Brookdale Senior Living Inc.
Form 10-K
March 16, 2007

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, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-32641

BROOKDALE SENIOR LIVING INC.

(Exact name of registrant as specified in its charter)

Delaware	20-3068069
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

330 North Wabash Avenue,
Suite 1400, Chicago,
Illinois 60611

(Address of Principal Executive Offices)

Telephone: (312) 977-3700

(Registrant’s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $0.01 Par Value Per Share	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of common stock held by non-affiliates of the registrant on June 30, 2006, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $488.8 million. The market value calculation was determined using a per share price of $44.74, the price at which the registrant's common stock was last sold on the New York Stock Exchange on such date. For purposes of this calculation, shares held by non-affiliates excludes only those shares beneficially owned by the registrant's executive officers, directors, and stockholders owning 10% or more of the outstanding common stock (and, in each case, their immediate family members and affiliates).

As of March 5, 2007, the number of shares of the registrant's common stock outstanding was 101,306,148.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's Definitive Proxy Statement relating to its 2007 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K.

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FORM 10-K
FOR THE YEAR ENDED DECEMBER 31, 2006

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SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this Annual Report on Form 10-K and other information we provide from time to time may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Those forward-looking statements include all statements that are not historical statements of fact and those regarding our intent, belief or expectations, including, but not limited to, statements relating to our ability to deploy capital, close accretive transactions, close dispositions of underperforming facilities, close acquisitions under letters of intent, close the previously announced acquisition of two facilities located in Ohio and North Carolina, anticipate, manage and address industry trends and their effect on our business, pay and grow dividends, generate growth organically or through acquisitions, achieve operating efficiencies, expand our offering of ancillary services to additional facilities, expand existing facilities, secure financing and increase revenues, earnings, Adjusted EBITDA, Cash From Facility Operations, and/or Facility Operating Income (as such terms are defined herein) and add residents. Words such as ‘‘anticipate(s)’’, ‘‘expect(s)’’, ‘‘intend(s)’’, ‘‘plan(s)’’, ‘‘target(s)’’, ‘‘project(s)’’, ‘‘believe(s)’’, ‘‘will’’, ‘‘would’’, ‘‘seek(s)’’ expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and are subject to a number of risks and uncertainties that could lead to actual results differing materially from those projected, forecasted or expected. Although we believe that the assumptions underlying the forward-looking statements are reasonable, we can give no assurance that our expectations will be attained. Factors that could cause actual results to differ materially from our expectations include, but are not limited to, our ability to integrate the facilities of American Retirement Corporation into our operations; our continued ability to acquire facilities at attractive prices which will generate returns consistent with expectations; the possibility that the facilities that we have recently acquired and will acquire may not generate sufficient additional income to justify their acquisition; possibilities that conditions to closing of certain transactions will not be satisfied; our ability to close on facilities under non-binding letters of intent, which is generally less probable than closing on facilities under definitive agreements; the possibilities that changes in the capital markets, including changes in interest rates and/or credit spreads, or other factors could make financing more expensive or unavailable to us; a decrease in the overall demand for senior housing; general economic conditions and economic conditions in the markets in which we operate; downturns in the real estate markets in the regions where our facilities are located; competitive pressures within the industry and/or markets in which we operate; the creditworthiness of our residents; interest rate fluctuations; licensing risks; our failure to comply with federal, state and local laws and regulations; our failure to comply with environmental laws; the effect of future legislation or regulatory changes on our operations; and other risks detailed from time to time in our filings with the Securities and Exchange Commission, press releases and other communications, including those set forth under ‘‘Risk Factors’’ included elsewhere in this Annual Report on Form 10-K. Such forward-looking statements speak only as of the date of this Annual Report. We expressly disclaim any obligation to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or change in events, conditions or circumstances on which any statement is based.

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PART I

Item 1. BUSINESS

Overview

As of December 31, 2006, we are the largest operator of senior living facilities in the United States based on total capacity, with 546 facilities in 35 states and the ability to serve over 51,000 residents. We offer our residents access to a full continuum of services across all sectors of the senior living industry. As of December 31, 2006, we operated four business segments in which we have 66 independent living facilities with 11,986 units/beds, 408 assisted living facilities with 20,974 units/beds, 48 retirement centers or continuing care retirement communities (CCRCs), with 13,763 units/beds and 24 facilities with 4,548 units/beds where we provide management services for third parties and affiliates. The majority of our units/beds are located in campus settings or facilities containing multiple services, including CCRCs. As of December 31, 2006, our facilities were 91.4% occupied. We generate over 92% of our revenues from private pay customers. In addition, we control all financial and operational decisions regarding our owned and leased facilities. We believe we operate in the most attractive sectors of the senior living industry with significant opportunities to increase our revenues through providing a combination of housing, hospitality services, ancillary services and health care services. For the year ended December 31, 2006, 34.7% of our revenues were generated from owned facilities, 64.9% from leased facilities and 0.4% from management fees from facilities we operate on behalf of third parties and affiliates.

We were formed as a Delaware corporation in June 2005 for the purpose of combining two leading senior living operating companies, Brookdale Living Communities, Inc., or BLC, and Alterra Healthcare Corporation, or Alterra. BLC and Alterra had been operating independently since 1986 and 1981, respectively. Since December 2003, BLC and Alterra were under the common control of Fortress Investment Group (''Fortress'' or ''FIG''). Funds managed by affiliates of Fortress beneficially own 61,007,867 shares, or approximately 60%, of our common stock as of December 31, 2006. On November 22, 2005, we completed our initial public offering of common stock, and on July 25, 2006, we completed a follow-on equity offering in connection with the acquisition of American Retirement Corporation, or ARC, which had been operating independently since 1978. On July 25, 2006, pursuant to a previously executed Investment Agreement, we sold shares of our common stock to RIC Coinvestment Fund LP, which is a fund managed by an affiliate of Fortress. The proceeds from the sale were used to partially fund the acquisition of ARC.

We plan to grow our revenue and operating income through a combination of: (i) organic growth in our existing portfolio; (ii) acquisitions of additional operating companies and facilities; (iii) expansion of our ancillary service programs (including therapy and home health services); (iv) expansion of our existing facilities; and (v) the realization of economies of scale. Given the size and breadth of our nationwide platform, we believe that we are well positioned to invest in a broad spectrum of assets in the senior living industry, including independent living, assisted living, CCRC and skilled nursing assets. From January 2001 through December 31, 2006, we commenced leasing or acquired the ownership or management of 248 senior living facilities (not including those facilities we acquired and subsequently disposed of) with approximately 33,500 units/beds. Since our initial public offering in November 2005, we have purchased or committed to purchase approximately $3.6 billion in senior housing assets representing 222 facilities with approximately 27,500 units/beds.

Our senior living facilities offer residents a supportive ''home-like'' setting, assistance with activities of daily living, or ADLs, and, in several facilities, licensed skilled nursing services. We also provide ancillary services (including therapy services) to our residents. By providing residents with a range of service options as their needs change, we provide greater continuity of care, enabling seniors to ''age-in-place'' and thereby maintain residency with us for a longer period of time. The ability of residents to age-in-place is also beneficial to our residents and their families who are burdened with care decisions for their elderly relatives.

Overbuilding in the late 1990's in the senior living industry put downward pressure on the occupancy rates and the resident fees of certain senior living providers. The slowdown in construction

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and lack of construction financing since 1999 has led to a reduction in the supply of new units being constructed. Growing demand for senior living services has resulted in a recent trend towards increasing occupancy rates and resident fees for operators of existing facilities.

Growing consumer awareness among seniors and their families concerning the types of services provided by independent and assisted living operators has further contributed to the opportunities in the senior living industry.

Also, seniors currently possess greater financial resources than in the past, which makes it more likely that they are able to afford to live in market-rate senior housing. Seniors in the geographic areas in which we operate tend to have a significant amount of assets generated from savings, pensions and, despite recent weakening in national housing markets, equity from the sale of private homes.

Challenges in our industry include increased state and local regulation of the assisted living industry, which has led to an increase in the cost of doing business. The regulatory environment continues to intensify in the number and types of laws and regulations affecting us, accompanied by increased enforcement activity by state and local officials. In addition, like other companies, our financial results may be negatively impacted by increasing employment costs including salaries, wages and benefits, such as health care, for our employees. Increases in the costs of utilities, insurance, and real estate taxes may also have a negative impact on our financial results.

As of January 1, 2006, certain per person annual limits on Medicare reimbursement for therapy services became effective, subject to certain exceptions. If these exceptions are modified or not extended, there may be reductions in our therapy services revenue and the profitability of those services. There continues to be various federal and state legislative and regulatory proposals to implement cost containment measures that would limit payments to healthcare providers in the future. Changes in the reimbursement policies of the Medicare and Medicaid programs could have an adverse effect on our results of operations and cash flow.

For the years ended December 31, 2006, 2005 and 2004 we generated ($ in millions):

	For the Years Ended December 31,		
	2006	2005	2004
Total revenues	$ 1,309.9	$ 790.6	$ 660.9
Net loss(1)	$ (108.1)	$ (51.0)	$ (9.8)
Adjusted EBITDA(2)	$ 200.6	$ 66.6	$ 104.4
Cash From Facility Operations(3)	$ 90.9	$ 6.6	$ 27.9
Facility Operating Income(2)	$ 476.3	$ 292.8	$ 242.2

(1) The net loss is after an allocation of $(0.7) million, $16.6 million and $11.7 million minority interest for the years ended December 31, 2006, 2005 and 2004, respectively.

(2) Adjusted EBITDA and Facility Operating Income are non-GAAP financial measures we use in evaluating our operating performance. See ‘‘Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures’’ for an explanation of how we define each of these measures, a detailed description of why we believe such measures are useful and the limitations of each measure, and a reconciliation of net loss to each of these measures.

(3) Cash From Facility Operations is a non-GAAP financial measure we use in evaluating our liquidity. See ‘‘Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations — Non-GAAP Financial Measures’’ for an explanation of how we define this measure, a detailed description of why we believe such measure is useful and the limitations of such measure, and a reconciliation of net cash provided by (used in) operating activities to such measure.

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Growth Strategy

Our objective is to increase our revenues, Adjusted EBITDA, Cash From Facility Operations and dividends per share of our common stock, while remaining one of the premier senior living providers in the United States. Key elements of our strategy to achieve these objectives include:

In the marketplace, Hershey focuses on promoting fair and ethical business dealings. A condition of doing business with t is compliance with our Supplier Code of Conduct, which outlines our expectations with regard to our supplier commitment to legal compliance and business integrity, social and working conditions, environment and food safety. W continue our leadership role in improving the lives of cocoa farming families through a variety of initiatives. In Octob 2012, we announced that it is our goal to source 100% certified cocoa for our global chocolate product lines by 202 assuming adequate supply. Also, earlier in the year we pledged $10 million over 5 years to directly benefit 750,000 farme through programs such as Hershey's Learn to Grow Farm and Family Center in Ghana. Our active engagement and financi support also continues for the World Cocoa Foundation, the International Cocoa Initiative, and CocoaLink, a first-of-i kind approach that uses mobile technology to deliver practical information on agricultural and social programs to rur cocoa farmer

Our employees share their time and resources generously in their communities. Both directly and through the United Wa we contribute to hundreds of agencies that deliver much needed services and resources. In 2011, Hershey donated mo than $9 million in cash and product to worthy causes, our employees volunteered more than 10,000 hours in the communities and we believe our results in 2012 have been even better. Our focus on “Kids and Kids at Risk” is suppo through contributions to the Children's Miracle Network; Project Fellowship, where employees partner with student hom at the Milton Hershey School; an orphanage for special needs children in the Philippines; and a children's burn center Guadalajara, Mexico, to name a few. In 2012, Hershey was recognized by The National Conference on Citizenship an Points of Light, the nation's definitive experts on civic engagement, in partnership with Bloomberg LP, as one of the 5 most community minded companies in Americ

Our commitment to CSR is yielding powerful results. As we move into new markets and expand our leadership in Nor America, we are convinced that our values and heritage will be fundamental to our continuing succes

Available Informatio

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended. We file or furnish annua quarterly and current reports, proxy statements and other information with the United States Securities and Exchang Commission (“SEC”). You may obtain a copy of any of these reports, free of charge, from the Investors section of website, www.thehersheycompany.com, shortly after we file or furnish the information to the SE

You may obtain a copy of any of these reports directly from the SEC's Public Reference Room. Contact the SEC by calli them at 1-800-SEC-0330 or by submitting a written request to U.S. Securities and Exchange Commission, Office Investor Education and Advocacy, 100 F Street N.E., Washington, D.C. 20549. The SEC maintains an Internet site th contains reports, proxy and information statements, and other information regarding issuers that file electronically with t SEC at www.sec.gov. You can obtain additional information on how to request public documents from the SEC on the website. The electronic mailbox address of the SEC is publicinfo@sec.go

We have a Code of Ethical Business Conduct that applies to our Board of Directors, all company officers and employee including, without limitation, our Chief Executive Officer and "senior financial officers" (including the Chief Finar Officer, Chief Accounting Officer and persons performing similar functions). You can obtain a copy of our Code of Ethic Business Conduct from the Investors section of our website, www.thehersheycompany.com. If we change or waive ar portion of the Code of Ethical Business Conduct that applies to any of our directors, executive officers or senior financi officers, we will post that information on our website within four business days. In the case of a waiver, such informatic will include the name of the person to whom the waiver applied, along with the date and type of waive

We also post our Corporate Governance Guidelines and charters for each of the Board's standing committees in Investors section of our website, www.thehersheycompany.com. The Board of Directors adopted these Guidelines ar charter

We will provide to any stockholder a copy of one or more of the Exhibits listed in Part IV of this report, upon request. W charge a small copying fee for these exhibits to cover our costs. To request a copy of any of these documents, you ca contact us at The Hershey Company, Attn: Investor Relations Department, 100 Crystal A Drive, Hershey, Pennsylvan 17033-081

Item 1A. RISK FACTOR

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

Issues or concerns related to the quality and safety of our products, ingredients or packaging could cause a product reca and/or result in harm to the Company's reputation, negatively impacting our operating resul

In order to sell our iconic, branded products, we need to maintain a good reputation with our customers and consumer Issues related to quality and safety of our products, ingredients or packaging, could jeopardize our Company's image a reputation. Negative publicity related to these types of concerns, or related to product contamination or product tamperin whether valid or not, might negatively impact demand for our products, or cause production and delivery disruptions. W may need to recall products if any of our products become unfit for consumption. In addition, we could potentially b subject to litigation or government actions, which could result in payments of fines or damages. Costs associated with the potential actions could negatively affect our operating result

Increases in raw material and energy costs along with the availability of adequate supplies of raw materials could affe future financial result

We use many different commodities for our business, including cocoa products, sugar, dairy products, peanuts, almond corn sweeteners, natural gas and fuel o

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

- Commodity market fluctuations;
- Currency exchange rates;
- Imbalances between supply and demand;
- The effect of weather on crop yield;
- Speculative influences;
- Trade agreements among producing and consuming nations;
- Supplier compliance with commitments;
- Political unrest in producing countries; and
- Changes in governmental agricultural programs and energy policies.

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

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

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

Market demand for new and existing products could declin

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

- Effective retail execution;
- Appropriate advertising campaigns and marketing programs;
- Our ability to secure adequate shelf space at retail locations;
- Product innovation, including maintaining a strong pipeline of new products;
- Changes in product category consumption;
- Our response to consumer demographics and trends; and
- Consumer health concerns, including obesity and the consumption of certain ingredients.

In these markets, there continue to be competitive product and pricing pressures, as well as challenges in maintaining pro margins. We must maintain mutually beneficial relationships with our key customers, including retailers and distributors, compete effectively. Our largest customer, McLane Company, Inc., accounted for approximately 22.2% of our total n sales in 2012. McLane Company, Inc. is one of the largest wholesale distributors in the United States to convenience store drug stores, wholesale clubs and mass merchandisers, including Wal-Mart Stores, In

Increased marketplace competition could hurt our busines

The global confectionery packaged goods industry is intensely competitive and consolidation in this industry continue Some of our competitors are much larger firms that have greater resources and more substantial international operations. order to protect our existing market share or capture increased market share in this highly competitive retail environmen we may be required to increase expenditures for promotions and advertising, and continue to introduce and establish ne products. Due to inherent risks in the marketplace associated with advertising and new produ introductions, including uncertainties about trade and consumer acceptance, increased expenditures may not pro successful in maintaining or enhancing our market share and could result in lower sales and profits. In addition, we m incur increased credit and other business risks because we operate in a highly competitive retail environme

Disruption to our supply chain could impair our ability to produce or deliver our finished products, resulting in a negati impact on our operating resul

Disruption to our manufacturing operations or our supply chain could result from, but are not limited to, the followi

- Natural disaster;
- Pandemic outbreak of disease;
- Weather;
- Fire or explosion;
- Terrorism or other acts of violence;
- Labor strikes or other labor activities;
- Unavailability of raw or packaging materials; and
- Operational and/or financial instability of key suppliers, and other vendors or service providers.

We take adequate precautions to mitigate the impact of possible disruptions. We have strategies and plans in place manage such events if they were to occur, including our global supply chain strategies and our principle-based global lab relations strategy. If we are unable, or if it is not financially feasible, to effectively mitigate the likelihood or potent impact of such disruptive events, our results of operations and financial condition could be negatively impact

Our financial results may be adversely impacted by the failure to successfully execute or integrate acquisitions, divestitu and joint venture

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

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

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

Political, economic, and/or financial market conditions could negatively impact our financial resul

Our operations are impacted by consumer spending levels and impulse purchases which are affected by gene macroeconomic conditions, consumer confidence, employment levels, availability of consumer credit and interest rates that credit, consumer debt levels, energy costs and other factors. Volatility in food and energy costs, sustained glob recessions, rising unemployment and declines in personal spending could adversely impact our revenues, profitability a financial conditio

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

International operations could fluctuate unexpectedly and adversely impact our busines

In 2012, we derived approximately 16.1% of our net sales from customers located outside of the United State Additionally, 20.5% of our total consolidated assets were located outside of the United States as of December 31, 2012. part of our global growth strategy, we are increasing our investments outside of the United States, particularly in Mexic Brazil, India and China. As a result, we are subject to numerous risks and uncertainties relating to international sales a operations, includin

- Unforeseen global economic and environmental changes resulting in business interruption, supply constraints, inflation, deflation or decreased demand;
- 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 losses from impairment or sale of assets; and
- Failure to recruit, retain and build an engaged global workforce.

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

Information technology is a critically important part of our business operations. We use information technology to mana all business processes including manufacturing, financial, logistics, sales, marketing and administrative functions. The processes collect, interpret and distribute business data and communicate internally and externally with employee suppliers, customers and other

We invest in industry standard security technology to protect the Company's data and business processes against risk of d security breach and cyber attack. Our data security management program includes identity, trust, vulnerability and thre management business processes as well as adoption of standard data protection policies. We measure our data securi effectiveness through industry accepted methods and remediate significant findings. Additionally, we certify our maj technology suppliers and any outsourced services through accepted security certification standards. We maintain a routinely test backup systems and disaster recovery, along with external network security penetration testing by independent third party as part of our business continuity preparedness. We also have processes in place to preve disruptions resulting from the implementation of new software and systems of the latest technolog

While we believe that our security technology and processes are adequate in preventing security breaches and in reduci cybersecurity risks, disruptions or failure of information technology systems is possible and could have a negative impa on our operations or business reputation. Failure of our systems, including failures due to cyber attacks that would preve the ability of systems to function as intended, could cause transaction errors, loss of customers and sales, and could ha negative consequences to our Company, our employees, and those with whom we do busines

Future developments related to the investigation by government regulators of alleged pricing practices by members of tl confectionery industry and civil antitrust lawsuits in the United States could negatively impact our reputation and o operating result

In 2007, the Competition Bureau of Canada began an inquiry into alleged violations of the Canadian Competition Act in tl sale and supply of chocolate products sold in Canada between 2002 and 2008 by members of the confectionery industr including Hershey Canada, Inc. The U.S. Department of Justice also notified the Company in 2007 that it had opened a inquiry, but has not requested any information or documents. We also are party to a number of civil antitrust lawsuits in tl United States, including individual, class, and putative class actions. Additional information about these proceedings contained in Item 3. Legal Proceedings of this Form 10-K. Competition and antitrust law investigations can be lengthy ar violations are subject to civil and/or criminal fines and other sanctions. Class action civil antitrust lawsuits are expensive defend and could result in significant judgments, including in some cases, payment of treble damag and/or attorneys' fees to the successful plaintiff. Additionally, negative publicity involving these proceedings could affe our Company's brands and reputation, possibly resulting in decreased demand for our products. These possib consequences, in our opinion, should not materially impact our financial position or liquidity but could materially impa our results of operations and cash flows in the period in which they are accrued or paid, respectivel

Pension costs or funding requirements could increase at a higher than anticipated rat

We sponsor a number of defined benefit pension plans. Changes in interest rates or in the market value of plan assets cou affect the funded status of our pension plans. This could cause volatility in our benefits costs and increase future fundir requirements for our pension plans. Additionally, we could incur pension settlement losses if a significant number employees who have retired or have left the Company decide to withdraw substantial lump sums from their pensio accounts. A significant increase in pension expense, in pension settlement losses or in future funding requirements cou have a negative impact on our results of operations, financial condition and cash flows. For more information, refer to pa 4

Item 1B. UNRESOLVED STAFF COMMENTS

None

Item 2. PROPERTIES

Our principal properties include the followin

Country	Location	Type	Status (Own/Lease
United States	Hershey, Pennsylvania (2 principal plants)	Manufacturing—confectionery products and pantry items	Own
	Lancaster, Pennsylvania	Manufacturing—confectionery products	Own
	Robinson, Illinois	Manufacturing—confectionery products, and pantry items	Own
	Stuarts Draft, Virginia	Manufacturing—confectionery products and pantry items	Own
	Edwardsville, Illinois	Distribution	Own
	Palmyra, Pennsylvania	Distribution	Own
	Ogden, Utah	Distribution	Own
Canada	Mississauga, Ontario (1)	Distribution	Lease
Mexico	Monterrey, Mexico	Manufacturing—confectionery products	Own

