this Agreement, may only be amended, modified, or supplemented by a written document in accordance with Section 31. All headings utilized herein are inserted for reference only and will have no effect on the meaning of construction of any terms of this Agreement.

26. CONFLICTING TERMS

In the event of a conflict between the terms of this Agreement, any Exhibit hereto and the Hershey Vendor Portal, the following order of precedence will apply: (A) this Agreement; (B) the

Exhibits; (C) Quality Specifications set forth in the Hershey Vendor Portal; and (D) all other terms and conditions contained in the Hershey Vendor Portal applicable to this Agreement.

27. PREPRINTED TERMS; NO COURSE OF DEALING

In no event will any preprinted terms or conditions found on a Party's order forms, confirmation forms, or invoices be considered an amendment or modification of this Agreement, even if such documents are signed by Representatives of both Parties; such preprinted terms or conditions will be considered null and of no effect. No course of dealing, usage of trade, or course of performance will be applicable to this Agreement.

28. BINDING EFFECT

Except for the rights of (a) Hershey's parents, subsidiaries, divisions, affiliates, directors, officers, and assigns as additional insureds set forth in Section 3.11.4 (Insurance), (b) Hershey Indemnitees and Callebaut Indemnitees set forth in Section 14 (Indemnification) and (c) Affiliates of Hershey authorized by Hershey to submit Orders to Callebaut, each of whom may enforce the terms of this Agreement as third party beneficiaries, this Agreement is for the sole benefit of the Parties and their successors and permitted assigns; provided, however, that a Party will have the right to terminate this Agreement in the event there is a change of control or ownership as set forth in Section 10.

29. SEVERABILITY

Any provision of this Agreement that is determined to be invalid, illegal, or unenforceable will, where possible, be severed to the extent necessary to make this Agreement enforceable, unless doing so would materially change the intended effect of this Agreement, and all other parts of this Agreement will remain in place and enforceable.

30. SURVIVAL

Those provisions of this Agreement that either expressly survive or by their nature would require survival in order to give them full force and effect, including without limitation the provisions in Sections 8, 10.4 12, 14, 16, 17-31 will survive the termination or expiration of this Agreement, regardless of the date, cause, or manner of such termination.

31. EXECUTED IN COUNTERPARTS

This Agreement may be signed electronically and in one or more counterparts, each of which shall be an original, with the same effect as if the signatures were upon the same document. A copy of this Agreement executed by a party that is provided to the other party via electronic means shall have the same effect as the original executed copy of the Agreement.

IN WITNESS WHEREOF, each of the Parties hereto has executed this Agreement by its duly authorized Representatives as of the Effective Date.

BARRY CALLEBAUT AG

By /s/ James G. Hagedorn
Name: James G. Hagedorn
Title: Executive Vice President -- Americas

By /s/ Wook Jin Kim
Name: Wook Jin Kim
Title: CFO – Americas

THE HERSHEY COMPANY

By /s/ Jason Reiman
Name: Jason Reiman
Title: SVP, Chief Supply Chain Officer

By /s/ Steven Voskuil
Name: Steven Voskuil
Title: SVP & CFO

INDEX TO EXHIBITS

Exhibit A – Product Categories [**]

Exhibit B – Quality

- B-1 Quality Specifications
- B-2 Review of Compliance with Quality Policies and Standards

Exhibit C – Transfer Prices and Pricing for Ingredients, Packaging, Tolling Fees, Established Yields

- C-1 Base Tolling Fees
- [**]

Exhibit D – Facility Addenda

- D-1 Robinson, Illinois
- D-2 Monterrey, México
- [**]

Exhibit E – Insurance Requirements

Exhibit F – Hershey Competitors

Exhibit G – Non-Compete Agreement

Exhibit H – Key Performance Indicators

Exhibit I – Transition Services

Exhibit J – Code of Conduct [**]

Exhibit K – Data Security Addendum

Exhibit L – New Products [**]

EXHIBIT A

PRODUCT CATEGORIES []**

1. Products Categories

- [**]
- Intermediate and Finished Products

[**].