(1) The lease of the distribution center located in Mississauga, Ontario, Canada expires in 2013. We have entered into a agreement with the Ferrero Group for the construction and use of a warehouse and distribution facility located in Brantfor Ontario, Canada beginning in 201

In addition to the locations indicated above, we also own or lease several other properties and buildings worldwide whic we use for manufacturing, sales, distribution and administrative functions. Our facilities are well maintained and general have adequate capacity to accommodate seasonal demands, changing product mixes and certain addition growth. The largest facilities are located in Hershey and Lancaster, Pennsylvania; Monterrey, Mexico; and Stuarts Dra Virginia. Many additions and improvements have been made to these facilities over the years and they include equipment the latest type and technolog

Item 3. LEGAL PROCEEDINGS

In 2007, the Competition Bureau of Canada began an inquiry into alleged violations of the Canadian Competition Act in t sale and supply of chocolate products sold in Canada between 2002 and 2008 by members of the confectionery industr including Hershey Canada, Inc. The U.S. Department of Justice also notified the Company in 2007 that it had opened inquiry, but has not requested any information or documen

Subsequently, 13 civil lawsuits were filed in Canada and 91 civil lawsuits were filed in the United States against t Company. The lawsuits were instituted on behalf of direct purchasers of our products as well as indirect purchasers th purchase our products for use or for resale. Several other chocolate and confectionery companies were named as defendan in these lawsuits as they also were the subject of investigations and/or inquiries by the government entities referenc above. The cases seek recovery for losses suffered as a result of alleged conspiracies in restraint of trade in connection wi the pricing practices of the defendants. The Canadian civil cases were settled in 2012. The Canadian Competition Bure investigation remains pending. However, Hershey Canada, Inc. has reached a tentative settlement agreement with t Canadian government with regard to its investigation and the Company has accrued a liability related thereto. We do n believe the terms of the tentative settlement agreement should have a material impact on the Company's results operations, financial position or liquidit

With regard to the U.S. lawsuits, the Judicial Panel on Multidistrict Litigation assigned the cases to the U.S. District Cou for the Middle District of Pennsylvania. Plaintiffs are seeking actual and treble damages against the Company and oth defendants based on an alleged overcharge for certain, or in some cases all chocolate products sold in the U.S. betwe 2003 and 2008. The lawsuits have been proceeding on different scheduling tracks for different groups of plaintiff Defendants have briefed summary judgment against the plaintiffs that have not sought class certification (the "Opt-C Plaintiffs"). The plaintiffs that purchased products from defendants directly (the "Direct Purchaser Plaintiffs") were gr class certification in December 2012. Defendants will conduct expert discovery on liability and damages and brief summa judgment against the Direct Purchaser Plaintiffs through the third quarter of 2013. The hearing on summary judgment f the Direct Purchaser Plaintiffs is scheduled for September 2013, combined with the summary judgment hearing for t Opt-Out Plaintiffs. Putative class plaintiffs that purchased product indirectly for resale (the "Indirect Purchasers for Resa have a May 1, 2013 deadline to file for class certification. Putative class plaintiffs that purchased product indirectly for u (the "Indirect End Users") may seek class certification after summary judgment against the Direct Purchaser Plaintiffs anc Opt-Out Plaintiffs has been resolved. No trial date has been set for any group of plaintiffs. The Company will continue vigorously defend against these lawsui

At this stage, we are unable to predict the range of any potential liability that is reasonably possible as a result of t proceedings outlined above. Competition and antitrust law investigations can be lengthy and violations are subject to civ and/or criminal fines and other sanctions. Class action civil antitrust lawsuits are expensive to defend and could result significant judgments, including in some cases, payment of treble damages and/or attorneys' fees to the successful plainti Additionally, negative publicity involving these proceedings could affect our Company's brands and reputation, possib resulting in decreased demand for our products. These possible consequences, in our opinion, should not materially impa our financial position or liquidity, but could materially impact our results of operations and cash flows in the period which they are accrued or paid, respectively. Please refer to Item 1A. Risk Factors, beginning on page 9, for addition information concerning the key risks to achieving the Company's future performance goa

We have no other material pending legal proceedings, other than ordinary routine litigation incidental to our busine Pursuant to the disclosure requirements of the U.S. Internal Revenue Service ("IRS") Revenue Procedure 2005-51, i second quarter of 2012, the IRS assessed an accuracy-related penalty of $222,975 on a reportable transacti understatement for the 2008 tax year and that this penalty was paid in full in 2012. The penalty was imposed by §6662A(of the Internal Revenue Code at the 30% rate determined under §6662A(c) of the Internal Revenue Code. The penalty w imposed for a reportable transaction understatement with respect to which the relevant facts affecting the tax treatment the sale by the Company in 2008 of a 49% interest in its wholly-owned subsidiary, Hershey do Brasil LTDA, were n adequately disclosed under §6011 of the Internal Revenue Code in the Company's 2008 federal income tax retur

Item 4. MINE SAFETY DISCLOSURE

Not applicabl

PART

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

We paid $341.2 million in cash dividends on our Common Stock and Class B Common Stock ("Class B Stock") in 2012 $304.1 million in 2011. The annual dividend rate on our Common Stock in 2012 was $1.56 per shar

On January 29, 2013, our Board of Directors declared a quarterly dividend of $0.42 per share of Common Stock payable March 15, 2013, to stockholders of record as of February 25, 2013. It is the Company's 333rd consecutive Common Sto dividend. A quarterly dividend of $0.38 per share of Class B Stock also was declare

Our Common Stock is listed and traded principally on the New York Stock Exchange ("NYSE") under the ticker syn "HSY." Approximately 260.2 million shares of our Common Stock were traded during 2012. The Class B Stock is publicly trade

The closing price of our Common Stock on December 31, 2012, was $72.22. There were 36,964 stockholders of record our Common Stock and our Class B Stock as of December 31, 201

The following table shows the dividends paid per share of Common Stock and Class B Stock and the price range of tl Common Stock for each quarter of the past 2 year

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
2012				
1st Quarter	$ 0.380	$ 0.344	$61.94	$59.49
2nd Quarter	0.380	0.344	72.03	59.81
3rd Quarter	0.380	0.344	73.16	70.09
4th Quarter	0.420	0.380	74.64	68.85
Total	$ 1.560	$ 1.412		

	Dividends Paid Per Share		Common Stock Price Range*	
	Common Stock	Class B Stock	High	Low
2011				
1st Quarter	$ 0.345	$ 0.3125	$55.05	$46.24
2nd Quarter	0.345	0.3125	58.20	53.77
3rd Quarter	0.345	0.3125	60.96	53.83
4th Quarter	0.345	0.3125	62.26	55.32
Total	$ 1.380	$ 1.2500		

* NYSE-Composite Quotations for Common Stock by calendar quarte

Unregistered Sales of Equity Securities and Use of Procee

Non

Issuer Purchases of Equity Securiti

Purchases of equity securities during the fourth quarter of the fiscal year ended December 31, 2012

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dolla Value of Shares that May Yet Be Purchased Under the Plans or Programs(1) (in thousands of dollar
October 1 through October 28, 2012	—	—	—	$125,069
October 29 through November 25, 2012	187,570	$69.68	—	$125,069
November 26 through December 31, 2012	—	—	—	$125,069
Total	187,570	$69.68	—	

(1) In April 2011, our Board of Directors approved a $250 million share repurchase program. This authorization is i addition to the Company's policy of repurchasing shares in the open market to replace Treasury Stock shares issued in connection with stock option exercises or other equity-based compensation programs.

Performance Grap

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

*Hypothetical $100 invested on December 31, 2007 in Hershey Common Stock, S&P 500 Index and S&P 500 Packag Foods Index, assuming reinvestment of dividend

Item 6. SELECTED FINANCIAL DAT
SIX-YEAR CONSOLIDATED FINANCIAL SUMMAR
All dollar and share amounts in thousands except market pri
and per share statisti

	5-Year Compound Growth Rate		2012	2011	2010	2009	2008	2007
Summary of Operations								
Net Sales	6.1	%	$6,644,252	6,080,788	5,671,009	5,298,668	5,132,768	4,946,716
Cost of Sales	2.7	%	$3,784,370	3,548,896	3,255,801	3,245,531	3,375,050	3,315,147
Selling, Marketing and Administrative	13.7	%	$1,703,796	1,477,750	1,426,477	1,208,672	1,073,019	895,874
Business Realignment and Impairment Charges (Credits), Net	(30.5	)%	$44,938	(886)	83,433	82,875	94,801	276,868
Interest Expense, Net	(4.2	)%	$95,569	92,183	96,434	90,459	97,876	118,585
Provision for Income Taxes	23.0	%	$354,648	333,883	299,065	235,137	180,617	126,088
Net Income	25.3	%	$660,931	628,962	509,799	435,994	311,405	214,154
Net Income Per Share:								
—Basic—Class B Stock	25.7	%	$2.73	2.58	2.08	1.77	1.27	0.87
—Diluted—Class B Stock	25.5	%	$2.71	2.56	2.07	1.77	1.27	0.87
—Basic—Common Stock	25.7	%	$3.01	2.85	2.29	1.97	1.41	0.96
—Diluted—Common Stock	25.5	%	$2.89	2.74	2.21	1.90	1.36	0.93
Weighted-Average Shares Outstanding:								
—Basic—Common Stock			164,406	165,929	167,032	167,136	166,709	168,050
—Basic—Class B Stock			60,630	60,645	60,708	60,709	60,777	60,813
—Diluted			228,337	229,919	230,313	228,995	228,697	231,449
Dividends Paid on Common Stock	6.1	%	$255,596	228,269	213,013	198,371	197,839	190,199
Per Share	6.5	%	$1.56	1.38	1.28	1.19	1.19	1.14
Dividends Paid on Class B Stock	6.6	%	$85,610	75,814	70,421	65,032	65,110	62,064
Per Share	6.7	%	$1.41	1.25	1.16	1.07	1.07	1.02
Depreciation	(9.8	)%	$174,788	188,491	169,677	157,996	227,183	292,658
Advertising	30.3	%	$480,016	414,171	391,145	241,184	161,133	127,896
Payroll	1.9	%	$709,621	676,482	641,756	613,568	645,456	645,083
Year-end Position and Statistics								
Capital Additions	6.4	%	$258,727	323,961	179,538	126,324	262,643	189,698
Capitalized Software Additions	6.3	%	$19,239	23,606	21,949	19,146	20,336	14,194
Total Assets	2.3	%	$4,754,839	4,407,094	4,267,627	3,669,926	3,629,614	4,242,008
Short-term Debt and Current Portion of Long-term Debt	(15.2	)%	$375,898	139,673	285,480	39,313	501,504	856,392
Long-term Portion of Debt	3.6	%	$1,530,967	1,748,500	1,541,825	1,502,730	1,505,954	1,279,965

Stockholders’ Equity	10.7	%	$1,048,373	880,943	945,896	768,634	358,239	631,815
Full-time Employees			12,100	11,800	11,300	12,100	12,800	12,400
Stockholders’ Data								
Outstanding Shares of Common Stock and Class B Stock at Year-end			223,786	225,206	227,030	227,998	227,035	227,050
Market Price of Common Stock at Year-end	12.9	%	$72.22	61.78	47.15	35.79	34.74	39.40
Price Range During Year (high)			$74.64	62.26	52.10	42.25	44.32	56.75
Price Range During Year (low)			$59.49	46.24	35.76	30.27	32.10	38.21

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

EXECUTIVE OVERVIE

Results for the year ended December 31, 2012 were strong with increases in net sales, earnings per share and profitabili despite continued macroeconomic challenges. Net sales increased 9.3% compared with 2011 due to net price realization ar volume increases in the United States and key international markets as we continued our focus on core brands ar innovation. Advertising expense increased 15.9% for the year supporting core brands along with new product launches. N income and earnings per share-diluted also increased at greater rates than our long-term growth targets. The investments v have made in both productivity and cost savings resulted in a business model that is more efficient and effective, enablir us to deliver predictable, consistent and achievable marketplace and financial performance. We continue to generate stror cash flow from operations and our financial position remains soli

Adjusted Non-GAAP Financial Measur

Our "Management's Discussion and Analysis of Financial Condition and Results of Operations" section includes ce measures of financial performance that are not defined by U.S. generally accepted accounting principles ("GAAP"). For of these non-GAAP financial measures, we are providing below (1) the most directly comparable GAAP measure; (2) reconciliation of the differences between the non-GAAP measure and the most directly comparable GAAP measure; (3) a explanation of why our management believes these non-GAAP measures provide useful information to investors; ar (4) additional purposes for which we use these non-GAAP measure

We believe that the disclosure of these non-GAAP measures provides investors with a better comparison of our year-to-ye operating results. We exclude the effects of certain items from Income before Interest and Income Taxes ("EBIT"), Income and Income per Share-Diluted-Common Stock ("EPS") when we evaluate key measures of our performa internally, and in assessing the impact of known trends and uncertainties on our business. We also believe that excluding tl effects of these items provides a more balanced view of the underlying dynamics of our busines

Adjusted non-GAAP financial measures exclude the impacts of charges or credits recorded during the last four yea associated with our business realignment initiatives and impairment charges related to goodwill and certain trademark Non-service-related pension expenses are also excluded for each of the last four years, along with acquisition closing ar integration costs, primarily associated with the acquisition of Brookside in 2012, and a gain on the sale of certain non-co trademark licensing rights in 201

Non-service-related pension expenses include interest costs, the expected return on pension plan assets, the amortization actuarial gains and losses, and certain curtailment and settlement losses or credits. Non-service-related pension expens may be very volatile from year-to-year as a result of changes in interest rates and market returns on pension plan asset Therefore, we have excluded non-service-related pension expense from our results in accordance with GAAP. We believ that non-GAAP financial results excluding non-service-related pension expenses will provide investors with a bett understanding of the underlying profitability of our ongoing business. We believe that the service cost component of o total pension benefit costs closely reflects the operating costs of our business and provides for a better comparison of o operating results from year-to-year. Our most significant defined benefit pension plans were closed to most new participan after 2007, resulting in ongoing service costs that are stable and predictabl

For the years ended December 31,	2012			2011		
In millions of dollars except per share amounts	EBIT	Net Income	EPS	EBIT	Net Income	EPS
Results in accordance with GAAP	$1,111.1	$660.9	$2.89	$1,055.0	$628.9	$2.74
Adjustments:						
Business realignment charges included in cost of sales ("COS")	36.4	23.7	0.10	45.1	28.4	0.12
Non-service-related pension expense included in COS	8.6	5.3	0.03	—	—	—
Acquisition integration costs included in COS	4.1	3.0	0.01	—	—	—
Business realignment charges included in selling, marketing and administrative ("SM&A")	2.4	1.6	0.01	5.0	3.0	0.01
Non-service-related pension expense included in SM&A	12.0	7.4	0.03	2.8	2.0	0.01
Acquisition integration costs included in SM&A	9.3	6.2	0.03	—	—	—
Gain on sale of trademark licensing rights included in SM&A	—	—	—	(17.0)	(11.1)	(0.05)
Business realignment and impairment charges(credits) , net	45.0	31.9	0.14	(0.9)	(0.5)	—
Adjusted non-GAAP results	$1,228.9	$740.0	$3.24	$1,090.0	$650.7	$2.83

For the years ended December 31,	2010			2009		
In millions of dollars except per share amounts	EBIT	Net Income	EPS	EBIT	Net Income	EPS
Results in accordance with GAAP	$905.3	$509.8	$2.21	$761.6	$436.0	$1.90
Adjustments:						
Business realignment charges included in COS	13.7	8.4	0.04	10.1	6.3	0.03
Non-service-related pension expense included in COS	0.9	0.6	—	14.7	9.1	0.04
Business realignment charges included in SM&A	1.5	0.9	—	6.1	3.8	0.02
Non-service-related pension expense included in SM&A	5.0	3.2	0.02	6.8	4.2	0.02
Business realignment and impairment charges, net	83.4	68.6	0.30	82.9	50.7	0.22
Adjusted non-GAAP results	$1,009.8	$591.5	$2.57	$882.2	$510.1	$2.23

	Adjusted Non-GAAP Results				
Key Annual Performance Measures	2012		2011		2010
Increase in Net Sales	9.3	%	7.2	%	7.0
Increase in adjusted EBIT	12.7	%	7.9	%	14.5
Improvement in adjusted EBIT Margin in basis points ("bps")	60bps		10bps		110bps
Increase in adjusted EPS	14.5	%	10.1	%	15.2

SUMMARY OF OPERATING RESULT

Analysis of Selected Items from Our GAAP Income Stateme

For the years ended December 31, In millions of dollars except per share amounts	2012	2011	2010	Percent Change Increase (Decrease) 2012-2011	2011-2010
Net Sales	$6,644.3	$6,080.8	$5,671.0	9.3 %	7.2
Cost of Sales	3,784.4	3,548.9	3,255.8	6.6	9.0
Gross Profit	2,859.9	2,531.9	2,415.2	13.0	4.8
Gross Margin	43.0 %	41.6 %	42.6 %		
SM&A Expense	1,703.8	1,477.8	1,426.5	15.3	3.6
SM&A Expense as a percent of sales	25.6 %	24.3 %	25.2 %		
Business Realignment and Impairment Charges (Credits), Net	45.0	(0.9)	83.4	N/A	(101.1)
EBIT	1,111.1	1,055.0	905.3	5.3	16.5
EBIT Margin	16.7 %	17.4 %	16.0 %		
Interest Expense, Net	95.6	92.2	96.4	3.7	(4.4)
Provision for Income Taxes	354.6	333.9	299.1	6.2	11.6
Effective Income Tax Rate	34.9 %	34.7 %	37.0 %		
Net Income	$660.9	$628.9	$509.8	5.1	23.4
Net Income Per Share—Diluted	$2.89	$2.74	$2.21	5.5	24.0

Net Sal

2012 compared with 20

Net sales increased 9.3% in 2012 compared with 2011 due to net price realization and sales volume increases in the U. and for our international businesses. Net price realization contributed approximately 5.7% to the net sales increase. Sal volume increased net sales by approximately 2.2% due primarily to sales of new products in the U.S. The Brooksi acquisition contributed approximately 1.9% to the net sales increase. These increases were partially offset by t unfavorable impact of foreign currency exchange rates which reduced net sales by approximately 0.5
Excluding incremental sales from the Brookside acquisition, net sales in the U.S. increased approximately 7.1% compar with 2011, primarily reflecting net price realization, along with sales volume increases from the introduction of ne products. Net sales in U.S. dollars for our businesses outside of the U.S. increased approximately 9.1% in 2012 compar with 2011, reflecting sales volume increases and net price realization. Net sales increases for our international business were offset somewhat by the impact of unfavorable foreign currency exchange rat

2011 compared with 20

Net sales increased 7.2% in 2011 compared with 2010 due to net price realization and sales volume increases in the U. and for our international businesses. Net price realization contributed approximately 3.5% to the net sales increase primari due to the impact of list price increases, offset somewhat by higher promotional rates. Sales volume increased net sales b approximately 3.4% due primarily to sales of new products in the U.S. The favorable impact of foreign currency exchan rates increased net sales by approximately 0.3

Net sales in the U.S. increased approximately 5.9% compared with 2010, with essentially equal contribution from net pri
realization and sales volume gains. Net sales for our businesses outside of the U.S. increased approximately 14.5% in 201
compared with 2010, reflecting sales volume increases and net price realization, particularly for our focus markets
Mexico, Brazil, China and Indi

2

Key U.S. Marketplace Metri

For the 52 weeks ended December 31,	2012		2011		2010	
Consumer Takeaway Increase	5.7	%	7.8	%	5.3	
Market Share Increase	0.6		0.8		0.3	

Consumer takeaway and the change in market share for 2012 are provided for measured channels of distribution accounti for approximately 90% of our U.S. confectionery retail business. These channels of distribution primarily include foo drug, mass merchandisers, including Wal-Mart Stores, Inc., and convenience store

Consumer takeaway for 2011 and 2010 is provided for channels of distribution accounting for approximately 80% of o U.S. confectionery retail business. These channels of distribution include food, drug, mass merchandisers, includi Wal-Mart Stores, Inc., and convenience stores. The change in market share for 2011 and 2010 is provided for channe measured by syndicated data which include sales in the food, drug, convenience store and mass merchandiser classes trade, excluding sales of Wal-Mart Stores, In

Cost of Sales and Gross Marg

2012 compared with 20

The cost of sales increase of 6.6% in 2012 compared with 2011 was primarily due to higher input costs, the impact of sal volume increases and higher supply chain costs which together increased cost of sales by approximately 7.1%. An increa in cost of sales of 2.0% resulted from the Brookside acquisition. Supply chain productivity improvements reduced cost sales by approximately 2.5%. Business realignment and impairment charges of $36.4 million were included in cost of sal in 2012, compared with $45.1 million in the prior yea

Gross margin increased by 1.4 percentage points in 2012 compared with 2011, primarily as a result of price realization a supply chain productivity improvements which together improved gross margin by 4.1 percentage points. The improvements were substantially offset by higher input and supply chain costs which reduced gross margin by a total of 2 percentage points. The impact of lower business realignment and impairment charges recorded in 2012 compared with 20 increased gross margin by 0.2 percentage poin

2011 compared with 20

The cost of sales increase of 9.0% in 2011 compared with 2010 was primarily associated with higher sales volume a significantly higher commodity costs which together increased cost of sales by approximately 8.0%, each contributing abo half of the increase. Increases in other supply chain costs were essentially offset by productivity improvements. Busine realignment and impairment charges of $45.1 million were included in cost of sales in 2011, compared with $13.7 milli in the prior year, contributing approximately 1.0% of the cost of sales increas

Gross margin decreased by 1.0 percentage point in 2011 compared with 2010. Higher commodity and other supply cha costs reduced gross margin by about 3.2 percentage points, substantially offset by productivity improvements and pri realization of approximately 2.8 percentage points. Supply chain productivity and net price realization each contribut approximately half of this gross margin improvement. The impact of higher business realignment and impairment charg recorded in 2011 compared with 2010 reduced gross margin by 0.6 percentage poin

Selling, Marketing and Administrati

2012 compared with 20

Selling, marketing and administrative expenses increased $226.0 million or 15.3% in 2012. The increase was primarily result of increased advertising, marketing research and consumer promotion expenses, higher employee-related expens increased incentive compensation costs and expenses associated with the Brookside acquisition. In addition, sellin marketing and administrative costs were reduced in 2011 by a $17.0 million gain on the sale of non-core tradema licensing rights. Advertising expense increased approximately 15.9% compared with 2011. Business realignment charges $2.5 million were included in selling, marketing and administrative expenses in 2012 compared with $5.0 million in 201

2011 compared with 20

Selling, marketing and administrative expenses increased $51.3 million or 3.6% in 2011. The increase was primarily a resu of higher marketing and employee-related expenses, offset somewhat by the $17.0 million gain on the sale of non-co trademark licensing rights as well as lower costs related to the consideration of potential acquisitions and divestitures 2011. Advertising expense increased approximately 5.9% compared with 2010. Selling and administrative expens increased approximately 6.6%, reflecting investments in enhancing and executing our global go-to-market strategie including increases in selling, marketing and certain administrative staff levels. Business realignment charges $5.0 million were included in selling, marketing and administrative expenses in 2011 compared with $1.5 million in 201

Business Realignment and Impairment Charg

In June 2010, we announced Project Next Century (the "Next Century program") as part of our ongoing efforts to creat advantaged supply chain and competitive cost structure. As part of the program, production was to transition from t Company's century-old facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to an expanded West Hersh facility, which was built in 1992. Production from the 19 East Chocolate Avenue plant, as well as a portion of t workforce, was fully transitioned to the West Hershey facility during 201

We estimate that the Next Century program will incur pre-tax charges and non-recurring project implementation costs $190 million to $200 million. This estimate includes $170 million to $180 million in pre-tax business realignment a impairment charges and approximately $20 million in project implementation and start-up costs, in addition to pensi settlement losses of $15.8 million which were recorded in 2012. As of December 31, 2012, total costs of $173.6 milli have been recorded over the last three years for the Next Century program. Total costs of $76.3 million were record during 2012. Total costs of $43.4 million were recorded in 2011 and total costs of $53.9 million were recorded in 201

In September 2011, we entered into a sale and leasing agreement for the 19 East Chocolate Avenue manufacturing facili with Chocolate Realty DST, a Delaware Statutory Trust. Chocolate Realty DST is not affiliated with the Milton Hersh School Trust. We are leasing a portion of the building for administrative office space under the agreement. As a result our continuing involvement and use of the property, we are deemed to be the owner of the property for accounti purposes. We received net proceeds of $47.6 million and recorded a lease financing obligation of $50.0 million under t leasing agreement in 2011. The initial term of the agreement expires in 204

In December 2012, the Board of Directors of Tri-US, Inc. decided to immediately cease operations and dissolve t company as a result of operational difficulties, quality issues and competitive constraints. In December 2012, the Compa recorded non-cash asset impairment charges of approximately $7.5 million, primarily associated with the write off goodwill and other intangible assets, including a reduction to reflect the share of the charges associated with t noncontrolling interes

During the second quarter of 2010 we completed an impairment evaluation of goodwill and other intangible ass associated with Godrej Hershey Ltd. Based on this evaluation, we recorded a non-cash goodwill impairment charge $44.7 million, including a reduction to reflect the share of the charge associated with the noncontrolling interes

During 2009, we completed our comprehensive, three-year supply chain transformation program (the "global supply ch transformation program

2

Charges (credits) associated with business realignment initiatives and impairment recorded during 2012, 2011 and 201
were as follow

For the years ended December 31, In thousands of dollars	2012	2011	2010
Cost of sales			
Next Century program	$36,383	$39,280	$13,644
Global supply chain transformation program	—	5,816	—
Total cost of sales	36,383	45,096	13,644
Selling, marketing and administrative - Next Century program	2,446	4,961	1,493
Business realignment and impairment charges, net			
Next Century program:			
Pension settlement loss	15,787	—	—
Plant closure expenses and fixed asset impairment	20,780	8,620	5,516
Employee separation costs (credits)	914	(9,506)	33,225
Tri-US, Inc. asset impairment charges	7,457	—	—
Godrej Hershey Ltd. goodwill impairment	—	—	44,692
Total business realignment and impairment charges (credits), net	44,938	(886)	83,433
Total net charges associated with business realignment initiatives and impairment	$83,767	$49,171	$98,570

Next Century Progra

The charge of $36.4 million recorded in cost of sales during 2012 related primarily to start-up costs and accelerat depreciation of fixed assets over a reduced estimated remaining useful life associated with the Next Century program. charge of $2.4 million was recorded in selling, marketing and administrative expenses during 2012 for proje administration related to the Next Century program. The level of lump sum withdrawals during 2012 from one of t Company's pension plans by employees retiring or leaving the Company, primarily under the Next Century progra resulted in a non-cash pension settlement loss of $15.8 million. Expenses of $20.8 million were recorded in 2012 primari related to costs associated with the closure of a manufacturing facility and the relocation of production line

The charge of $39.3 million recorded in cost of sales during 2011 related primarily to accelerated depreciation of fix assets over a reduced estimated remaining useful life associated with the Next Century program. A charge of $5.0 milli was recorded in selling, marketing and administrative expenses during 2011 for project administration related to the Ne Century program. Plant closure expenses of $8.6 million were recorded in 2011 primarily related to costs associated wi the relocation of production lines. Employee separation costs were reduced by $9.5 million during 2011, which consisted an $11.2 million credit reflecting lower expected costs related to voluntary and involuntary terminations at the tw manufacturing facilities and a net benefits curtailment loss of $1.7 million also related to the employee termination

The charge of $13.6 million recorded in cost of sales during 2010 related primarily to accelerated depreciation of fix assets over a reduced estimated remaining useful life associated with the Next Century program. A charge of $1.5 milli was recorded in selling, marketing and administrative expenses during 2010 for project administration. Fixed ass impairment charges of $5.5 million were recorded during 2010. In determining the costs related to fixed asset impairmen fair value was estimated based on the expected sales proceeds. Employee separation costs of $33.2 million during 20 were related to expected voluntary and involuntary terminations at the two manufacturing faciliti

Global Supply Chain Transformation Progra

The charge of $5.8 million recorded in 2011 was due to a decline in the estimated net realizable value of two properti being held for sal

Tri-US, Inc. Impairment Charg

In February 2011, we acquired a 49% interest in Tri-US, Inc. of Boulder, Colorado, a company that manufactures, marke and sells nutritional beverages under the "mix1" brand name. We invested $5.8 million and accounted for this investr using the equity method until January 2012. In January 2012, we made an additional investment of $6.0 million in Tri-U Inc., resulting in a controlling ownership interest of approximately 69%. In December 2012, the Board of Directors Tri-US, Inc. decided to immediately cease operations and dissolve the company as a result of operational difficultie quality issues and competitive constraints. It was determined that investments necessary to continue the business would n generate a sufficient return. Accordingly, in December 2012, the Company recorded non-cash asset impairment charges approximately $7.5 million, primarily associated with the write off of goodwill and other intangible assets. These charg excluded the portion of the losses attributable to the noncontrolling interest

Godrej Hershey Ltd. Goodwill Impairme

As a result of operating performance that was below expectations, we completed an impairment evaluation of goodwill ar other intangible assets of Godrej Hershey Ltd. during the second quarter of 2010. As a result of reduced expectations f future cash flows from lower than expected profitability, we determined that the carrying amount of Godrej Hershey Lt exceeded its fair value. As a result, we recorded a non-cash goodwill impairment charge of $44.7 million to reduce th carrying value of Godrej Hershey Ltd. to its fair value, including a reduction to reflect the share of the charge associat with the noncontrolling interests. There was no tax benefit associated with this charge. For more information on o accounting policies for goodwill and other intangible assets see pages 44 and 4

Liabilities Associated with Business Realignment Initiativ

As of December 31, 2012, the liability balance relating to the Next Century program was $7.6 million primarily f estimated employee separation costs which were recorded in 2011 and 2010. We made payments against the liabiliti recorded for the Next Century program of $12.8 million in 2012 and $2.2 million in 2011 related to employee separatio and project administration costs and the remainder will be paid in 201

Income Before Interest and Income Taxes and EBIT Marg

2012 compared with 201

EBIT increased in 2012 compared with 2011 as a result of higher gross profit, substantially offset by higher sellin marketing and administrative expenses, and business realignment and impairment charges. Pre-tax net business realignme and impairment charges of $83.8 million were recorded in 2012 compared with $49.2 million recorded in 201

EBIT margin decreased from 17.4% in 2011 to 16.7% in 2012 primarily as a result of higher selling, marketing ar administrative expenses as a percentage of sales and the impact of higher business realignment and impairment costs whi more than offset the increase in gross margin. EBIT margin in 2012 was reduced by 0.3 percentage points compared wi 2011 as a result of the gain on the sale of trademark licensing rights recorded in 2011. The net impact of busine realignment, impairment and acquisition charges recorded in 2012 reduced EBIT margin by 1.3 percentage points. N business realignment and impairment charges recorded in 2011 reduced EBIT margin by 0.8 percentage poin

2011 compared with 201

EBIT increased in 2011 compared with 2010 as a result of higher gross profit and lower business realignment ar impairment charges. Higher selling, marketing and administrative expenses were offset somewhat by the pre-tax gain $17.0 million on the sale of trademark licensing rights. Pre-tax net business realignment and impairment charges $49.2 million were recorded in 2011 compared with $98.6 million recorded in 201

EBIT margin increased from 16.0% in 2010 to 17.4% in 2011 primarily as a result of the impact of lower busine realignment and impairment charges and lower selling, marketing and administrative expenses as a percentage of sales. Th gain on the sale of trademark licensing rights increased EBIT margin by 0.3 percentage points in 2011. The net impact business realignment and impairment charges recorded in 2011 reduced EBIT margin by 0.8 percentage points. N business realignment and impairment charges recorded in 2010 reduced EBIT margin by 1.7 percentage poin

Interest Expense, N

2012 compared with 201

Net interest expense in 2012 was higher than in 2011 primarily as a result of higher short-term borrowings and a decrease capitalized interest, partially offset by lower interest expense on long-term deb

2011 compared with 201

Net interest expense in 2011 was lower than in 2010 as a result of increased capitalized interest and a reduction

$5.9 million associated with the tender offer and repurchase of $57.5 million of 6.95% Notes recorded in December 201
These reductions were partially offset by increased interest expense resulting from higher average outstanding short-ter
deb

Income Taxes and Effective Tax Ra

2012 compared with 201

Our effective income tax rate was 34.9% for 2012 compared with 34.7% for 2011. The effective income tax rate w
slightly higher in 2012 primarily reflecting the impact of tax rates associated with business realignment and impairme
charges recorded in 2012 compared with 2011 and the mix of the Company's income among various tax jurisdiction

2011 compared with 201

Our effective income tax rate was 34.7% for 2011 compared with 37.0% for 2010. The effective income tax rate w
reduced by 0.1 percentage points in 2011 as a result of the effective tax rates associated with the gain on the sale
trademark licensing rights and business realignment and impairment charges. In 2010, the effective income tax rate w
increased by 1.8 percentage points as a result of the tax rates associated with business realignment and impairment charg
recorded during the period. Excluding the impact of tax rates associated with the gain on sale of the trademark licensi
rights and business realignment and impairment charges, our effective tax rate decreased in 2011 as a result of discrete t
benefits recognized in 201

Net Income and Net Income Per Sha

2012 compared with 201

Earnings per share-diluted increased $0.15, or 5.5% in 2012 compared with 2011. Net income in 2012 was reduced b
$57.2 million, or $0.25 per share-diluted, as a result of net business realignment and impairment charges. Net income w
reduced by $9.2 million, or $0.04 per share-diluted, in 2012 as a result of closing and integration costs for the Brooksi
acquisition and by $12.7 million or $0.06 per share-diluted related to non-service-related pension expenses in 2012.
2011, net income was increased by $11.1 million, or $0.05 per share-diluted, as a result of the gain on sale of tradema
licensing rights and reduced by $30.9 million, or $0.13 per share-diluted, as a result of net business realignment a
impairment charges. Non-service-related pension expenses reduced net income by $2.0 million, or $0.01 per share-dilut
in 2011. Excluding the impact of business realignment and impairment charges and non-service-related pension expens
from both periods, the acquisition closing and integration costs in 2012 and the gain on the sale of trademark licensi
rights in 2011, adjusted earnings per share-diluted increased $0.41 per share, or 14.5% in 2012 compared with 201

2011 compared with 201

Earnings per share-diluted increased $0.53, or 24.0% in 2011 compared with 2010. Net income in 2011 was increased b
$11.1 million, or $0.05 per share-diluted, as a result of the gain on sale of trademark licensing rights and was reduced b
$30.9 million, or $0.13 per share-diluted, as a result of net business realignment and impairment charges. In 2010, n
income was reduced by $77.9 million or $0.34 per share-diluted as a result of business realignment and impairment charge
Net income was reduced by $2.0 million, or $0.01 per share-diluted, in 2011 and by $3.8 million, or $0.02 per share-dilute
in 2010 as a result of non-service-related pension expenses. Excluding the gain on the sale of trademark licensing rights a
the impact of business realignment and impairment charges and non-service-related pension expenses, adjusted earnings p
share-diluted increased $0.26 per share, or 10.1% in 2011 compared with 201

FINANCIAL CONDITIO

Our financial condition remained strong during 2012 reflecting strong cash flow from operation

Business Acquisitio

Acquisitions of businesses are accounted for as purchases and, accordingly, their results of operations have been included
the consolidated financial statements since the respective dates of the acquisitions. The purchase price for each of t
acquisitions is allocated to the assets acquired and liabilities assume

In January 2012, we acquired all of the outstanding stock of Brookside Foods Ltd. (“Brookside”), a privately
confectionery company based in Abbottsford, British Columbia, Canada. As part of this transaction, we acquired tw
production facilities located in British Columbia and Quebec. The Brookside product line is primarily sold in the U.S. a
Canada in a take home re-sealable pack type. At the time of the acquisition, annual net sales of the business we
approximately $90 million. The business complements our position in North America and we are making investments
manufacturing capabilities and conducting market research that will enable future growt

Our financial statements reflect the final accounting for the Brookside acquisition. The purchase price for the acquisitic was approximately $172.9 million. The purchase price allocation of the Brookside acquisition is as follow

In thousands of dollars	Purchase Price Allocation	Estimated Usef Life in Years
Goodwill	$67,974	Indefinite
Trademarks	60,253	25
Other intangibles[1]	51,057	6 to 17
Other assets, net of liabilities assumed of $18.7 million	21,673	
Non-current deferred tax liabilities	(28,101)	
Purchase Price	$172,856	

(1) Includes customer relationships, patents and covenants not to compete.

The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded goodwill. The goodwill is not expected to be deductible for tax purpose

In February 2011, we acquired a 49% interest in Tri-US, Inc. of Boulder, Colorado, a company that manufactures, marke and sells nutritional beverages under the "mix1" brand name. We invested $5.8 million and accounted for this investr using the equity method until January 2012. In January 2012, we made an additional investment of $6.0 million in Tri-U Inc., resulting in a controlling ownership interest of approximately 69%. In December 2012, the Board of Directors Tri-US, Inc. decided to immediately cease operations and dissolve the company as a result of operational difficultie quality issues and competitive constraints. It was determined that investments necessary to continue the business would n generate a sufficient return. Accordingly, in December 2012, the Company recorded non-cash impairment charges approximately $7.5 million, primarily associated with the write off of goodwill and other intangible assets. These charg excluded the portion attributable to the noncontrolling interests in Tri-US, In

We included results subsequent to the acquisition dates in the consolidated financial statements. If we had included tl results of the acquisitions in the consolidated financial statements for each of the periods presented, the effect would n have been materia

Asse

A summary of our assets is as follow

December 31, In thousands of dollars	2012	2011
Current assets	$2,113,485	$2,046,558
Property, plant and equipment, net	1,674,071	1,559,717
Goodwill and other intangibles	802,716	628,658
Deferred income taxes	12,448	33,439
Other assets	152,119	138,722
Total assets	$4,754,839	$4,407,094

l The change in current assets from 2011 to 2012 was primarily due to the following:

Higher cash and cash equivalents in 2012 reflecting strong cash flow from operations and short-term borrowings which exceeded our cash requirements for the year;

An increase in accounts receivable reflecting higher sales in December 2012 compared with December 2011, in addition to incremental accounts receivable associated with the Brookside acquisition;

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  - Raw materials and finished goods inventories were higher due to increased costs and the Brookside acquisition in 2012, however, these increases were partially offset by a decline in raw material inventories associated with manufacturing requirements and lower finished goods inventories which were higher at the end of 2011 in anticipation of the transition of production to our West Hershey manufacturing facility in 2012. In addition, the impact of inventory cost increases in 2012 was offset by adjustments associated with inventories valued under the last-in, first-out method, resulting in lower total inventories as of December 31, 2012; and
  - A decrease in deferred income taxes principally related to the effect of hedging transactions.
- Property, plant and equipment was higher in 2012, reflecting capital additions of $258.7 million, partly offset by depreciation expense of $174.8 million. Depreciation expense included accelerated depreciation of fixed assets of $15.3 million at a manufacturing facility that was closed during 2012, as well as certain asset retirements resulting primarily from the Next Century program.
- Goodwill and other intangibles increased primarily due to the Brookside acquisition.
- Other assets increased primarily due to the loan to our affiliate in China to finance the expansion of manufacturing capacity.

Liabiliti

A summary of our liabilities is as follow

December 31,	2012	2011
In thousands of dollars		
Current liabilities	$1,471,110	$1,173,775
Long-term debt	1,530,967	1,748,500
Other long-term liabilities	668,732	603,876
Deferred income taxes	35,657	—
Total liabilities	$3,706,466	$3,526,151

- Changes in current liabilities from 2011 to 2012 were primarily the result of the following:
  - Higher accounts payable reflecting the timing of payments associated with inventory deliveries to support manufacturing requirements and an increase in amounts payable for marketing programs, partially offset by lower amounts payable for capital expenditures;
  - Higher accrued liabilities related to promotions, incentive compensation and interest rate swap agreements, partially offset by lower liabilities associated with the Next Century program and employee benefits;
  - An increase in short-term debt primarily associated with the financing of the Brookside acquisition in January 2012, along with higher short-term borrowings for certain international businesses, partially offset by the repayment of short-term debt of Godrej Hershey Ltd. after we acquired the remaining 49% interest in September 2012; and
  - An increase in the current portion of long-term debt reflecting the reclassification of $250 million of 5.0% Notes due in 2013 from long-term debt, partially offset by the repayment of 6.95% Notes in 2012.
- A decrease in long-term debt reflecting the reclassification of $250 million of 5.0% Notes due in November 2013, partially offset by obligations under an agreement with the Ferrero Group (“Ferrero”), an international packaged goods company, for the construction of a warehouse and distribution facility.
- An increase in other long-term liabilities reflecting the change in the funded status of our pension plans as of December 31, 2012.
- Deferred income tax liabilities as of December 31, 2012, resulting from temporary differences related to certain intangible assets associated with the Brookside acquisition.

Capital Structu

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

Hershey Trust Company, as trustee for the benefit of Milton Hershey School maintains voting control over The Hershe Company. In this section, we refer to Hershey Trust Company, in its capacity as trustee for the benefit of Milton Hershe School, as the "Milton Hershey School Trust" or the "Trust." In addition, the Milton Hershey School Trust currently ha representatives who are members of the Board of Directors of the Company, one of whom is the Chairman of the Boar These representatives, from time to time in performing their responsibilities on the Company's Board, may exerc influence with regard to the ongoing business decisions of our Board of Directors or management. The Trust has indicate that, in its role as controlling stockholder of the Company, it intends to retain its controlling interest in The Hershe Company and the Company Board, and not the Trust Board, is solely responsible and accountable for the Compan management and performanc

As previously reported, Pennsylvania enacted legislation that requires that the Office of Attorney General be provide advance notice of any transaction that would result in the Milton Hershey School Trust no longer having voting control the Company. The law provides specific statutory authority for the Attorney General to intercede and petition the Cou having jurisdiction over the Milton Hershey School Trust to stop such a transaction if the Attorney General can prove th the transaction is unnecessary for the future economic viability of the Company and is inconsistent with investment ar management considerations under fiduciary obligations. This legislation could have the effect of making it more difficu for a third party to acquire a majority of our outstanding voting stock and thereby delay or prevent a change in control of t Compan

Noncontrolling Interests in Subsidiari

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., a consumer goods, confectionery ar food company, to manufacture and distribute confectionery products, snacks and beverages across India. Under t agreement, we owned a 51% controlling interest in Godrej Hershey Ltd. In June 2010, the Company and the noncontrolli interests executed a rights agreement with Godrej Hershey Ltd. in the form of unsecured compulsorily and fully convertib debentures. The Company contributed cash of approximately $11.1 million and the noncontrolling interests contribute $9.3 million associated with the rights agreement. The ownership interest percentages in Godrej Hershey Ltd. did n change significantly as a result of these contributions. The noncontrolling interests in Godrej Hershey Ltd. were included the equity section of the Consolidated Balance Sheets. In September 2012, we acquired the remaining 49% interest Godrej Hershey Ltd. for approximately $15.8 million. Since the Company had a controlling interest in Godrej Hershey Lt the difference between the amount paid and the carrying amount of the noncontrolling interest of $10.3 million w recorded as a reduction to additional paid-in capital and the noncontrolling interest in Godrej Hershey Ltd. was eliminat as of September 30, 201

We own a 51% controlling interest in Hershey do Brasil under a cooperative agreement with Pandurata Netherlands B. ("Bauducco"), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. During 2012 Company contributed cash of approximately $3.1 million to Hershey do Brasil and Bauducco contributed approximate $2.9 million. During 2012, we also loaned $7.0 million to Hershey do Brasil to finance manufacturing capacity expansio In September 2010, the Company contributed cash of approximately $1.0 million to Hershey do Brasil and Bauduc contributed approximately $0.9 million. The noncontrolling interest in Hershey do Brasil is included in the equity section the Consolidated Balance Shee

The decrease in noncontrolling interests in subsidiaries from $23.6 million as of December 31, 2011 to $11.6 million as December 31, 2012 reflected the impact of the acquisition of the remaining 49% interest in Godrej Hershey Ltd. September 2012 and the noncontrolling interests' share of losses of these entities, as well as the impact of curren translation adjustments. These decreases were partially offset by the impact of the cash contributed by Bauducco. The sha of losses pertaining to the noncontrolling interests in subsidiaries was $9.6 million for the year ended December 31, 201 $7.4 million for the year ended December 31, 2011 and $8.2 million for the year ended December 31, 2010. This w reflected in selling, marketing and administrative expense

2

LIQUIDITY AND CAPITAL RESOURCE

Our principal source of liquidity is operating cash flows. Our net income and, consequently, our cash provided fro operations are impacted by: sales volume, seasonal sales patterns, timing of new product introductions, profit margins ar price changes. Sales are typically higher during the third and fourth quarters of the year due to seasonal and holiday-relate sales patterns. Generally, working capital needs peak during the summer months. We meet these needs primarily b utilizing cash on hand or by issuing commercial pape

Cash Flows from Operating Activiti

Our cash flows provided from (used by) operating activities were as follow

For the years ended December 31, In thousands of dollars	2012	2011	2010
Net income	$660,931	$628,962	$509,799
Depreciation and amortization	210,037	215,763	197,116
Stock-based compensation and excess tax benefits	16,606	29,471	48,083
Deferred income taxes	13,785	33,611	(18,654
Gain on sale of trademark licensing rights, net of tax	—	(11,072)	—
Non-cash business realignment and impairment charges	38,144	34,660	62,104
Contributions to pension and other benefit plans	(44,208)	(31,671)	(27,723
Working capital	(2,133)	(116,909)	96,853
Changes in other assets and liabilities	201,665	(194,948)	33,845
Net cash provided from operating activities	$1,094,827	$587,867	$901,423

- Over the past three years, total cash provided from operating activities was approximately $2.6 billion.
- Depreciation and amortization expenses decreased in 2012, as compared with 2011, principally as the result of lower accelerated depreciation charges related to the Next Century program somewhat offset by higher depreciation and amortization charges related to the Brookside acquisition. Depreciation and amortization expenses increased in 2011, in comparison with 2010, primarily due to higher accelerated depreciation charges related to the Next Century program. Accelerated depreciation recorded in 2012 was approximately $15.3 million compared with approximately $33.0 million recorded in 2011 and $12.4 million recorded in 2010. Depreciation and amortization expenses represent non-cash items that impacted net income and are reflected in the consolidated statements of cash flows to reconcile cash flows from operating activities.
- The deferred income tax provision was lower in 2012 than in 2011 primarily as a result of the lower tax impact associated with bonus depreciation resulting from reduced capital expenditures in 2012 for the Next Century program. The deferred tax provision in 2011 primarily reflected the tax impact associated with bonus depreciation related to capital expenditures and other charges recorded in 2011 for the Next Century program. The deferred income tax benefit in 2010 primarily resulted from the tax impact of deferred taxes associated with charges recorded in 2010 for the Next Century program. Deferred income taxes represent non-cash items that impacted net income and are reflected in the consolidated statements of cash flows to reconcile cash flows from operating activities.
- During the third quarter of 2011, we recorded an $11.1 million gain, net of tax, on the sale of certain non-core trademark licensing rights.
- We contributed $103.6 million to our pension and other benefit plans over the past three years primarily to pay benefits under the non-funded pension plans and our other benefit plans.