EXHIBIT C
TRANSFER PRICES AND PRICING FOR INGREDIENTS, PACKAGING, TOLLING FEES, ESTABLISHED YIELDS
[]**

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SUBSIDIARIES OF REGISTRANT

Below is a listing of our major subsidiaries as of December 31, 2022, their jurisdictions of incorporation, and the name under which they do business. Each is wholly owned unless otherwise noted.

Subsidiary Name	Jurisdiction of Incorporation
Hershey Netherlands B.V.	The Netherlands
Hershey Canada, Inc.	Canada
Hershey Mexico S.A. de C.V.	Mexico
Hersmex S. de R.L. de C.V.	Mexico
Servicios de Hersmex S. de R.L. de C.V.	Mexico
Hershey Chocolate of Virginia LLC	Delaware
Hershey Chocolate & Confectionery LLC	Delaware
Hershey International LLC	Delaware
CSH Foods, Inc.	Delaware
The Hershey Sourcing Company	Delaware
The Hershey Sales Company	Delaware
The Hershey Investment Company, LLC	Delaware
The Hershey Licensing Company	Delaware
Ripple Brand Collective, LLC	New York
Amplify Snack Brands, Inc.	Delaware
ONE Brands, LLC	Delaware
Artisan Confections Company, LLC	Delaware
Lily's Sweets, LLC	Pennsylvania
Dot's Pretzels, LLC	Delaware
Pretzels Holdings, LLC	Delaware
Hershey Caribe, Inc.	Puerto Rico
Hershey UK Holding Limited	United Kingdom
Hershey UK Finance Limited	United Kingdom
Hershey Trading GmbH	Switzerland
Hershey India Private Limited	India
Nutrine Confectionery Company Private Limited	India
Hershey (China) Investment Management Co., Ltd.	China
Hershey Chocolate Sales (Shanghai) Co., Ltd.	China
Hershey Japan Co., Ltd.	Japan
Hershey Philippines, Inc.	Philippines
Regional Operating HQ	Philippines
Hershey Asia Pacific Pte. Ltd.	Singapore
Hershey Malaysia Sdn. Bhd.	Malaysia
Hershey (Thailand) Co. Ltd.	Thailand
Hershey do Brasil Ltda.	Brazil



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form S-3 No. 333-256595) pertaining to the prospectus for the sale of Debt Securities of The Hershey Company,
- (2) Registration Statement (Form S-8 No. 333-174123) pertaining to the Equity and Incentive Compensation Plan of The Hershey Company,
- (3) Registration Statement (Form S-8 No. 333-143764) pertaining to the Equity and Incentive Compensation Plan of The Hershey Company,
- (4) Registration Statement (Form S-8 No. 333-107706) pertaining to the Directors' Compensation Plan of Hershey Foods Corporation,
- (5) Registration Statement (Form S-8 No. 333-72100) pertaining to the 2001 Nonqualified Stock Option Agreement of Hershey Foods Corporation,
- (6) Registration Statement (Form S-8 No. 333-72112) pertaining to the Broad-Based Stock Option Plan of Hershey Foods Corporation,
- (7) Registration Statement (Form S-8 No. 333-52509) pertaining to the Key Employee Incentive Plan of Hershey Foods Corporation, and
- (8) Registration Statement (Form S-8 No. 333-25853) pertaining to the Directors' Compensation Plan of Hershey Foods Corporation;

of our reports dated February 17, 2023, with respect to the consolidated financial statements and schedule of The Hershey Company and the effectiveness of internal control over financial reporting of The Hershey Company included in this Annual Report on Form 10-K of The Hershey Company for the year ended December 31, 2022.

/s/ ERNST & YOUNG LLP

Philadelphia, Pennsylvania
February 17, 2023

CERTIFICATION

I, Michele G. Buck, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHELE G. BUCK

Michele G. Buck
Chief Executive Officer
February 17, 2023



CERTIFICATION

I, Steven E. Voskuil, certify that:

1. I have reviewed this Annual Report on Form 10-K of The Hershey Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/S/ STEVEN E. VOSKUIL

Steven E. Voskuil
Chief Financial Officer
February 17, 2023



CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officers of The Hershey Company (the “Company”) hereby certify that the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 17, 2023

/s/ MICHELE G. BUCK

Michele G. Buck
Chief Executive Officer

Date: February 17, 2023

/s/ STEVEN E. VOSKUIL

Steven E. Voskuil
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.