Over the three-year period, cash provided from working capital tended to fluctuate due to the timing of sales and cash collections during December of each year and working capital management practices, including initiatives implemented to reduce working capital. The increase in cash used by accounts receivable in 2012 was associated with higher sales in December 2012 compared with December 2011. Cash provided from changes in inventories in 2012 resulted from lower inventory levels which were higher at the end of 2011 in anticipation of the transition of production under the Next Century program. The increase in cash provided from changes in accounts payable in 2012 were associated with the timing of payments for inventory deliveries and marketing programs. Changes in cash used by inventories in 2011 was primarily associated with increases in inventory levels in anticipation of the transition of production under the Next Century program, along with higher inventories to support seasonal sales. Changes in cash provided by accounts payable in 2010 principally related to the timing of inventory deliveries to meet manufacturing requirements and, in 2010, also reflected increases in accounts payable associated with the timing of expenditures for advertising.

During the three-year period, cash provided from or used by changes in other assets and liabilities reflected the effect of hedging transactions and the impact of business realignment initiatives, along with the related tax effects. Cash provided from changes in other assets and liabilities in 2012 compared with cash used by changes in other assets and liabilities in 2011 primarily reflected the effect of hedging transactions of $304.2 million, the effect of changes in deferred and accrued income taxes of $44.1 million and business realignment initiatives of $46.8 million. Cash used by changes in other assets and liabilities in 2011 compared with cash provided by changes in other assets and liabilities in 2010 was primarily associated with the effect of hedging transactions of $158.5 million and the effect of changes in deferred and accrued income taxes of $35.4 million and business realignment initiatives of $26.7 million, partially offset by an increase in cash provided by the timing of payments associated with selling and marketing programs of $23.2 million.

Taxable income and related tax payments in 2012 and 2011 were reduced primarily by bonus depreciation tax deductions driven by capital expenditures associated with the Next Century program. This was offset somewhat by increases in income taxes paid associated with higher net income.

Cash Flows from Investing Activiti

Our cash flows provided from (used by) investing activities were as follow

For the years ended December 31, In thousands of dollars	2012	2011	2010
Capital additions	$ (258,727)	$ (323,961)	$ (179,538
Capitalized software additions	(19,239)	(23,606)	(21,949
Proceeds from sales of property, plant and equipment	453	312	2,201
Proceeds from sale of trademark licensing rights	—	20,000	—
Loan to affiliate	(23,000)	(7,000)	—
Business acquisitions	(172,856)	(5,750)	—
Net cash used by investing activities	$ (473,369)	$ (340,005)	$ (199,286

Capital additions associated with our Next Century program in 2012 were $74.7 million, in 2011 were $179.4 million and in 2010 were $34.0 million. Other capital additions were primarily related to modernization of existing facilities and purchases of manufacturing equipment for new products.

Capitalized software additions were primarily for ongoing enhancement of our information systems.

We anticipate total capital expenditures, including capitalized software, of approximately $300 million in 2013.

- The loans to affiliate in 2012 and 2011 were associated with financing the expansion of capacity under our manufacturing agreement in China with Lotte Confectionery Company LTD.
- In January 2012, the Company acquired Brookside for approximately $172.9 million.

Cash Flows from Financing Activiti

Our cash flows provided from (used by) financing activities were as follow

For the years ended December 31, In thousands of dollars	2012	2011	2010
Net change in short-term borrowings	$ 77,698	$ 10,834	$ 1,156
Long-term borrowings	4,025	249,126	348,208
Repayment of long-term debt	(99,381)	(256,189)	(71,548
Proceeds from lease financing agreement	—	47,601	—
Cash dividends paid	(341,206)	(304,083)	(283,434
Exercise of stock options and excess tax benefits	295,473	198,408	93,418
Net (payments to) contributions from noncontrolling interests	(12,851)	—	10,199
Repurchase of Common Stock	(510,630)	(384,515)	(169,099
Net cash used by financing activities	$ (586,872)	$ (438,818)	$ (71,100

1 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. The increase in short-term borrowings in 2012 was primarily associated with the Brookside acquisition and our international businesses, partially offset by repayments of Godrej Hershey debt. Additional information on short-term borrowings is included under Borrowing Arrangements below.

1 In November 2011, we issued $250 million of 1.5% Notes due in 2016 and in December 2010, we issued $350 million of 4.125% Notes due in 2020. The long-term borrowings in 2011 and 2010 were issued under a shelf registration statement on Form S-3 filed in May 2009 described under Registration Statements below.

1 In August 2012, we repaid $92.5 million of 6.95% Notes due in 2012. Additionally, in September 2011 we repaid $250.0 million of 5.3% Notes due in 2011.

1 In December 2010, we paid $63.4 million to repurchase $57.5 million of our 6.95% Notes due in 2012 as part of a cash tender offer. As a result of the repurchase, we recorded interest expense of $5.9 million, which reflected the premium paid on the tender offer. We used a portion of the proceeds from the $350 million of 4.125% Notes issued in December 2010 to fund the repurchase.

1 In September 2011, we entered into a sale and leasing agreement for the 19 East Chocolate Avenue manufacturing facility. Based on the leasing agreement, we are deemed to be the owner of the property for accounting purposes. We received net proceeds of $47.6 million and recorded a lease financing obligation of $50.0 million under the leasing agreement.

1 In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., a consumer goods, confectionery and food company, to manufacture and distribute confectionery products, snacks and beverages across India. Under the agreement, we owned a 51% controlling interest in Godrej Hershey Ltd. In September 2012, we acquired the remaining 49% interest in Godrej Hershey Ltd. for approximately $15.8 million. Payments to noncontrolling interests associated with Godrej Hershey Ltd. were partially offset by equity contributions of $2.9 million by the noncontrolling interests in Hershey do Brasil, in addition to the contribution from the noncontrolling interests in Hershey do Brasil received in 2010.

1 We paid cash dividends of $255.6 million on our Common Stock and $85.6 million on our Class B Stock in 2012.

1

Cash used for the repurchase of Common Stock was partially offset by cash received from the exercise of stock options and the impact of excess tax benefits from stock-based compensation.

Repurchases and Issuances of Common Sto

For the years ended December 31,	2012		2011		2010	
In thousands	Shares	Dollars	Shares	Dollars	Shares	Dollars
Shares repurchased under authorized programs:						
Open market repurchases	2,054	$124,931	1,903	$100,015	—	$—
Shares repurchased to replace reissued shares	5,599	385,699	5,179	284,500	3,932	169,099
Total share repurchases	7,653	510,630	7,082	384,515	3,932	169,099
Shares issued for stock-based compensation programs	(6,233)	(210,924)	(5,258)	(177,654)	(2,964)	(96,627
Net change	1,420	$299,706	1,824	$206,861	968	$72,472

l We intend to repurchase shares of Common Stock in order to replace Treasury Stock shares issued for exercised stock options and other stock-based compensation. The value of shares purchased in a given period will vary based on stock options exercised over time and market conditions.

l In April 2011, our Board of Directors approved a new $250 million authorization to repurchase shares of our Common Stock. As of December 31, 2012, $125.1 million remained available for repurchases of our Common Stock.

Cumulative Share Repurchases and Issuanc

A summary of cumulative share repurchases and issuances is as follow

	Shares	Dollars
	In thousands	
Shares repurchased under authorized programs:		
Open market repurchases	61,393	$2,209,377
Repurchases from the Milton Hershey School Trust	11,918	245,550
Shares retired	(1,056)	(12,820
Total repurchases under authorized programs	72,255	2,442,107
Privately negotiated purchases from the Milton Hershey School Trust	67,282	1,501,373
Shares repurchased to replace reissued shares	41,339	1,902,552
Shares issued for stock-based compensation programs and employee benefits	(44,760)	(1,287,364
Total held as Treasury Stock as of December 31, 2012	136,116	$4,558,668

3

Borrowing Arrangemen

We maintain debt levels we consider prudent based on our cash flow, interest coverage ratio and percentage of debt capital. We use debt financing to lower our overall cost of capital which increases our return on stockholders' equi

- In October 2011, we entered into a new five-year agreement establishing an unsecured revolving credit facility to borrow up to $1.1 billion, with an option to increase borrowings by an additional $400 million with the consent of the lenders. As of December 31, 2012, $1.1 billion was available to borrow under the agreement. The unsecured revolving credit agreement contains certain financial and other covenants, customary representations, warranties and events of default. As of December 31, 2012, we complied with all of these covenants. We may use these funds for general corporate purposes, including commercial paper backstop and business acquisitions.
- In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial banks. As of December 31, 2012, we could borrow up to approximately $176.7 million in various currencies under the lines of credit and as of December 31, 2011, we could borrow up to $76.9 million.

Registration Statemen

- In May 2009, we filed a shelf registration statement on Form S-3 that registered an indeterminate amount of debt securities. This registration statement was effective immediately upon filing under Securities and Exchange Commission regulations governing "well-known seasoned issuers" (the "2009 WKSI Registration Statement").
- In November 2011, we issued $250 million of 1.50% Notes due November 1, 2016 and, in December 2010, we issued $350 million of 4.125% Notes due December 1, 2020. The Notes were issued under the 2009 WKSI Registration Statement.
- The 2009 WKSI Registration Statement expired in May 2012. Accordingly, in May 2012, we filed a new registration statement on Form S-3 to replace the 2009 WKSI Registration Statement. The registration statement filed in May 2012 registered an undeterminate amount of debt securities effective immediately.
- Proceeds from the debt issuances and any other offerings under the registration statement filed in 2012 may be used for general corporate requirements. These may include reducing existing borrowings; financing capital additions; and funding contributions to our pension plans, future business acquisitions and working capital requirements.

OFF-BALANCE SHEET ARRANGEMENTS, CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIE AND COMMITMENT

As of December 31, 2012, our contractual cash obligations by year were as follow

	Payments Due by Year In thousands of dollars						
Contractual Obligations	2013	2014	2015	2016	2017	Thereafter	Total
Unconditional Purchase Obligations	$1,216,200	$497,600	$298,700	$155,500	$—	$—	$2,168,000
Lease Obligations	13,688	11,782	10,904	9,881	8,005	5,544	59,804
Minimum Pension Plan Funding Obligations	2,780	5,280	5,650	5,750	9,652	48,335	77,447
Long-term Debt	257,734	854	250,854	500,708	422	778,129	1,788,701
Total Obligations	$1,490,402	$515,516	$566,108	$671,839	$18,079	$832,008	$4,093,952

In entering into contractual obligations, we have assumed the risk that might arise from the possible inability counterparties to meet the terms of their contracts. We mitigate this risk by performing financial assessments prior contract execution, conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio qualified counterparties. As of December 31, 2012, we did not have any material obligations with European financi institutions. Our risk is limited to replacing the contracts at prevailing market rates. We do not expect any significant loss resulting from counterparty default

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Purchase Obligatio

We enter into certain obligations for the purchase of raw materials. These obligations were primarily in the form of forwa contracts for the purchase of raw materials from third-party brokers and dealers. These contracts minimize the effect future price fluctuations by fixing the price of part or all of these purchase obligations. Total obligations for each ye presented above consisted of fixed price contracts for the purchase of commodities and unpriced contracts that were valu using market prices as of December 31, 201

The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. W mitigate the variability of these costs to the extent we have entered into commodities futures contracts or other commodi derivative instruments to hedge our costs for those periods. Increases or decreases in market prices are offset by gains losses on commodities futures contracts or other commodity derivative instruments. This applies to the extent that we ha hedged the unpriced contracts as of December 31, 2012 and in future periods by entering into commodities futur contracts. Taking delivery of and making payments for the specific commodities for use in the manufacture of finish goods satisfies our obligations under the forward purchase contracts. For each of the three years in the period end December 31, 2012, we satisfied these obligations by taking delivery of and making payment for the specific commoditie

Lease Obligatio

Lease obligations include the minimum rental commitments under non-cancelable operating leases primarily for office retail stores, warehouse and distribution facilities, and certain equipme

Minimum Pension Plan Funding Obligatio

Our policy is to fund domestic pension liabilities in accordance with the minimum and maximum limits imposed by t Employee Retirement Income Security Act of 1974 (“ERISA”) and federal income tax laws. Effective January 1, 2008 complied with the funding requirements of the Pension Protection Act of 2006. We fund non-domestic pension liabilities accordance with laws and regulations applicable to those plans. Minimum pension plan funding obligations include o current assumptions and estimates of the minimum required contributions to our defined benefit pension plans throu 2018. For more information, see Note 14, Pension and Other Post-Retirement Benefit Pla

Long-term De

Long-term debt primarily includes obligations associated with the issuance of long-term debt instrumen

In February 2012, we entered into agreements with Ferrero, forming an alliance to mutually benefit from vario warehousing, co-packing, transportation and procurement services in North America. The initial terms of the agreeme are 10 years, with three renewal periods, each with a term of 10 years. The agreements include the construction o warehouse and distribution facility in Brantford, Ontario, Canada for the mutual use of the Company and Ferrero. Ferrero responsible for construction of the warehouse and we are responsible for development and implementation of relat information systems. Over the term of the agreements, costs associated with the warehouse construction and the informati systems will essentially be shared equall

During 2012, Ferrero made payments of approximately $36.0 million and we made payments of approximately $5.1 milli for construction of the facility. Because we were involved with the design of the facility and made payments during t construction period, the Company has been deemed to be the owner of the warehouse and distribution facility f accounting purposes. As a result, we recorded a total of $41.1 million in construction in progress as of December 31, 201 including the payments made by Ferrero, the legal owner of the facility. A corresponding financing obligation $36.0 million was recorded as of December 31, 2012, reflecting the amount paid by Ferrero. Of the total financi obligation, $6.2 million was recorded in the current portion of long-term debt reflecting our expected payments in 2013 a the remainder of $29.8 million was recorded in long-term de

Asset Retirement Obligatio

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. O asbestos management program is compliant with current applicable regulations. Current regulations require that we hand or dispose of asbestos in a special manner if such facilities undergo major renovations or are demolished. Costs associat with the removal of asbestos related to the closure of a manufacturing facility under the Next Century program we recorded in 2012 and included in business realignment and impairment charges. The costs associated with the removal asbestos from the facility were not material. With regard to other facilities, we believe we do not have sufficient informati to estimate the fair value of any asset retirement obligations related to these facilities. We cannot specify the settlement da or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected prese value techniqu

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We expect to maintain the facilities with repairs and maintenance activities that would not involve or require the removal asbesto

As of December 31, 2012, certain real estate associated with the closure of facilities under the global supply cha transformation program was being held for sale. Obligations related to the environmental remediation of this real esta have been reflected in our current estimate

Income Tax Obligatio

We base our deferred income taxes, accrued income taxes and provision for income taxes upon income, statutory tax rate the legal structure of our Company and interpretation of tax laws. We are regularly audited by federal, state and foreign t authorities. From time to time, these audits result in assessments of additional tax. We maintain reserves for su assessments. We adjust the reserves based upon changing facts and circumstances, such as receiving audit assessments clearing of an item for which a reserve has been established. Assessments of additional tax require cash payments. We a not aware of any significant income tax assessments. The amount of tax obligations is not included in the table contractual cash obligations by year on page 34 because we are unable to reasonably predict the ultimate amount or timi of settlement of our reserves for income taxe

ACCOUNTING POLICIES AND MARKET RISKS ASSOCIATED WITH DERIVATIVE INSTRUMENT

We use certain derivative instruments, from time to time, to manage risks. These include interest rate swaps to mana interest rate risk; foreign currency forward exchange contracts and options to manage foreign currency exchange rate ris and commodities futures and options contracts to manage commodity market price risk exposure

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

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract executio conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualifi counterparties. We do not expect any significant losses from counterparty default

Accounting Policies Associated with Derivative Instrumen

We report the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flo hedging instrument as a component of other comprehensive income. We reclassify the effective portion of the gain or lo on these derivative instruments into income in the same period or periods during which the hedged transaction affec earnings. The remaining gain or loss on the derivative instrument resulting from hedge ineffectiveness, if any, must recognized currently in earning

Fair value hedges pertain to derivative instruments that qualify as a hedge of exposures to changes in the fair value of a fir commitment or assets and liabilities recognized on the balance sheet. For fair value hedges, our policy is to record the ga or loss on the derivative instrument in earnings in the period of change together with the offsetting loss or gain on t hedged item. The effect of that accounting is to reflect in earnings the extent to which the hedge is not effective in achievi offsetting changes in fair valu

As of December 31, 2012, we designated and accounted for all derivative instruments, including interest rate sw agreements, foreign exchange forward contracts and options, commodities futures and options contracts, and oth commodity derivative instruments as cash flow hedges. Additional information regarding accounting policies associat with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activitie

The information below summarizes our market risks associated with long-term debt and derivative instruments outstandi as of December 31, 2012. Note 1, Note 6 and Note 7 to the Consolidated Financial Statements provide addition informatio

Long-term De

The table below presents the principal cash flows and related interest rates by maturity date for long-term debt, includi the current portion, as of December 31, 2012. We determined the fair value of long-term debt based upon quoted mark prices for the same or similar debt issue

	Maturity Date							
	2013	2014	2015	2016	2017	Thereafter	Total	Fair Value
In thousands of dollars except for rates								
Long-term Debt	$257,734	$854	$250,854	$500,708	$422	$778,129	$1,788,701	$2,060,836
Interest Rate	5.0 %	7.4 %	4.9 %	3.5 %	7.3 %	5.9 %	4.9 %	

We calculated the interest rates on variable rate obligations using the rates in effect as of December 31, 201

Interest Rate Swa

In order to manage interest rate exposure, the Company, from time to time, enters into interest rate swap agreements. April 2012, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure relat to the anticipated $250 million of term financing expected to be executed during 2013 to repay $250 million of 5.0% Not maturing in April 2013. The weighted-average fixed rate on these forward starting swap agreements was 2.4%. In M 2012, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure related to t anticipated $250 million of term financing expected to be executed during 2015 to repay $250 million of 4.85% Not maturing in August 2015. The weighted-average fixed rate on these forward starting swap agreements was 2.7

The fair value of interest rate swap agreements was a liability of $13.4 million as of December 31, 2012. Our risk related interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rates. As of Decemb 31, 2012, the potential net loss associated with interest rate swap agreements resulting from a hypothetical near-ter adverse change in interest rates of ten percent was approximately $11.0 millio

In March 2009, we entered into forward starting interest rate swap agreements to hedge interest rate exposure related to t anticipated $250 million of term financing expected to be executed during 2011. In September 2011, the forward starti interest rate swap agreements which were entered into in March 2009 matured, resulting in cash payments by the Compa of approximately $26.8 million. Also in September 2011, we entered into forward starting swap agreements to continue hedge interest rate exposure related to the term financing. These swap agreements were terminated upon the issuance of t 1.5% Notes due November 1, 2016, resulting in cash payments by the Company of $2.3 million. The losses on the sw agreements are being amortized as an increase to interest expense over the term of the Note

In December 2010, we terminated forward starting swap agreements which were entered into in August 2010 to hedge t anticipated execution of term financing. The swap agreements were terminated upon the issuance of the 4.125% Notes d December 1, 2020, resulting in cash receipts of $13.5 million. The gain on the swap agreements is being amortized as reduction to interest expense over the term of the Note

For more information see Note 6, Derivative Instruments and Hedging Activitie

Foreign Exchange Forward Contracts and Optio

We enter into foreign exchange forward contracts and options to hedge transactions denominated in foreign currenci These transactions are primarily purchase commitments or forecasted purchases of equipment, raw materials and finish goods. We also may hedge payment of forecasted intercompany transactions with our subsidiaries outside of the Unit States. These contracts reduce currency risk from exchange rate movements. We generally hedge foreign currency pri risks for periods from 3 to 24 month

Foreign exchange forward contracts are effective as hedges of identifiable foreign currency commitments or forecast transactions. We designate our foreign exchange forward contracts as cash flow hedging derivatives. The fair value of the contracts is classified as either an asset or liability on the Consolidated Balance Sheets. We record gains and losses on the contracts as a component of other comprehensive income and reclassify them into earnings in the same period during whi the hedged transaction affects earning

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

December 31,	2012		2011	
	Contract Amount	Primary Currencies	Contract Amount	Primary Currencies
In millions of dollars				
Foreign exchange forward contracts to purchase foreign currencies	$17.1	Euros British pound sterling	$50.4	Euros British pound sterling
Foreign exchange forward contracts to sell foreign currencies	$57.8	Canadian dollars	$99.6	Canadian dollars

The fair value of foreign exchange forward contracts is the amount of the difference between the contracted and curre market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchange forwa contracts on a quarterly basis by obtaining market quotes of spot and forward rates for contracts with similar terms, adjust where necessary for maturity difference

A summary of the fair value and market risk associated with foreign exchange forward contracts is as follow

December 31,	2012	2011
In millions of dollars		
Fair value of foreign exchange forward contracts, net — asset (liability)	$1.2	$(1.4
Potential net loss associated with foreign exchange forward contracts resulting from a hypothetical near-term adverse change in market rates of ten percent	$7.9	$19.4

Our risk related to foreign exchange forward contracts is limited to the cost of replacing the contracts at prevailing mark rate

Commodities—Price Risk Management and Futures Cont

Our most significant raw material requirements include cocoa products, sugar, dairy products, peanuts and almonds. F more information on our major raw material requirements, see Raw Materials on page 5. The cost of cocoa products a prices for related futures contracts and costs for certain other raw materials historically have been subject to wi fluctuations attributable to a variety of factors. These factors includ

- Commodity market fluctuations;
- Currency exchange rates;
- Imbalances between supply and demand;
- The effect of weather on crop yield;
- Speculative influences;
- Trade agreements among producing and consuming nations;
- Political unrest in producing countries; and
- Changes in governmental agricultural programs and energy policies.

We use futures and options contracts and other commodity derivative instruments in combination with forward purchasi of cocoa products, sugar, corn sweeteners, natural gas and certain dairy products primarily to reduce the risk of future pri increases and provide visibility to future costs. Currently, active futures contracts are not available for use in pricing o other major raw material requirements, primarily peanuts and almonds. We attempt to minimize the effect of future pri fluctuations related to the purchase of raw materials by using forward purchasing to cover future manufacturi requirements generally for 3 to 24 months. However, the dairy futures markets are not as developed as many of the oth commodities futures markets and, therefore, it is difficult to hedge our costs for dairy products by entering into futur contracts or other derivative instruments to extend coverage for long periods of time. We use diesel swap futures contra to minimize price fluctuations associated with our transportation costs. Our commodity procurement practices are intend to reduce the risk of future price increases and provide visibility to future costs, but also may potentially limit our ability benefit from possible price decrease

During 2012, the average cocoa futures contract prices decreased compared with 2011, and traded in a range between $1. and $1.00 per pound, based on the IntercontinentalExchange futures contract. After trading at 37-year highs in early 201 cocoa prices moderated in 2012. Our costs for cocoa products will not necessarily reflect market price fluctuations primari because of our forward purchasing and hedging practice

During 2012, prices for fluid dairy milk ranged from a low of $0.14 to a high of $0.19 per pound, on a class II fluid mi basis. Higher feed prices resulting from the historic drought in the U.S. caused dairy prices to rise starting in July, but not the price levels experienced during 2011. Our costs for certain dairy products may not necessarily reflect market pri fluctuations because of our forward purchasing practice

In early 2012, sugar supplies in the U.S. were negatively impacted by government import restrictions; however, ide weather in the North American sugar-growing regions caused prices to trade lower in the Fall of 2012. As a result, refin sugar prices have decreased compared to 2011, trading lower in a range from $0.54 to $0.37 per pound. Our costs for sug will not necessarily reflect market price fluctuations primarily because of our forward purchasing and hedging practice

Peanut prices in the U.S. began the year around $1.25 per pound and decreased during the year to $0.52 per pound. Pri decreases were driven by a record crop of 3.4 million tons, up 85% from 2011. Almond prices began the year at $2.20 p pound and increased to $2.90 per pound during the year driven by a decrease in almond production of approximately 8 versus 2011. Our costs for peanuts and almonds will not necessarily reflect market price fluctuations because of our forwa purchasing practice

We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes in the value futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represent unrealiz gains and losses. We report these cash transfers as a component of other comprehensive income. The cash transfers offs higher or lower cash requirements for the payment of future invoice prices of raw materials, energy requirements a transportation cos

Commodity Position Sensitivity Analys

The following sensitivity analysis reflects our market risk to a hypothetical adverse market price movement of 10%, bas on our net commodity positions at four dates spaced equally throughout the year. Our net commodity positions consist the amount of futures contracts we hold over or under the amount of futures contracts we need to price unpriced physic forward contracts for the same commodities. Inventories, fixed-price forward contracts and anticipated purchases not y under contract were not included in the sensitivity analysis calculations. We define a loss, for purposes of determini market risk, as the potential decrease in fair value or the opportunity cost resulting from the hypothetical adverse pri movement. The fair values of net commodity positions reflect quoted market prices or estimated future prices, includi estimated carrying costs corresponding with the future delivery perio

For the years ended December 31,	2012		2011	
	Fair Value	Market Risk (Hypothetical 10% Change)	Fair Value	Market Risk (Hypothetical 10% Change)
In millions of dollars				
Highest long position	$35.8	$3.6	$(204.8	) $20.5
Lowest long position	(167.2	) 16.7	(505.9	) 50.6
Average position (long)	(44.0	) 4.4	(413.1	) 41.3

Decreases or increases in fair values from 2011 to 2012 primarily reflected changes in net commodity positions. T negative positions primarily resulted as unpriced physical forward contract futures requirements exceeded the amount commodities futures that we held at certain points in time during the yea

USE OF ESTIMATES AND OTHER CRITICAL ACCOUNTING POLICIE

Our consolidated financial statements are prepared in accordance with GAAP. In various instances, GAAP requir management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financi statements and accompanying notes. We believe that our most critical accounting policies and estimates relate to t followin

- Accrued Liabilities
- Pension and Other Post-Retirement Benefits Plans
- Goodwill and Other Intangible Assets
- Commodities Futures and Options Contracts
- Income Taxes

Management has discussed the development, selection and disclosure of critical accounting policies and estimates with t Audit Committee of our Board of Directors. While we base estimates and assumptions on our knowledge of current even and actions we may undertake in the future, actual results may ultimately differ from these estimates and assumptions. W discuss our significant accounting policies in Note 1, Summary of Significant Accounting Policie

Accrued Liabiliti

Accrued liabilities requiring the most difficult or subjective judgments include liabilities associated with marketi promotion programs and potentially unsaleable product

Liabilities associated with marketing promotion progra

We recognize the costs of marketing promotion programs as a reduction to net sales along with a corresponding accru liability based on estimates at the time of revenue recognitio

Information on our promotional costs and assumptions is as follow

For the years ended December 31, In millions of dollars	2012	2011	2010
Promotional costs	$949.3	$945.9	$767.6

- We determine the amount of the accrued liability by:
  - Analysis of programs offered;
  - Historical trends;
  - Expectations regarding customer and consumer participation;
  - Sales and payment trends; and
  - Experience with payment patterns associated with similar, previously offered programs.
- The estimated costs of these programs are reasonably likely to change in the future due to change in trends with regard to customer and consumer participation, particularly for new programs and for programs related to the introduction of new products.
- Reasonably possible near-term changes in the most material assumptions regarding the cost of promotional programs could result in changes within the following range:
  - A reduction in costs of approximately $9.5 million; and
  - An increase in costs of approximately $4.3 million.
- Changes in these assumptions would affect net sales and income before income taxes.
- Over the three-year period ended December 31, 2012, actual promotion costs have not deviated from the estimated amounts by more than approximately 3%.
- Reasonably possible near-term changes in estimates related to the cost of promotional programs would not have a material impact on our liquidity or capital resources.

Liabilities associated with potentially unsaleable produc

- At the time of sale, we estimate a cost for the possibility that products will become aged or unsaleable in the future. The estimated cost is included as a reduction to net sales.
- A related accrued liability is determined using statistical analysis that incorporates historical sales trends, seasonal timing and sales patterns, and product movement at retail.
- Estimates for costs associated with unsaleable products may change as a result of inventory levels in the distribution channel, current economic trends, changes in consumer demand, the introduction of new products and changes in trends of seasonal sales in response to promotional programs.
- Over the three-year period ended December 31, 2012, costs associated with aged or unsaleable products have amounted to approximately 2% of gross sales.
- Reasonably possible near-term changes in the most material assumptions regarding the estimates of such costs would have increased or decreased net sales and income before income taxes in a range from $0.7 million to $1.3 million.
- Over the three-year period ended December 31, 2012, actual costs have not deviated from our estimates by more than approximately 4%.
- Reasonably possible near-term changes in the estimates of costs associated with unsaleable products would not have a material impact on our liquidity or capital resources.

Pension and Other Post-Retirement Benefits Pla

Overvie

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

We fund domestic pension liabilities in accordance with the limits imposed by the Employee Retirement Income Securi Act of 1974 and federal income tax laws. Beginning January 1, 2008, we complied with the funding requirements of tl Pension Protection Act of 2006. We fund non-domestic pension liabilities in accordance with laws and regulatio applicable to those plans. We broadly diversify our pension plan assets, consisting primarily of domestic and internation common stocks and fixed income securities. Short-term and long-term liabilities associated with benefit plans are primari determined based on actuarial calculations. These calculations consider payroll and employee data, including age and yea of service, along with actuarial assumptions at the date of the financial statements. We take into consideration long-ter projections with regard to economic conditions, including interest rates, return on assets and the rate of increase compensation levels. With regard to liabilities associated with post-retirement benefit plans that provide health care and li insurance, we take into consideration the long-term annual rate of increase in the per capita cost of the covered benefits. W review the discount rate assumptions and revise them annually. The expected long-term rate of return on assets assumptio ("asset return assumption") for funded plans is of a longer duration and revised only when long-term asset return project demonstrate that nee

An employer that is a business entity and sponsors one or more single-employer defined benefit plans is required t

- Recognize the funded status of a benefit plan—measured as the difference between plan assets at fair value and the benefit obligation—in its statement of financial position. For a pension plan, the benefit obligation is the projected benefit obligation; for any other post-retirement benefit plan, such as a retiree health care plan, the benefit obligation is the accumulated post-retirement benefit obligation.
- Recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost.
- Measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position.
- Disclose in the notes to financial statements additional information about certain effects on net periodic benefit costs for the next fiscal year that arise from delayed recognition of the gains or

losses, prior service costs or credits, and transition assets or obligations.

Pension Pla

Our pension plan costs and related assumptions were as follows

For the years ended December 31 In millions of dollars	2012		2011		2010	
Service cost and amortization of prior service cost	$31.6		$31.1		$29.4	
Interest cost, expected return on plan assets and amortization of net loss	16.7		2.8		5.9	
Administrative expenses	0.5		0.6		0.4	
Net periodic pension benefit cost	$48.8		$34.5		$35.7	
Assumptions:						
Average discount rate assumptions—net periodic benefit cost calculation	4.5	%	5.2	%	5.7	
Average discount rate assumptions—benefit obligation calculation	3.7	%	4.5	%	5.2	
Asset return assumptions	8.0	%	8.0	%	8.5	

Net Periodic Pension Benefit Cos

We believe that the service cost and amortization of prior service cost components of net periodic pension benefit co reflect the ongoing operating cost of our pension plans, particularly since our most significant plans were closed to mo new entrants after 200

The increase in net periodic pension benefit cost from 2011 to 2012 was primarily due to the higher amortization actuarial losses in the current year. In addition to the increase in net periodic pension benefit cost in 2012, the level of lun sum withdrawals during 2012 from two of the Company's pension plans by employees retiring or leaving the Compa resulted in a pension settlement loss of $19.7 million. Our service cost and prior service cost amortization is expected to approximately $0.7 million higher in 2013. Interest cost, expected return on plan assets and amortization of net loss expected to decrease in 2013 by $5.3 million due primarily to the lower discount rate in 2012, in addition to expect pension settlement costs of $1.8 million in 2013. For more information, see Note 14, Pension and Other Post-Retireme Benefit Plan

Actuarial gains and losses may arise when actual experience differs from assumed experience or when we revise t actuarial assumptions used to value the plans' obligations. We only amortize the unrecognized net actuarial gains and los in excess of 10% of a respective plan's projected benefit obligation, or the fair market value of assets, if greater. T estimated recognized net actuarial loss component of net periodic pension benefit expense for 2013 is $40.6 million. T 2012 recognized net actuarial loss component of net periodic pension benefit expense was $39.7 million. Projectio beyond 2013 are dependent on a variety of factors such as changes to the discount rate and the actual return on pension pl asse

Average Discount Rate Assumption—Net Periodic Benefit

The discount rate represents the estimated rate at which we could effectively settle our pension benefit obligations. In ord to estimate this rate for 2010 to 2012, a single effective rate of discount was determined by our actuaries after discounti the pension obligation's cash flows using the spot rate of matching duration from the Towers Watson RATE:Link 40 discount curv

The use of a different discount rate assumption can significantly affect net periodic benefit co

l A one-percentage point decrease in the discount rate assumption would have increased 2012 net periodic pension benefit expense by $5.2 million.

l A one-percentage point increase in the discount rate assumption would have decreased 2012 net periodic pension benefit expense by $5.2 million.

Average Discount Rate Assumption—Benefit Obliga

The discount rate assumption to be used in calculating the amount of benefit obligations is determined in the same mann as the average discount rate assumption used to calculate net periodic benefit cost as described above. We reduced our 20 discount rate assumption due to the declining interest rate environment consistent with the duration of our pension pl liabiliti

The use of a different discount rate assumption can significantly affect the amount of benefit obligation

- A one-percentage point decrease in the discount rate assumption would have increased the December 31, 2012 pension benefits obligations by $131.3 million.
- A one-percentage point increase in the discount rate assumption would have decreased the December 31, 2012 pension benefits obligations by $110.7 million.

Asset Return Assumptio

For 2013, we reduced the expected return on plan assets assumption to 7.75% from the 8.0% assumption used during 201 reflecting lower expected future returns on plan assets. We based the expected return on plan assets component of n periodic pension benefit cost on the fair market value of pension plan assets. To determine the expected return on pl assets, we consider the current asset allocations, as well as historical and expected returns on the categories of plan asse The historical geometric average return over the 25 years prior to December 31, 2012 was approximately 8.4%. The actu return on assets was as follows

For the years ended December 31,	2012	2011	2010
Actual return on assets	13.2 %	0.8 %	13.3

The use of a different asset return assumption can significantly affect net periodic benefit co

- A one-percentage point decrease in the asset return assumption would have increased 2012 net periodic pension benefit expense by $9.1 million.
- A one-percentage point increase in the asset return assumption would have decreased 2012 net periodic pension benefit expense by $9.1 million.

Our investment policies specify ranges of allocation percentages for each asset class. The ranges for the domestic pensi plans were as follow

Asset Class	Allocation Range
Equity securities	58% – 85%
Debt securities	15% – 42%
Cash and certain other investments	0% – 5%

As of December 31, 2012, actual allocations were within the specified ranges. We expect the level of volatility in pensi plan asset returns to be in line with the overall volatility of the markets and weightings within the asset classes. As December 31, 2012 and 2011, the benefit plan fixed income assets were invested primarily in conventional instrume benchmarked to the Barclays Capital U.S. Aggregate Bond Inde

For 2012 and 2011, minimum funding requirements for the plans were not material. However, we made contributions $21.4 million in 2012 and $8.9 million in 2011 primarily to pay benefits under our non-qualified pension plans. The contributions were fully tax deductible. A one-percentage point change in the funding discount rate would not have chang the 2012 minimum funding requirements significantly for the domestic plans. For 2013, minimum funding requirements our pension plans are approximately $2.8 millio

Post-Retirement Benefit Pla

Other post-retirement benefit plan costs and related assumptions were as follows

For the years ended December 31, In millions of dollars	2012	2011	2010
Net periodic other post-retirement benefit cost	$15.1	$16.2	$17.5
Assumptions:			
Average discount rate assumption	4.5 %	5.2 %	5.7

The use of a different discount rate assumption can significantly affect net periodic other post-retirement benefit cos

- l A one-percentage point decrease in the discount rate assumption would have decreased 2012 net periodic other post-retirement benefit cost by $1.4 million.
- l A one-percentage point increase in the discount rate assumption would have increased 2012 net periodic other post-retirement benefit cost by $0.8 million.

For the post-retirement benefit plans, a decrease in the discount rate assumption would result in a decrease in benefit co because of the lower interest cost which would more than offset the impact of the lower discount rate assumption on t post-retirement benefit obligatio

Other post-retirement benefit obligations and assumptions were as follows

December 31, In millions of dollars	2012	2011
Other post-retirement benefit obligation	$318.4	$318.5
Assumptions:		
Benefit obligations discount rate assumption	3.7 %	4.5

- l A one-percentage point decrease in the discount rate assumption would have increased the December 31, 2012 other post-retirement benefits obligations by $37.4 million.
- l A one-percentage point increase in the discount rate assumption would have decreased the December 31, 2012 other post-retirement benefits obligations by $30.4 million.

Goodwill and Other Intangible Asse

We classify intangible assets into 3 categories: (1) intangible assets with finite lives subject to amortization; (2) intangib assets with indefinite lives not subject to amortization; and (3) goodwi

Our intangible assets with finite lives consist primarily of certain trademarks, customer-related intangible assets and paten obtained through business acquisitions. We are amortizing trademarks with finite lives over their estimated useful lives approximately 25 years. We are amortizing customer-related intangible assets over their estimated useful lives approximately 15 years. We are amortizing patents over their remaining legal lives of approximately 6 years. We condu impairment tests when events or changes in circumstances indicate that the carrying value of these assets may not recoverable. Undiscounted cash flow analyses are used to determine if an impairment exists. If an impairment is determine to exist, the loss is calculated based on the estimated fair value of the asse

Our intangible assets with indefinite lives consist of trademarks obtained through business acquisitions. We do not amorti existing trademarks whose useful lives were determined to be indefinite. We conduct impairment tests for other intangib assets with indefinite lives and goodwill at the beginning of the fourth quarter of each year, or when circumstances arise th indicate a possible impairment might exi

We evaluate our trademarks with indefinite lives for impairment by comparing their carrying amount to their estimated fa value. The fair value of trademarks is calculated using a “relief from royalty payments” methodology. This appro involves a two-step process. In the first step, we estimate reasonable royalty rates for each trademark. In the second step, v apply these royalty rates to a net sales stream and discount the resulting cash flows to determine fair value. This fair value then compared with the carrying value of each trademark. If the estimated fair value is less than the carrying amount, v record an impairment charge to reduce the asset to its estimated fair value. The estimates of future cash flows are general based on past performance of the brands and reflect net sales projections and assumptions for the brands that we use current operating plans. We also consider assumptions that market participants may use. Such assumptions are subject change due to changing economic and competitive condition

We use a two-step process to evaluate goodwill for impairment. In the first step, we compare the fair value of each reportir unit with the carrying amount of the reporting unit, including goodwill. We estimate the fair value of the reporting ur based on discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of tl reporting unit, we complete a second step to determine the amount of the goodwill impairment that we should record. In tl second step, we determine an implied fair value of the reporting unit's goodwill by allocating the reporting unit's fair valu all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). We compare the resultir implied fair value of the goodwill to the carrying amount and record an impairment charge for the differenc

The assumptions we use to estimate fair value are based on the past performance of each reporting unit and reflect tl projections and assumptions that we use in current operating plans. We also adjust the assumptions, if necessary, estimates that we believe market participants would use. Such assumptions are subject to change due to changing econom and competitive condition

Based on our annual impairment evaluations, we determined that no goodwill or other intangible assets were impaired as December 31, 2012 and December 31, 2011. As a result of operating performance that was below expectations, v completed an impairment evaluation of goodwill and other intangible assets of Godrej Hershey Ltd. during the secor quarter of 2010. As a result of reduced expectations for future cash flows from lower than expected profitability, v determined that the carrying amount of Godrej Hershey Ltd. exceeded its fair value. We recorded a non-cash goodw impairment charge of $44.7 million in the second quarter of 2010 to reduce the carrying value of Godrej Hershey Ltd. to i fair value, including a reduction to reflect the share of the charge associated with the noncontrolling interests. There was r tax benefit associated with this charg

Commodities Futures and Options Contrac

We use futures and options contracts and other commodity derivative instruments in combination with forward purchasir of cocoa products and other commodities primarily to reduce the effect of future price increases and provide visibility future costs. Additional information with regard to accounting policies associated with commodities futures and optior contracts and other derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activitie

Our gains (losses) on cash flow hedging derivatives were as follows

For the years ended December 31, In millions of dollars	2012	2011	2010
Net after-tax (losses) gains on cash flow hedging derivatives	$(0.9)	$(107.7)	$1.0
Reclassification adjustments from accumulated other comprehensive loss to income	60.0	(12.5)	(32.5
Hedge ineffectiveness gains (losses) recognized in income, before tax	0.7	(2.0)	0.8

- We reflected reclassification adjustments related to gains or losses on commodities futures and options contracts and other commodity derivative instruments in cost of sales.
- No gains or losses on commodities futures and options contracts resulted because we discontinued a hedge due to the probability that the forecasted hedged transaction would not occur.
- We recognized no components of gains or losses on commodities futures and options contracts in income due to excluding such components from the hedge effectiveness assessment.

The amount of net losses on cash flow hedging derivatives, including interest rate swap agreements, foreign exchan forward contracts and options, commodities futures and options contracts and other commodity derivative instrumen expected to be reclassified into earnings in the next 12 months was approximately $12.8 million after tax as December 31, 2012. This amount was primarily associated with commodities futures contrac

Income Tax

We base our deferred income taxes, accrued income taxes and provision for income taxes upon income, statutory tax rate the legal structure of our Company and interpretation of tax laws. We are regularly audited by federal, state and foreign t authorities. From time to time, these audits result in assessments of additional tax. We maintain reserves for su assessments. We adjust the reserves based upon changing facts and circumstances, such as receiving audit assessments clearing of an item for which a reserve has been established. Assessments of additional tax require cash payments. We a not aware of any significant income tax assessment

We apply a more-likely-than-not threshold to the recognition and derecognition of uncertain tax positions. Accordingly, recognize the amount of tax benefit that has a greater than 50% likelihood of being ultimately realized upon settlement. W believe it is more likely than not that the results of future operations will generate sufficient taxable income to realize t deferred tax assets. Valuation allowances are recorded for deferred income taxes when it is more likely than not that a t benefit will not be realized. Valuation allowances are primarily associated with tax loss carryforwards from operations various foreign tax jurisdictions. Future changes in judgment and estimates related to the expected ultimate resolution uncertain tax positions will affect income in the quarter of such chang

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. A number of yea may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolve While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, believe that our unrecognized tax benefits reflect the most likely outcome. Accrued interest and penalties related unrecognized tax benefits are included in income tax expense. We adjust these unrecognized tax benefits, as well as t related interest, in light of changing facts and circumstances. Settlement of any particular position could require the use cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period of resoluti

The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions inclu the United States (federal and state), Canada and Mexico. During the second quarter of 2012, the IRS completed its audit our U.S. income tax returns for 2007 and 2008 with no significant adjustments. Tax examinations by various state taxi authorities could be conducted for years beginning in 2008. We are no longer subject to Canadian federal income t examinations by the Canada Revenue Agency ("CRA") and Mexican federal income tax examinations by Servic Administracion Tributaria ("SAT") for years before 2004. During the third quarter of 2010, the CRA commenced its aud our Canadian income tax returns for 2006 through 2009. U.S., Canadian and Mexican federal audit issues typically invol the timing of deductions and transfer pricing adjustments. We work with the IRS, the CRA and the SAT to resolve propos audit adjustments and to minimize the amount of adjustments. We do not anticipate that any potential tax adjustments w have a significant impact on our financial position or results of operatio

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately $8.3 million within the ne 12 months because of the expiration of statutes of limitations and settlements of tax audi

OUTLOO

The outlook section contains a number of forward-looking statements, all of which are based on current expectatio Actual results may differ materially. Refer to Risk Factors beginning on page 9 for information concerning the key risks achieving our future performance goa

Our results for 2012 were strong, with solid financial and marketplace results. We remain focused on building brands both the U.S. and key international markets and will make incremental investments in our brands and business capabiliti during 2013. While the macroeconomic environment remains challenging, we are well positioned to succeed in t marketplace and deliver on our commitments in 201

We expect 2013 net sales growth of 5% to 7%, including the impact of foreign currency exchange rates. Net sales will driven primarily by core brand volume growth, the U.S. launch of the Brookside product line in the food, drug and ma channels, as well as the introduction of new products such as Kit Kat minis, Twizzlers Bites and Jolly Rancher Bites. In k international markets such as China, we will extend our portfolio of products with the introduction of Hershey's Kiss Deluxe and build our sales of Hershey's chocolate products in instant consumable and take home pack types, which we introduced in the fourth quarter of 2012. In Brazil, manufacturing capacity was increased to support geographic expansi of Hershey's Mais, a chocolate-covered wafer produ

We have good visibility into our cost structure and we expect gross margin to increase in 2013, driven by productivity, co savings initiatives and lower costs for certain major raw materials. Therefore, we expect 2013 gross margin on a report basis to increase 250 to 270 basis points, with expansion of adjusted gross margin expected to be 180 to 200 basis point

Considering this financial flexibility, we expect to accelerate our investments in 2013 for advertising, go-to-mark capabilities and expansion of our Insights Driven Performance initiatives. Advertising is expected to increase approximate 20% versus last year. Advertising spending on core U.S. brands is expected to increase by approximately the san percentage as in 2012. Incremental advertising in 2013 will support the expanded distribution of Brookside products ar innovation in both the U.S. and international markets, including increased advertising for the Hershey's brand in Chin We expect to continue investments in 2013 to build on the go-to-market capabilities established over the last few years, well as the consumer insights work underway in key international markets for our five global brands, Hershey's, Reese Hershey's Kisses, Jolly Rancher and Ice Breakers, that we believe can gain strong consumer acceptance around the worl Additionally, we will continue to invest in international selling and marketing functions and support new produ introductions with increased levels of consumer promotion and sampling to drive trial and repeat purchases. As a result, v anticipate that earnings per share-diluted in accordance with GAAP will increase 20% to 23% in 2013 compared with 201 Growth in adjusted earnings per share-diluted is expected to be in the 10% to 12% range, as reflected in the reconciliatio of reported to adjusted earnings per share-diluted projections provided belov

NOTE: In the Outlook above, the Company has provided income measures excluding certain items, in addition to n income determined in accordance with GAAP. These non-GAAP financial measures are used in evaluating results operations for internal purposes. These non-GAAP measures are not intended to replace the presentation of financial resul in accordance with GAAP. Rather, the Company believes exclusion of such items provides additional information investors to facilitate the comparison of past and present operation

In 2012, the Company recorded pre-tax acquisition closing and integration costs of $13.4 million, or $0.04 p share-diluted, related to the Brookside acquisition. In 2012, the Company recorded GAAP charges of $76.3 million, $0.22 per share-diluted, attributable to the Next Century program and $7.5 million, or $0.03 per share-diluted, of non-cas impairment charges associated with Tri-US, Inc. Non-service related pension expense of $20.6 million, or $0.06 p share-diluted, was recorded in 201

In 2013, the Company expects to record GAAP charges of about $10 million to $15 million, or $0.03 to $0.05 p share-diluted, attributable to the Next Century program. Non-service related pension expenses are expected to b approximately $13.2 million, or $0.04 per share-diluted, in 201

Below is a reconciliation of 2011 and 2012 and projected 2013 earnings per share-diluted in accordance with GAAP non-GAAP 2011 and 2012 adjusted earnings per share-diluted and projected adjusted earnings per share-diluted for 201

	2011	2012	2013 (Projected)
Reported EPS-Diluted	$2.74	$2.89	$3.47 - $3.56
Acquisition closing and integration charges	—	0.04	—
Gain on sale of trademark licensing rights	(0.05)	—	—
Total Business Realignment and Impairment Charges	0.13	0.25	0.03 - 0.05
Non-service related pension expenses	0.01	0.06	0.04
Adjusted EPS-Diluted	$2.83	$3.24	$3.56 - $3.63

Outlook for Project Next Centu

In June 2010, we announced the Next Century program as part of our ongoing efforts to create an advantaged supply cha and competitive cost structure. We expect total pre-tax charges and non-recurring project implementation costs for the Ne Century program of $190 million to $200 million. During 2013, we expect to record $10 million to $15 million in progra charges associated with the demolition of a former manufacturing facility and preparations for the sale of the property c which the facility was located. The Next Century program is expected to provide annual cost savings from efficienc improvements of $65 million to $80 millio

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Required information about market risk is included in the section entitled “Accounting Policies and Market Risks Associa with Derivative Instruments,” found on pages 36 through

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

RESPONSIBILITY FOR FINANCIAL STATEMENT

The Hershey Company is responsible for the financial statements and other financial information contained in this repo
We believe that the financial statements have been prepared in conformity with U.S. generally accepted accountin
principles appropriate under the circumstances to reflect in all material respects the substance of applicable events an
transactions. In preparing the financial statements, it is necessary that management make informed estimates and judgment
The other financial information in this annual report is consistent with the financial statement

We maintain a system of internal accounting controls designed to provide reasonable assurance that financial records a
reliable for purposes of preparing financial statements and that assets are properly accounted for and safeguarded. Th
concept of reasonable assurance is based on the recognition that the cost of the system must be related to the benefits to b
derived. We believe our system provides an appropriate balance in this regard. We maintain an Internal Audit Departme
which reviews the adequacy and tests the application of internal accounting control

The 2012, 2011 and 2010 financial statements have been audited by KPMG LLP, an independent registered publ
accounting firm. KPMG LLP's report on our financial statements is included on page 5

The Audit Committee of the Board of Directors of the Company, consisting solely of independent, non-manageme
directors, meets regularly with the independent auditors, internal auditors and management to discuss, among other thing
the audit scopes and results. KPMG LLP and the internal auditors both have full and free access to the Audit Committe
with and without the presence of manageme

John P. Bilbrey	Humberto P. Alfonso
Chief Executive Officer	Chief Financial Officer

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIR

The Board of Directors and Stockholde

The Hershey Compan

We have audited the accompanying consolidated balance sheets of The Hershey Company and subsidiaries (the "Compa as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, cash flo and stockholders' equity for each of the years in the three-year period ended December 31, 2012. In connection with audits of the consolidated financial statements, we also have audited the related consolidated financial statement schedu We also have audited the Company's internal control over financial reporting as of December 31, 2012, based on crite established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of Treadway Commission (COSO). The Company's management is responsible for these consolidated financial statements a financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of t effectiveness of internal control over financial reporting, included in the accompanying Management Report on Intern Control over Financial Reporting. Our responsibility is to express an opinion on these consolidated financial statements a financial statement schedule, and an opinion on the Company's internal control over financial reporting based on our aud

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (Unit States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether t financial statements are free of material misstatement and whether effective internal control over financial reporting w maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test bas evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used a significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of intern control over financial reporting included obtaining an understanding of internal control over financial reporting, assessi the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal contr based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in t circumstances. We believe that our audits provide a reasonable basis for our opinio

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding reliability of financial reporting and the preparation of financial statements for external purposes in accordance wi generally accepted accounting principles. A company's internal control over financial reporting includes those policies a procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect t transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are record as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, a that receipts and expenditures of the company are being made only in accordance with authorizations of management a directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthoriz acquisition, use, or disposition of the company's assets that could have a material effect on the financial stateme

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financi position of The Hershey Company and subsidiaries as of December 31, 2012 and 2011, and the results of their operatio and their cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U. generally accepted accounting principles. Also, in our opinion, the related consolidated financial statement schedule, wh considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all materi respects, the information set forth therei

Also in our opinion, The Hershey Company and subsidiaries maintained, in all material respects, effective internal cont over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framew issued by the Committee of Sponsoring Organizations of the Treadway Commissio

New York, New York
February 22, 2013

THE HERSHEY COMPAN
CONSOLIDATED STATEMENTS OF INCOM

For the years ended December 31, In thousands of dollars except per share amounts	2012	2011	2010
Net Sales	$6,644,252	$6,080,788	$5,671,009
Costs and Expenses:			
Cost of sales	3,784,370	3,548,896	3,255,801
Selling, marketing and administrative	1,703,796	1,477,750	1,426,477
Business realignment and impairment charges (credits), net	44,938	(886)	83,433
Total costs and expenses	5,533,104	5,025,760	4,765,711
Income before Interest and Income Taxes	1,111,148	1,055,028	905,298
Interest expense, net	95,569	92,183	96,434
Income before Income Taxes	1,015,579	962,845	808,864
Provision for income taxes	354,648	333,883	299,065
Net Income	$660,931	$628,962	$509,799
Net Income Per Share—Basic—Class B Common Stock	$2.73	$2.58	$2.08
Net Income Per Share—Diluted—Class B Common Stock	$2.71	$2.56	$2.07
Net Income Per Share—Basic—Common Stock	$3.01	$2.85	$2.29
Net Income Per Share—Diluted—Common Stock	$2.89	$2.74	$2.21
Cash Dividends Paid Per Share:			
Common Stock	$1.560	$1.38	$1.28
Class B Common Stock	1.412	1.25	1.16

The notes to consolidated financial statements are an integral part of these statement

THE HERSHEY COMPAN

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOM

For the years ended December 31, In thousands of dollars	2012	2011	2010
Net Income	$660,931	$628,962	$509,799
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments	7,714	(21,213)	14,123
Pension and post-retirement benefit plans	(9,634)	(85,823)	5,130
Cash flow hedges:			
(Losses) gains on cash flow hedging derivatives	(868)	(107,713)	1,001
Reclassification adjustments	60,043	(12,515)	(32,477
Total other comprehensive income (loss), net of tax	57,255	(227,264)	(12,223
Comprehensive income	$718,186	$401,698	$497,576

The accompanying notes are an integral part of these consolidated financial statement

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THE HERSHEY COMPAN
CONSOLIDATED BALANCE SHEET

December 31,	2012	2011
In thousands of dollars		
ASSETS		
Current Assets:		
Cash and cash equivalents	$728,272	$693,686
Accounts receivable—trade	461,383	399,499
Inventories	633,262	648,953
Deferred income taxes	122,224	136,861
Prepaid expenses and other	168,344	167,559
Total current assets	2,113,485	2,046,558
Property, Plant and Equipment, Net	1,674,071	1,559,717
Goodwill	588,003	516,745
Other Intangibles	214,713	111,913
Deferred Income Taxes	12,448	33,439
Other Assets	152,119	138,722
Total assets	$4,754,839	$4,407,094
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$441,977	$420,017
Accrued liabilities	650,906	612,186
Accrued income taxes	2,329	1,899
Short-term debt	118,164	42,080
Current portion of long-term debt	257,734	97,593
Total current liabilities	1,471,110	1,173,775
Long-term Debt	1,530,967	1,748,500
Other Long-term Liabilities	668,732	603,876
Deferred Income Taxes	35,657	—
Total liabilities	3,706,466	3,526,151
Commitments and Contingencies	—	—
Stockholders' Equity:		
The Hershey Company Stockholders' Equity		
Preferred Stock, shares issued: none in 2012 and 2011	—	—
Common Stock, shares issued: 299,272,927 in 2012 and 299,269,702 in 2011	299,272	299,269
Class B Common Stock, shares issued: 60,628,817 in 2012 and 60,632,042 in 2011	60,629	60,632
Additional paid-in capital	592,975	490,817
Retained earnings	5,027,617	4,707,892
Treasury—Common Stock shares, at cost: 136,115,714 in 2012 and 134,695,826 in 2011	(4,558,668)	(4,258,962)

Accumulated other comprehensive loss	(385,076)	(442,331)
The Hershey Company stockholders' equity	1,036,749	857,317
Noncontrolling interests in subsidiaries	11,624	23,626
Total stockholders' equity	1,048,373	880,943
Total liabilities and stockholders' equity	$4,754,839	$4,407,094

The notes to consolidated financial statements are an integral part of these balance sheet

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THE HERSHEY COMPAN
CONSOLIDATED STATEMENTS OF CASH FLOW

For the years ended December 31, In thousands of dollars	2012	2011	2010
Cash Flows Provided from (Used by) Operating Activities			
Net income	$660,931	$628,962	$509,799
Adjustments to reconcile net income to net cash provided from operations:			
Depreciation and amortization	210,037	215,763	197,116
Stock-based compensation expense	50,482	43,468	49,468
Excess tax benefits from stock-based compensation	(33,876)	(13,997)	(1,385)
Deferred income taxes	13,785	33,611	(18,654)
Gain on sale of trademark licensing rights, net of tax of $5,962	—	(11,072)	—
Non-cash business realignment and impairment charges	38,144	34,660	62,104
Contributions to pension and other benefits plans	(44,208)	(31,671)	(27,723)
Changes in assets and liabilities, net of effects from business acquisitions and divestitures:			
Accounts receivable—trade	(50,470)	(9,438)	20,329
Inventories	26,598	(115,331)	(13,910)
Accounts payable	21,739	7,860	90,434
Other assets and liabilities	201,665	(194,948)	33,845
Net Cash Provided from Operating Activities	1,094,827	587,867	901,423
Cash Flows Provided from (Used by) Investing Activities			
Capital additions	(258,727)	(323,961)	(179,538)
Capitalized software additions	(19,239)	(23,606)	(21,949)
Proceeds from sales of property, plant and equipment	453	312	2,201
Proceeds from sale of trademark licensing rights	—	20,000	—
Loan to affiliate	(23,000)	(7,000)	—
Business acquisitions	(172,856)	(5,750)	—
Net Cash (Used by) Investing Activities	(473,369)	(340,005)	(199,286)
Cash Flows Provided from (Used by) Financing Activities			
Net increase in short-term debt	77,698	10,834	1,156
Long-term borrowings	4,025	249,126	348,208
Repayment of long-term debt	(99,381)	(256,189)	(71,548)
Proceeds from lease financing agreement	—	47,601	—
Cash dividends paid	(341,206)	(304,083)	(283,434)
Exercise of stock options	261,597	184,411	92,033
Excess tax benefits from stock-based compensation	33,876	13,997	1,385
Payments to noncontrolling interests	(15,791)	—	—
Contributions from noncontrolling interests	2,940	—	10,199
Repurchase of Common Stock	(510,630)	(384,515)	(169,099)
Net Cash (Used by) Financing Activities	(586,872)	(438,818)	(71,100)
Increase (Decrease) in Cash and Cash Equivalents	34,586	(190,956)	631,037

Cash and Cash Equivalents as of January 1	693,686	884,642	253,605
Cash and Cash Equivalents as of December 31	$ 728,272	$ 693,686	$ 884,642
Interest Paid	$ 100,269	$ 97,892	$ 97,932
Income Taxes Paid	327,230	292,315	350,948

The notes to consolidated financial statements are an integral part of these statement

THE HERSHEY COMPAN
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUI

In thousands of dollars	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 Stockholde Equity
Balance as of January 1, 2010	$—	$299,192	$60,709	$394,678	$4,156,648	$(3,979,629)	$(202,844)	$39,880	$768,634
Net income					509,799				509,799
Other comprehensive loss							(12,223)		(12,223
Dividends:									
Common Stock, $1.28 per share					(213,013)				(213,013
Class B Common Stock, $1.16 per share					(70,421)				(70,421
Conversion of Class B Common Stock into Common Stock		3	(3)						—
Incentive plan transactions				(7,453)		10,239			2,786
Stock-based compensation				40,630					40,630
Exercise of stock options				7,010		86,388			93,398
Repurchase of Common Stock						(169,099)			(169,099
Noncontrolling interests in subsidiaries								(4,595)	(4,595
Balance as of December 31, 2010	—	299,195	60,706	434,865	4,383,013	(4,052,101)	(215,067)	35,285	945,896
Net income					628,962				628,962
Other comprehensive loss							(227,264)		(227,264
Dividends:									
Common Stock, $1.38 per share					(228,269)				(228,269
Class B Common Stock, $1.25 per share					(75,814)				(75,814
Conversion of Class B Common Stock into Common Stock		74	(74)						—
Incentive plan transactions				(15,844)		14,306			(1,538
Stock-based compensation				40,439					40,439

Exercise of stock options				31,357		163,348			194,705
Repurchase of Common Stock						(384,515)			(384,515
Noncontrolling interests in subsidiaries								(11,659)	(11,659
Balance as of December 31, 2011	—	299,269	60,632	490,817	4,707,892	(4,258,962)	(442,331)	23,626	880,943
Net income					660,931				660,931
Other comprehensive income							57,255		57,255
Dividends:									
Common Stock, $1.56 per share					(255,596)				(255,596
Class B Common Stock, $1.412 per share					(85,610)				(85,610
Conversion of Class B Common Stock into Common Stock		3	(3)						—
Incentive plan transactions				(24,230)		12,379			(11,851
Stock-based compensation				49,175					49,175
Exercise of stock options				88,258		198,545			286,803
Repurchase of Common Stock						(510,630)			(510,630
Purchase of noncontrolling interest in subsidiary				(11,045)				(4,746)	(15,791
Noncontrolling interests in subsidiaries								(7,256)	(7,256
Balance as of December 31, 2012	$—	$299,272	$60,629	$592,975	$5,027,617	$(4,558,668)	$(385,076)	$11,624	$1,048,373

The notes to consolidated financial statements are an integral part of these statement

THE HERSHEY COMPAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENT
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIE

Our significant accounting policies are discussed below and in other notes to the consolidated financial statement

Principles of Consolidatio

Our consolidated financial statements include the accounts of the Company and our majority-owned subsidiaries ar entities in which we have a controlling financial interest after the elimination of intercompany accounts and transaction We have a controlling financial interest if we own a majority of the outstanding voting common stock and minori shareholders do not have substantive participating rights or we have significant control over an entity through contractual economic interests in which we are the primary beneficiar

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., to manufacture and distribu confectionery products, snacks and beverages across India. Under the agreement, we owned a 51% controlling interest Godrej Hershey Ltd. This business acquisition is included in our consolidated results, including the noncontrolling intere prior to September 2012. In September 2012, we acquired the remaining 49% interest in Godrej Hershey Ltd. f approximately $15.8 million. Since the Company had a controlling interest in Godrej Hershey Ltd., the difference betwe the amount paid and the carrying amount of the noncontrolling interest of $10.3 million was recorded as a reduction additional paid-in capital and the noncontrolling interest in Godrej Hershey Ltd. was eliminated as of September 30, 201

In January 2008, our Brazilian subsidiary, Hershey do Brasil, entered into a cooperative agreement with Pandura Netherlands B.V. ("Bauducco"), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. U this agreement we manufacture and market, and they sell and distribute our products. The agreement conveyed a 49 interest in Hershey do Brasil to Bauducco. We maintain a 51% controlling interest in Hershey do Brasil and, therefore, t results of this subsidiary are included in the consolidated financial statements of the Compan

Equity Investmen

We use the equity method of accounting when we have a 20% to 50% interest in other companies and exercise significa influence. Under the equity method, original investments are recorded at cost and adjusted by our share of undistribut earnings or losses of these companies. Total equity investments were $39.2 million as of December 31, 2012, and $40 million as of December 31, 2011. Equity investments are included in other assets in the Consolidated Balance Shee Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carryi amount of the investments may not be recoverable. In May 2007, we entered into a manufacturing agreement in China wi Lotte Confectionery Company, LTD. to produce Hershey products and certain Lotte products for the markets in Asi particularly China. We own a 44% interest in this entity. We made loans to this affiliate of the Company of $23.0 million 2012 and $7.0 million in 2011 to finance the expansion of manufacturing capacit

Use of Estimat

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requ management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of t financial statements, and revenues and expenses during the reporting period. Critical accounting estimates involved applying our accounting policies are those that require management to make assumptions about matters that are high uncertain at the time the accounting estimate was made and those for which different estimates reasonably could have be used for the current period. Critical accounting estimates are also those which are reasonably likely to change from peri to period and would have a material impact on the presentation of our financial condition, changes in financial condition results of operations. Our most critical accounting estimates pertain to accounting policies for accrued liabilities, pensi and other post-retirement benefit plans, goodwill and other intangible assets, commodities futures and options contracts, a income taxe

These estimates and assumptions are based on management's best judgment. Management evaluates its estimates a assumptions on an ongoing basis using historical experience and other factors, including the current economic environme which management believes to be reasonable under the circumstances. We adjust such estimates and assumptions whe facts and circumstances dictate. Volatile credit, equity, foreign currency, commodity and energy markets, and changi macroeconomic conditions have combined to increase the uncertainty inherent in such estimates and assumptions. As futu events and their effects cannot be determined with precision, actual results could differ significantly from these estimate Changes in these estimates resulting from continuing changes in the economic environment will be reflected in the financi statements in future period

Revenue Recognitio

We record sales when all of the following criteria have been me

- A valid customer order with a fixed price has been received;
- The product has been delivered to the customer;
- There is no further significant obligation to assist in the resale of the product; and
- Collectability is reasonably assured.

Net sales include revenue from the sale of finished goods and royalty income, net of allowances for trade promotion consumer coupon programs and other sales incentives, and allowances and discounts associated with aged or potential unsaleable products. Trade promotions and sales incentives primarily include reduced price features, merchandisi displays, sales growth incentives, new item allowances and cooperative advertisin

Cost of Sal

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

Selling, Marketing and Administrati

Selling, marketing and administrative expenses represent costs incurred in generating revenues and in managing o business. Such costs include advertising and other marketing expenses, salaries, employee benefits, incentive compensatio research and development, travel, office expenses, amortization of capitalized software and depreciation of administrati facilities

Cash Equivalen

Cash equivalents consist of highly liquid debt instruments, time deposits and money market funds with original maturiti of 3 months or less. The fair value of cash and cash equivalents approximates the carrying amou

Commodities Futures and Options Contrac

We enter into commodities futures and options contracts and other commodity derivative instruments to reduce the effect price fluctuations associated with the purchase of raw materials, energy requirements and transportation services. We repo the effective portion of the gain or loss on a derivative instrument designated and qualifying as a cash flow hedgi instrument as a component of other comprehensive income and reclassify such gains or losses into earnings in the sa period or periods during which the hedged transactions affect earnings. The remaining gain or loss on the derivati instrument, if any, must be recognized currently in earning

For a derivative designated as hedging the exposure to changes in the fair value of a recognized asset or liability or a fi commitment (referred to as a fair value hedge), the gain or loss must be recognized in earnings in the period of chan together with the offsetting loss or gain on the hedged item attributable to the risk being hedged. The effect of th accounting is to reflect in earnings the extent to which the hedge is not effective in achieving offsetting changes in fa valu

All derivative instruments which we are currently utilizing, including commodities futures and options contracts and oth commodity derivative instruments, are designated and accounted for as cash flow hedges. Additional information wi regard to accounting policies associated with derivative instruments is contained in Note 6, Derivative Instruments a Hedging Activitie

Property, Plant and Equipme

Property, plant and equipment are stated at cost and depreciated on a straight-line basis over the estimated useful lives of t assets, as follows: 3 to 15 years for machinery and equipment; and 25 to 40 years for buildings and related improvement Maintenance and repairs are expensed as incurred. We capitalize applicable interest charges incurred during t construction of new facilities and production lines and amortize these costs over the assets' estimated useful liv

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

Asset Retirement Obligatio

Asset retirement obligations generally apply to legal obligations associated with the retirement of a tangible long-lived ass that result from the acquisition, construction or development and normal operation of a long-lived asset. We assess ass retirement obligations on a periodic basis. We recognize the fair value of a liability for an asset retirement obligation in t period in which it is incurred if a reasonable estimate of fair value can be made. We capitalize associated asset retireme costs as part of the carrying amount of the long-lived ass

Goodwill and Other Intangible Asse

We classify intangible assets into 3 categories: (1) intangible assets with finite lives subject to amortization; (2) intangib assets with indefinite lives not subject to amortization; and (3) goodwi

Our intangible assets with finite lives consist primarily of certain trademarks, customer-related intangible assets and paten obtained through business acquisitions. We are amortizing trademarks with finite lives over their estimated useful lives approximately 25 years. We are amortizing customer-related intangible assets over their estimated useful lives approximately 15 years. We are amortizing patents over their remaining legal lives of approximately 6 years. We condu impairment tests when events or changes in circumstances indicate that the carrying value of these assets may not recoverable. Undiscounted cash flow analyses are used to determine if an impairment exists. If an impairment is determin to exist, the loss is calculated based on the estimated fair value of the asse

Our intangible assets with indefinite lives consist of trademarks obtained through business acquisitions. We do not amorti existing trademarks whose useful lives were determined to be indefinite. We conduct impairment tests for other intangib assets with indefinite lives and goodwill at the beginning of the fourth quarter of each year, or when circumstances arise th indicate a possible impairment might exi

We evaluate our trademarks with indefinite lives for impairment by comparing their carrying amount to their estimated f value. The fair value of trademarks is calculated using a "relief from royalty payments" methodology. This approach invo a two-step process. In the first step, we estimate reasonable royalty rates for each trademark. In the second step, we app these royalty rates to a net sales stream and discount the resulting cash flows to determine fair value. This fair value is th compared with the carrying value of each trademark. If the estimated fair value is less than the carrying amount, we reco an impairment charge to reduce the asset to its estimated fair value. The estimates of future cash flows are generally bas on past performance of the brands and reflect net sales projections and assumptions for the brands that we use in curre operating plans. We also consider assumptions that market participants may use. Such assumptions are subject to chan due to changing economic and competitive conditio

We use a two-step process to evaluate goodwill for impairment. In the first step, we compare the fair value of each reporti unit with the carrying amount of the reporting unit, including goodwill. We estimate the fair value of the reporting u based on discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of t reporting unit, we complete a second step to determine the amount of the goodwill impairment that we should record. In t second step, we determine an implied fair value of the reporting unit's goodwill by allocating the reporting unit's fair valu all of its assets and liabilities other than goodwill (including any unrecognized intangible assets). We compare the resulti implied fair value of the goodwill to the carrying amount and record an impairment charge for the differenc

The assumptions we use to estimate fair value are based on the past performance of each reporting unit and reflect th
projections and assumptions that we use in current operating plans. We also adjust the assumptions, if necessary,
estimat

5

that we believe market participants would use. Such assumptions are subject to change due to changing economic ar competitive condition

As a result of operating performance that was below expectations, we completed an impairment evaluation of goodwill ar other intangible assets of Godrej Hershey Ltd. during the second quarter of 2010. As a result of reduced expectations f future cash flows from lower than expected profitability, we determined that the carrying amount of Godrej Hershey Lt exceeded its fair value. We recorded a non-cash goodwill impairment charge of $44.7 million in the second quarter of 201 to reduce the carrying value of Godrej Hershey Ltd. to its fair value, including a reduction to reflect the share of the charg associated with the noncontrolling interests. There was no tax benefit associated with this charg

We provide more information on intangible assets in Note 18, Supplemental Balance Sheet Informatio

Comprehensive Incon

We report comprehensive income (loss) on the Consolidated Statements of Comprehensive Income and accumulated oth comprehensive income (loss) on the Consolidated Balance Sheets. Additional information regarding comprehensive incon is contained in Note 9, Comprehensive Incom

We translate results of operations for foreign entities using the average exchange rates during the period. For forei entities, assets and liabilities are translated to U.S. dollars using the exchange rates in effect at the balance sheet dat Resulting translation adjustments are recorded as a component of other comprehensive income (loss), "Foreign Curre Translation Adjustment

Changes to the balances of the unrecognized prior service cost and the unrecognized net actuarial loss, net of income taxe associated with our pension and post-retirement benefit plans are recorded as a component of other comprehensive incon (loss), "Pension and Post-retirement Benefit Plans." Additional information regarding accounting policies associated benefit plans is contained in Note 14, Pension and Other Post-Retirement Benefit Plan

Gains and losses on cash flow hedging derivatives, to the extent effective, are included in other comprehensive incon (loss), net of related tax effects. Reclassification adjustments reflecting such gains and losses are ratably recorded in incon in the same period during which the hedged transactions affect earnings. Additional information with regard to accountir policies associated with derivative instruments is contained in Note 6, Derivative Instruments and Hedging Activitie

Foreign Exchange Forward Contracts and Optio

We enter into foreign exchange forward contracts and options to hedge transactions denominated in foreign currencie These transactions are primarily related to firm commitments or forecasted purchases of equipment, certain raw materia and finished goods. We also hedge payment of forecasted intercompany transactions with our subsidiaries outside of t United States. These contracts reduce currency risk from exchange rate movement

Foreign exchange forward contracts and options are intended to be and are effective as hedges of identifiable forei currency commitments and forecasted transactions. Foreign exchange forward contracts and options are designated as ca flow hedging derivatives and the fair value of such contracts is recorded on the Consolidated Balance Sheets as either asset or liability. Gains and losses on these contracts are recorded as a component of other comprehensive income and a reclassified into earnings in the same period during which the hedged transactions affect earnings. Additional informatio with regard to accounting policies for derivative instruments, including foreign exchange forward contracts and options, contained in Note 6, Derivative Instruments and Hedging Activitie

License Agreemen

We own various registered and unregistered trademarks and service marks, and have rights under licenses to use vario trademarks that are of material importance to our business. We also grant trademark licenses to third parties to produce ar sell pantry items, flavored milks and various other products primarily under the HERSHEY'S and REESE'S brand nan

Research and Developme

We expense research and development costs as incurred. Research and development expense was $39.0 million in 201 $33.2 million in 2011 and $31.1 million in 2010. Research and development expense is included in selling, marketing ar administrative expense

Advertisi

We expense advertising costs as incurred. Advertising expense, which is included in selling, marketing and administrati expenses, was $480.0 million in 2012, $414.2 million in 2011 and $391.1 million in 2010. Prepaid advertising expense as December 31, 2012 was $9.5 million and as of December 31, 2011 was $3.2 millio

Computer Softwa

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

The unamortized amount of capitalized software was $50.5 million as of December 31, 2012 and was $49.4 million as December 31, 2011. We amortize software costs using the straight-line method over the expected life of the softwar generally 3 to 5 years. Accumulated amortization of capitalized software was $256.1 million as of December 31, 2012 ar $232.8 million as of December 31, 201

We review the carrying value of software and development costs for impairment in accordance with our policy pertaining the impairment of long-lived assets. Generally, we measure impairment under the following circumstance

- When internal-use computer software is not expected to provide substantive service potential;
- A significant change occurs in the extent or manner in which the software is used or is expected to be used;
- A significant change is made or will be made to the software program; and
- Costs of developing or modifying internal-use computer software significantly exceed the amount originally expected to develop or modify the software.

Reclassifications and Prior Period Adjustmen

We have made certain reclassifications to prior year amounts to conform to the 2012 presentation. Additionally, t Company elected to adjust certain accrued liabilities associated with insurance programs that had been historical overstated. Accordingly, an adjustment of $13.4 million was recorded to reduce other long-term liabilities, with corresponding reduction of non-current deferred tax assets of $5.1 million, resulting in an adjustment to increase openi retained earnings by $8.3 million. Adjustments were made to the Consolidated Balance Sheets, the Consolidated Statemen of Stockholders' Equity and Notes to Consolidated Financial Statements for all periods presente

An adjustment was made to the Consolidated Statement of Cash Flows for the year ended December 31, 2011, to reflect loan to affiliate of $7.0 million in Cash Provided From (Used by) Investing Activities. This adjustment resulted in corresponding reduction of cash used by other assets and liabilities and an increase in Net Cash Provided from Operati Activities for the yea

The impact of these corrections is not considered material to the consolidated financial statements for any of the perio presente

THE HERSHEY COMPAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Contin

2. BUSINESS ACQUISITION

Acquisitions of businesses are accounted for as purchases and, accordingly, their results of operations have been included the consolidated financial statements since the respective dates of the acquisitions. The purchase price for each of tl acquisitions is allocated to the assets acquired and liabilities assume

In January 2012, we acquired all of the outstanding stock of Brookside Foods Ltd. ("Brookside"), a privately confectionery company based in Abbottsford, British Columbia, Canada. As part of this transaction, we acquired tw production facilities located in British Columbia and Quebec. The Brookside product line is primarily sold in the U.S. a Canada in a take home re-sealable pack typ

Our financial statements reflect the final accounting for the Brookside acquisition. The purchase price for the acquisitic was approximately $172.9 million. The purchase price allocation of the Brookside acquisition is as follow

In thousands of dollars	Purchase Price Allocation	Estimated Useful Lif in Years
Goodwill	$ 67,974	Indefinite
Trademarks	60,253	25
Other intangibles(1)	51,057	6 to 17
Other assets, net of liabilities assumed of $18.7 million	21,673	
Non-current deferred tax liabilities	(28,101)	
Purchase price	$ 172,856	

(1) Includes customer relationships, patents and covenants not to compet

The excess purchase price over the estimated value of the net tangible and identifiable intangible assets was recorded goodwill. The goodwill is not expected to be deductible for tax purpose

In February 2011, we acquired a 49% interest in Tri-US, Inc. of Boulder, Colorado, a company that manufactures, marke and sells nutritional beverages under the "mix1" brand name. We invested $5.8 million and accounted for this investr using the equity method until January 2012. In January 2012, we made an additional investment of $6.0 million in Tri-U Inc., resulting in a controlling ownership interest of approximately 69

We included results of these businesses subsequent to the acquisition dates in the consolidated financial statements. If v had included the results of these businesses in the consolidated financial statements for each of the periods presented, tl effect would not have been materi

3. BUSINESS REALIGNMENT AND IMPAIRMENT CHARGE

In June 2010, we announced Project Next Century (the "Next Century program") as part of our ongoing efforts to creat advantaged supply chain and competitive cost structure. As part of the program, production was to transition from tl Company's century-old facility at 19 East Chocolate Avenue in Hershey, Pennsylvania, to an expanded West Hersh facility, which was built in 1992. Production from the 19 East Chocolate Avenue plant, as well as a portion of tl workforce, was fully transitioned to the West Hershey facility during 201

We estimate that the Next Century program will incur pre-tax charges and non-recurring project implementation costs $190 million to $200 million. This estimate includes $170 million to $180 million in pre-tax business realignment a impairment charges and approximately $20 million in project implementation and start-up costs, in addition to pensi settlement losses of $15.8 million which were recorded in 2012. As of December 31, 2012, total costs of $173.6 milli have been recorded over the last three years for the Next Century program. Total costs of $76.3 million were record during 2012. Total costs of $43.4 million were recorded in 2011 and total costs of $53.9 million were recorded in 201

In September 2011, we entered into a sale and leasing agreement for the 19 East Chocolate Avenue manufacturing facili with Chocolate Realty DST, a Delaware Statutory Trust. Chocolate Realty DST is not affiliated with the Milton Hersh School Trust. We are leasing a portion of the building for administrative office space under the agreement. As a result our continuing involvement and use of the property, we are deemed to be the owner of the property for accounti

purposes. We received net proceeds of $47.6 million and recorded a lease financing obligation of $50.0 million under t leasing agreement in 2011. The initial term of the agreement expires in 204

In December 2012, the Board of Directors of Tri-US, Inc. decided to immediately cease operations and dissolve t company as a result of operational difficulties, quality issues and competitive constraints. In December 2012, the Compa recorded non-cash asset impairment charges of approximately $7.5 million, primarily associated with the write off goodwill and other intangible assets, including a reduction to reflect the share of the charges associated with t noncontrolling interest

During the second quarter of 2010 we completed an impairment evaluation of goodwill and other intangible asse associated with Godrej Hershey Ltd. Based on this evaluation, we recorded a non-cash goodwill impairment charge $44.7 million, including a reduction to reflect the share of the charge associated with the noncontrolling interest

During 2009, we completed our comprehensive, three-year supply chain transformation program (the "global supply ch transformation program

Charges (credits) associated with business realignment initiatives and impairment recorded during 2012, 2011 and 20 were as follows

For the years ended December 31, In thousands of dollars	2012	2011	2010
Cost of sales			
Next Century program	$ 36,383	$ 39,280	$ 13,644
Global supply chain transformation program	—	5,816	—
Total cost of sales	36,383	45,096	13,644
Selling, marketing and administrative - Next Century program	2,446	4,961	1,493
Business realignment and impairment charges, net			
Next Century program:			
Pension settlement loss	15,787	—	—
Plant closure expenses and fixed asset impairment	20,780	8,620	5,516
Employee separation costs (credits)	914	(9,506)	33,225
Tri-US, Inc. asset impairment charges	7,457	—	—
Godrej Hershey Ltd. goodwill impairment	—	—	44,692
Total business realignment and impairment charges (credits), net	44,938	(886)	83,433
Total net charges associated with business realignment initiatives and impairment	$ 83,767	$ 49,171	$ 98,570

Next Century Progra

The charge of $36.4 million recorded in cost of sales during 2012 related primarily to start-up costs and accelerat depreciation of fixed assets over a reduced estimated remaining useful life associated with the Next Century program. charge of $2.4 million was recorded in selling, marketing and administrative expenses during 2012 for proje administration related to the Next Century program. The level of lump sum withdrawals during 2012 from one of t Company's pension plans by employees retiring or leaving the Company, primarily under the Next Century progra resulted in a non-cash pension settlement loss of $15.8 million. Expenses of $20.8 million were recorded in 2012 primar related to costs associated with the closure of a manufacturing facility and the relocation of production line

The charge of $39.3 million recorded in cost of sales during 2011 related primarily to accelerated depreciation of fixe
assets over a reduced estimated remaining useful life associated with the Next Century program. A charge of $5.0 millio
was recorded in selling, marketing and administrative expenses during 2011 for project administration related to the Ne
Century program. Plant closure expenses of $8.6 million were recorded in 2011 primarily related to costs associated wi
the relocation of production lines. Employee separation costs were reduced by $9.5 million during 2011, which consisted
an $11.2 million credit reflecting lower expected costs related to voluntary and involuntary terminations at the tw
manufacturing facilities and a net benefits curtailment loss of $1.7 million also related to the employee termination

6

The charge of $13.6 million recorded in cost of sales during 2010 related primarily to accelerated depreciation of fix assets over a reduced estimated remaining useful life associated with the Next Century program. A charge of $1.5 millio was recorded in selling, marketing and administrative expenses during 2010 for project administration. Fixed ass impairment charges of $5.5 million were recorded during 2010. In determining the costs related to fixed asset impairment fair value was estimated based on the expected sales proceeds. Employee separation costs of $33.2 million during 201 were related to expected voluntary and involuntary terminations at the two manufacturing faciliti

Global Supply Chain Transformation Progra

The charge of $5.8 million recorded in 2011 was due to a decline in the estimated net realizable value of two properti being held for sal

Tri-US, Inc. Impairment Charg

In February 2011, we acquired a 49% interest in Tri-US, Inc. of Boulder, Colorado, a company that manufactures, marke and sells nutritional beverages under the "mix1" brand name. We invested $5.8 million and accounted for this investm using the equity method until January 2012. In January 2012, we made an additional investment of $6.0 million in Tri-U Inc., resulting in a controlling ownership interest of approximately 69%. In December 2012, the Board of Directors Tri-US, Inc. decided to immediately cease operations and dissolve the company as a result of operational difficultie quality issues and competitive constraints. It was determined that investments necessary to continue the business would n generate a sufficient return. Accordingly, in December 2012, the Company recorded non-cash asset impairment charges approximately $7.5 million, primarily associated with the write off of goodwill and other intangible assets. These charg excluded the portion of the losses attributable to the noncontrolling interes

Godrej Hershey Ltd. Goodwill Impairme

As a result of operating performance that was below expectations, we completed an impairment evaluation of goodwill a other intangible assets of Godrej Hershey Ltd. during the second quarter of 2010. As a result of reduced expectations f future cash flows from lower than expected profitability, we determined that the carrying amount of Godrej Hershey Lt exceeded its fair value. As a result, we recorded a non-cash goodwill impairment charge of $44.7 million to reduce t carrying value of Godrej Hershey Ltd. to its fair value, including a reduction to reflect the share of the charge associat with the noncontrolling interests. There was no tax benefit associated with this charge. For more information on o accounting policies for goodwill and other intangible assets see pages 44 and 4

Liabilities Associated with Business Realignment Initiativ

As of December 31, 2012, the liability balance relating to the Next Century program was $7.6 million primarily f estimated employee separation costs which were recorded in 2011 and 2010. We made payments against the liabiliti recorded for the Next Century program of $12.8 million in 2012 and $2.2 million in 2011 related to employee separati and project administration costs and the remainder will be paid in 201

4. NONCONTROLLING INTERESTS IN SUBSIDIARIE

In May 2007, we entered into an agreement with Godrej Beverages and Foods, Ltd., a consumer goods, confectionery a food company, to manufacture and distribute confectionery products, snacks and beverages across India. Under t agreement, we owned a 51% controlling interest in Godrej Hershey Ltd. In June 2010, the Company and the noncontrolli interests executed a rights agreement with Godrej Hershey Ltd. in the form of unsecured compulsorily and fully converti debentures. The Company contributed cash of approximately $11.1 million and the noncontrolling interests contributed $9 million associated with the rights agreement. The ownership interest percentages in Godrej Hershey Ltd. did not chan significantly as a result of these contributions. The noncontrolling interests in Godrej Hershey Ltd. were included in t equity section of the Consolidated Balance Sheets. In September 2012, we acquired the remaining 49% interest in Godr Hershey Ltd. for approximately $15.8 million. Since the Company had a controlling interest in Godrej Hershey Ltd., t difference between the amount paid and the carrying amount of the noncontrolling interest of $10.3 million was recorded a reduction to additional paid-in capital and the noncontrolling interest in Godrej Hershey Ltd. was eliminated as September 30, 201

We own a 51% controlling interest in Hershey do Brasil under a cooperative agreement with Pandurata Netherlands B. ("Bauducco"), a leading manufacturer of baked goods in Brazil whose primary brand is Bauducco. During 2012

Company contributed cash of approximately $3.1 million to Hershey do Brasil and Bauducco contributed approximate
$2.9 million. During 2012, we also loaned $7.0 million to Hershey do Brasil to finance manufacturing capacity expansio
In September 2010, the Company contributed cash of approximately $1.0 million to Hershey do Brasil and Bauduc

contributed approximately $0.9 million. The noncontrolling interest in Hershey do Brasil is included in the equity section the Consolidated Balance Shee

The decrease in noncontrolling interests in subsidiaries from $23.6 million as of December 31, 2011 to $11.6 million as December 31, 2012 reflected the impact of the acquisition of the remaining 49% interest in Godrej Hershey Ltd. September 2012 and the noncontrolling interests' share of losses of these entities, as well as the impact of curren translation adjustments. These decreases were partially offset by the impact of the cash contributed by Bauducco. The sha of losses pertaining to the noncontrolling interests in subsidiaries was $9.6 million for the year ended December 31, 201 $7.4 million for the year ended December 31, 2011 and $8.2 million for the year ended December 31, 2010. This w reflected in selling, marketing and administrative expense

5. COMMITMENTS AND CONTINGENCIE

We enter into certain obligations for the purchase of raw materials. These obligations are primarily in the form of forwa contracts for the purchase of raw materials from third-party brokers and dealers. These contracts minimize the effect future price fluctuations by fixing the price of part or all of these purchase obligations. Total obligations for each ye consisted of fixed price contracts for the purchase of commodities and unpriced contracts that were valued using mark prices as of December 31, 201

The cost of commodities associated with the unpriced contracts is variable as market prices change over future periods. W mitigate the variability of these costs to the extent that we have entered into commodities futures contracts or oth commodity derivative instruments to hedge our costs for those periods. Increases or decreases in market prices are offset b gains or losses on commodities futures contracts or other commodity derivative instruments. Taking delivery of and makin payments for the specific commodities for use in the manufacture of finished goods satisfies our obligations under th forward purchase contracts. For each of the three years in the period ended December 31, 2012, we satisfied the obligations by taking delivery of and making payment for the specific commoditie

As of December 31, 2012, we had entered into purchase agreements with various suppliers. Subject to meeting our quali standards, the purchase obligations covered by these agreements were as follows as of December 31, 201

Obligations	2013	2014	2015	2016
In millions of dollars				
Purchase obligations	$1,216.2	$497.6	$298.7	$155.5

We have commitments under various lease obligations. Future minimum payments under lease obligations with a remainin term in excess of one year were as follows as of December 31, 201

Lease Obligations	2013	2014	2015	2016	2017	Thereafte
In millions of dollars						
Future minimum rental payments	$13.7	$11.8	$10.9	$9.9	$8.0	$5.5

Future minimum rental payments reflect commitments under non-cancelable operating leases primarily for offices, reta stores, warehouse and distribution facilities, and certain equipme

We have a number of facilities that contain varying amounts of asbestos in certain locations within the facilities. O asbestos management program is compliant with current applicable regulations. Current regulations require that we hand or dispose of asbestos in a special manner if such facilities undergo major renovations or are demolished. Costs associat with the removal of asbestos related to the closure of a manufacturing facility under the Next Century program we recorded in 2012 and included in business realignment and impairment charges. The costs associated with the removal asbestos from the facility were not material. With regard to other facilities, we believe we do not have sufficient informatio to estimate the fair value of any asset retirement obligations related to these facilities. We cannot specify the settlement da or range of potential settlement dates and, therefore, sufficient information is not available to apply an expected prese value technique. We expect to maintain the facilities with repairs and maintenance activities that would not involve require the removal of asbesto

As of December 31, 2012, certain real estate associated with the closure of facilities under the global supply cha transformation program was being held for sale. Obligations related to the environmental remediation of this real esta have been reflected in our current estimate

In 2007, the Competition Bureau of Canada began an inquiry into alleged violations of the Canadian Competition Act in t sale and supply of chocolate products sold in Canada between 2002 and 2008 by members of the confectionery industr including Hershey Canada, Inc. The U.S. Department of Justice also notified the Company in 2007 that it had opened inquiry, but has not requested any information or document

Subsequently, 13 civil lawsuits were filed in Canada and 91 civil lawsuits were filed in the United States against t Company. The lawsuits were instituted on behalf of direct purchasers of our products as well as indirect purchasers th purchase our products for use or for resale. Several other chocolate and confectionery companies were named as defendan in these lawsuits as they also were the subject of investigations and/or inquiries by the government entities referenc above. The cases seek recovery for losses suffered as a result of alleged conspiracies in restraint of trade in connection wi the pricing practices of the defendants. The Canadian civil cases were settled in 2012. The Canadian Competition Bure investigation remains pending. However, Hershey Canada, Inc. has reached a tentative settlement agreement with t Canadian government with regard to its investigation and the Company has accrued a liability related thereto. We do n believe the terms of the tentative settlement agreement should have a material impact on the Company's results operations, financial position or liquidit

With regard to the U.S. lawsuits, the Judicial Panel on Multidistrict Litigation assigned the cases to the U.S. District Cou for the Middle District of Pennsylvania. Plaintiffs are seeking actual and treble damages against the Company and oth defendants based on an alleged overcharge for certain, or in some cases all chocolate products sold in the U.S. betwe 2003 and 2008. The lawsuits have been proceeding on different scheduling tracks for different groups of plainti Defendants have briefed summary judgment against the plaintiffs that have not sought class certification (the "Opt-C Plaintiffs"). The plaintiffs that purchased products from defendants directly (the "Direct Purchaser Plaintiffs") were gr class certification in December 2012. Defendants will conduct expert discovery on liability and damages and brief summa judgment against the Direct Purchaser Plaintiffs through the third quarter of 2013. The hearing on summary judgment f the Direct Purchaser Plaintiffs is scheduled for September 2013, combined with the summary judgment hearing for t Opt-Out Plaintiffs. Putative class plaintiffs that purchased product indirectly for resale (the "Indirect Purchasers for Resa have a May 1, 2013 deadline to file for class certification. Putative class plaintiffs that purchased product indirectly for u (the "Indirect End Users") may seek class certification after summary judgment against the Direct Purchaser Plaintiffs and Opt-Out Plaintiffs has been resolved. No trial date has been set for any group of plaintiffs. The Company will continue vigorously defend against these lawsui

At this stage, we are unable to predict the range of any potential liability that is reasonably possible as a result of t proceedings outlined above. Competition and antitrust law investigations can be lengthy and violations are subject to civ and/or criminal fines and other sanctions. Class action civil antitrust lawsuits are expensive to defend and could result significant judgments, including in some cases, payment of treble damages and/or attorneys' fees to the successful plainti Additionally, negative publicity involving these proceedings could affect our Company's brands and reputation, possib resulting in decreased demand for our products. These possible consequences, in our opinion, should not materially impa our financial position or liquidity, but could materially impact our results of operations and cash flows in the period which they are accrued or paid, respectively. Please refer to Item 1A. Risk Factors, beginning on page 9, for addition information concerning the key risks to achieving the Company's future performance goa

We have no other material pending legal proceedings, other than ordinary routine litigation incidental to our busine

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIE

We classify derivatives as assets or liabilities on the balance sheet. Accounting for the change in fair value of the derivati depends o

- Whether the instrument qualifies for, and has been designated as, a hedging relationship; ar
- The type of hedging relationship.

There are three types of hedging relationships:

- Cash flow hedge;
- Fair value hedge; and
- Hedge of foreign currency exposure of a net investment in a foreign operation.

As of December 31, 2012 and 2011, all of our derivative instruments were classified as cash flow hedge

The amount of net losses on cash flow hedging derivatives, including interest rate swap agreements, foreign exchan forward contracts and options, commodities futures and options contracts, and other commodity derivative instrumen expected to be reclassified into earnings in the next 12 months was approximately $12.8 million after tax as December 31, 2012. This amount was primarily associated with commodities futures contract

Objectives, Strategies and Accounting Policies Associated with Derivative Instrumen

We use certain derivative instruments, from time to time, to manage risks. These include interest rate swaps to mana interest rate risk; foreign currency forward exchange contracts and options to manage foreign currency exchange rate ris and commodities futures and options contracts to manage commodity market price risk exposure

We enter into interest rate swap agreements and foreign exchange forward contracts and options for periods consistent wi related underlying exposures. These derivative instruments do not constitute positions independent of those exposure

We enter into commodities futures and options contracts and other derivative instruments for varying periods. The commodity derivative instruments are intended to be, and are effective as hedges of market price risks associated wi anticipated raw material purchases, energy requirements and transportation costs. We do not hold or issue derivati instruments for trading purposes and are not a party to any instruments with leverage or prepayment feature

In entering into these contracts, we have assumed the risk that might arise from the possible inability of counterparties meet the terms of their contracts. We mitigate this risk by performing financial assessments prior to contract executio conducting periodic evaluations of counterparty performance and maintaining a diverse portfolio of qualifi counterparties. We do not expect any significant losses from counterparty defaul

Interest Rate Swa

In order to manage interest rate exposure, from time to time, we enter into interest rate swap agreements. We include gai and losses on interest rate swap agreements in other comprehensive income. We recognize the gains and losses on intere rate swap agreements as an adjustment to interest expense in the same period as the hedged interest payments affe earnings. We classify cash flows from interest rate swap agreements as net cash provided from operating activities on t Consolidated Statements of Cash Flows. Our risk related to the swap agreements is limited to the cost of replacing t agreements at prevailing market rate

Foreign Exchange Forward Contracts and Optio

We enter into foreign exchange forward contracts and options to hedge transactions primarily related to commitments a forecasted purchases of equipment, raw materials and finished goods denominated in foreign currencies. We may al hedge payment of forecasted intercompany transactions with our subsidiaries outside of the United States. These contrac reduce currency risk from exchange rate movements. We generally hedge foreign currency price risks for periods from 3 24 months. In entering into these contracts, we have assumed the risk that might arise from the possible inability counterparties to meet the terms of their contracts. As of December 31, 2012, we did not have any material exposu associated with foreign exchange forward contracts and options entered into with European financial institutions. We do n expect any significant losses from counterparty defaul

Foreign exchange forward contracts and options are effective as hedges of identifiable foreign currency commitments forecasted transactions. Since there is a direct relationship between the foreign currency derivatives and the forei currency denomination of the transactions, the derivatives are highly effective in hedging cash flows related to transactio denominated in the corresponding foreign currencies. We designate our foreign exchange forward contracts and options cash flow hedging derivative

These contracts meet the criteria for cash flow hedge accounting treatment. We classify the fair value of foreign exchan forward contracts as prepaid expenses and other current assets, other non-current assets, accrued liabilities or oth long-term liabilities on the Consolidated Balance Sheets. We report the offset to the foreign exchange forward contracts a options contracts in accumulated other comprehensive loss, net of income taxes. We record gains and losses on the contracts as a component of other comprehensive income and reclassify them into earnings in the same period during whi the hedged transactions affect earnings. For hedges associated with the purchase of equipment, we designate the relat cash flows as net cash flows (used by) provided from investing activities on the Consolidated Statements of Cash Flow We classify cash flows from other foreign exchange forward contracts and options as net cash provided from operati activitie

As of December 31, 2012, the fair value of foreign exchange forward contracts and options with gains totaled $2.1 milli and the fair value of foreign exchange forward contracts and options with losses totaled $0.9 million. Over the last thr years the volume of activity for foreign exchange forward contracts to purchase foreign currencies ranged from a contra amount of $17.1 million to $93.2 million. Over the same period, the volume of activity for foreign exchange forwa contracts to sell foreign currencies ranged from a contract amount of $31.8 million to $192.8 millio

Commodities Futures and Options Contrac

We enter into commodities futures and options contracts and other commodity derivative instruments to reduce the effect future price fluctuations associated with the purchase of raw materials, energy requirements and transportation services. W generally hedge commodity price risks for 3 to 24 month periods. Commodities futures and options contracts and oth commodity derivative instruments are highly effective in hedging price risks for our raw material requirements, ener requirements and transportation costs. Because our commodities futures and options contracts and other commodi derivative instruments meet hedge accounting requirements, we account for them as cash flow hedges. Accordingly, include gains and losses on hedging instruments in other comprehensive income. We recognize gains and losses ratably cost of sales in the same period that we record the hedged raw material requirements in cost of sal

We use exchange traded futures contracts to hedge price fluctuations of unpriced physical forward purchase contracts, well as forecasted purchases for which we have not entered into unpriced physical forward purchase contracts. Fixed-pri physical forward purchase contracts are accounted for as "normal purchases and sales" contracts and, therefore, ar accounted for as derivative instruments. On a daily basis, we receive or make cash transfers reflecting changes in the val of exchange-traded futures contracts (unrealized gains and losses). As mentioned above, such gains and losses are includ as a component of other comprehensive income. The cash transfers offset higher or lower cash requirements for payment future invoice prices for raw materials, energy requirements and transportation cos

Over the last three years our total annual volume of futures and options traded in conjunction with commodities hedgi strategies ranged from approximately 50,000 to 60,000 contracts. We use futures and options contracts and oth non-exchange traded commodity derivative instruments in combination with forward purchasing of cocoa products, sug corn sweeteners, natural gas and certain dairy products, primarily to reduce the risk of future price increases and provi visibility to future costs. Our commodity procurement practices are intended to reduce the risk of future price increases a provide visibility to future costs, but also may potentially limit our ability to benefit from possible price decrease

Hedge Effectiveness—Commod

We perform an assessment of hedge effectiveness for commodities futures and options contracts and other commodi derivative instruments on a quarterly basis. Because of the rollover strategy used for commodities futures contracts, required by futures market conditions, some ineffectiveness may result in hedging forecasted manufacturing requiremen This occurs as we switch futures contracts from nearby contract positions to contract positions that are required to fix t price of anticipated manufacturing requirements. Hedge ineffectiveness may also result from variability in ba

differentials associated with the purchase of raw materials for manufacturing requirements. We record the ineffectiv
portion of gains or losses on commodities futures and options contracts currently in cost of sale
The prices of commodities futures contracts reflect delivery to the same locations where we take delivery of th

physical commodities. Therefore, there is no ineffectiveness resulting from differences in location between the derivati and the hedged ite

Financial Statement Location and Amounts Pertaining to Derivative Instrumen

The fair value of derivative instruments in the Consolidated Balance Sheet as of December 31, 2012 was as follow

Balance Sheet Caption	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Prepaid expense and other current assets	$—	$2,119	$—
Other assets	$—	$—	$—
Accrued liabilities	$12,502	$917	$2,010
Other long-term liabilities	$922	$—	$—

The fair value of derivative instruments in the Consolidated Balance Sheet as of December 31, 2011 was as follow

Balance Sheet Caption	Foreign Exchange Forward Contracts and Options	Commodities Future and Options Contrac
In thousands of dollars		
Prepaid expense and other current assets	$3,954	$3,929
Other assets	$—	$—
Accrued liabilities	$5,297	$2,103
Other long-term liabilities	$12	$—

The fair value of the interest rate swap agreements represents the difference in the present values of cash flows calculated the contracted interest rates and at current market interest rates at the end of the period. We calculate the fair value interest rate swap agreements quarterly based on the quoted market prices for similar financial instrument

The fair value of foreign exchange forward contracts and options is the amount of the difference between the contracted a current market foreign currency exchange rates at the end of the period. We estimate the fair value of foreign exchan forward contracts and options on a quarterly basis by obtaining market quotes of spot and forward rates for contracts wi similar terms, adjusted where necessary for maturity difference

As of December 31, 2012, accrued liabilities associated with commodities futures and options contracts were primari related to net cash transfers payable on commodities futures contracts reflecting the change in quoted market prices on t last trading day for the period. As of December 31, 2011, prepaid expense and other current assets associated wi commodities futures and options contracts were primarily related to net cash transfers receivable on commodities futur contracts reflecting the change in quoted market prices on the last trading day for the period. Accrued liabilities associat with commodities futures and options contracts were related to the fair value of non-exchange traded commodity derivati instruments. We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecting changes the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes in value represe unrealized gains and losse

The effect of derivative instruments on the Consolidated Statements of Income for the year ended December 31, 2012 w as follow

Cash Flow Hedging Derivatives	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)	$(13,424)	$47	$12,834
Gains (losses) reclassified from accumulated OCI into income (effective portion) (a)	$(3,605)	$(2,488)	$(90,900
Gains recognized in income (ineffective portion) (b)	$—	$—	$670

The effect of derivative instruments on the Consolidated Statements of Income for the year ended December 31, 2011 w as follow

Cash Flow Hedging Derivatives	Interest Rate Swap Agreements	Foreign Exchange Forward Contracts and Options	Commodities Futures and Options Contracts
In thousands of dollars			
Gains (losses) recognized in other comprehensive income ("OCI") (effective portion)	$(19,221)	$(1,655)	$(154,135
Gains (losses) reclassified from accumulated OCI into income (effective portion) (a)	$1,263	$1,619	$17,400
Losses recognized in income (ineffective portion) (b)	$(996)	$—	$(982

(a) Gains (losses) reclassified from accumulated OCI into income were included in cost of sales for commodities futures ar options contracts and other commodity derivative instruments and for foreign exchange forward contracts and options designated as hedges of purchases of inventory. Other gains and losses for foreign exchange forward contracts and options were included in selling, marketing and administrative expenses. Other gains and losses for interest rate swap agreements were included in interest expense.

(b) Gains (losses) recognized in income were included in cost of sales for commodities futures and options contracts and interest expense for interest rate swap agreements.

All gains (losses) recognized currently in income were related to the ineffective portion of the hedging relationship. W recognized no components of gains and losses on cash flow hedging derivatives in income due to excluding suc components from the hedge effectiveness assessmen

7. FINANCIAL INSTRUMENT

The carrying amounts of financial instruments including cash and cash equivalents, accounts receivable, accounts payab and short-term debt approximated fair value as of December 31, 2012 and December 31, 2011, because of the relative short maturity of these instrument

The carrying value of long-term debt, including the current portion, was $1,788.7 million as of December 31, 201 compared with a fair value of $2,060.8 million based on quoted market prices for the same or similar debt issues. Th carrying value of long-term debt, including the current portion, was $1,846.1 million as of December 31, 2011 compare with a fair value of $2,121.0 millio

Interest Rate Swa

In order to manage interest rate exposure, the Company, from time to time, enters into interest rate swap agreements. April 2012, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure relat to the anticipated $250 million of term financing expected to be executed during 2013 to repay $250 million of 5.0% Not maturing in April 2013. The weighted-average fixed rate on these forward starting swap agreements was 2.4%. In Ma

2012, the Company entered into forward starting interest rate swap agreements to hedge interest rate exposure related to th anticipated $250 million of term financing expected to be executed during 2015 to repay $250 million of 4.85% Not maturing in August 2015. The weighted-average fixed rate on these forward starting swap agreements was 2.7%

The fair value of interest rate swap agreements was a liability of $13.4 million as of December 31, 2012. The Company risk related to interest rate swap agreements is limited to the cost of replacing such agreements at prevailing market rate

In March 2009, we entered into forward starting interest rate swap agreements to hedge interest rate exposure related to th anticipated $250 million of term financing expected to be executed during 2011. In September 2011, the forward startin interest rate swap agreements which were entered into in March 2009 matured, resulting in cash payments by the Compan of approximately $26.8 million. Also in September 2011, we entered into forward starting swap agreements to continue hedge interest rate exposure related to the term financing. These swap agreements were terminated upon the issuance of th 1.5% Notes due November 1, 2016, resulting in cash payments by the Company of $2.3 million in November 2011. Th losses on the swap agreements are being amortized as an increase to interest expense over the term of the Note

In December 2010, we terminated forward starting swap agreements which were entered into in August 2010 to hedge th anticipated execution of term financing. The swap agreements were terminated upon the issuance of the 4.125% Notes du December 1, 2020, resulting in cash receipts of $13.5 million in December 2010. The gain on the swap agreements is bein amortized as a reduction to interest expense over the term of the Note

For more information see Note 6, Derivative Instruments and Hedging Activitie

Foreign Exchange Forward Contrac

For information on the objectives, strategies and accounting polices related to our use of foreign exchange forwa contracts, see Note 6, Derivative Instruments and Hedging Activitie

The following table summarizes our foreign exchange activit

December 31,	2012		2011	
	Contract Amount	Primary Currencies	Contract Amount	Primary Currencies
In millions of dollars				
Foreign exchange forward contracts to purchase foreign currencies	$ 17.1	Euros British pound sterling	$ 50.4	Euros British pound sterling
Foreign exchange forward contracts to sell foreign currencies	$ 57.8	Canadian dollars	$ 99.6	Canadian dollars

The fair value of foreign exchange forward contracts is included in prepaid expenses and other current assets, oth non-current assets, accrued liabilities or other long-term liabilities, as appropriat

The combined fair value of our foreign exchange forward contracts included in prepaid expenses and other current asset other non-current assets, accrued liabilities or other long-term liabilities on the Consolidated Balance Sheets was as follow

December 31,	2012	2011
In millions of dollars		
Fair value of foreign exchange forward contracts, net — asset (liability)	$ 1.2	$ (1.4

8. FAIR VALUE ACCOUNTIN

We follow a fair value measurement hierarchy to price certain assets or liabilities. The fair value is determined based o inputs or assumptions that market participants would use in pricing the asset or liability. These assumptions consist (1) observable inputs - market data obtained from independent sources, or (2) unobservable inputs - market data determine using the Company's own assumptions about valuati

We prioritize the inputs to valuation techniques, with the highest priority being given to Level 1 inputs and the lowe priority to Level 3 inputs, as defined belo

l Level 1 Inputs – quoted prices in active markets for identical assets or liabilities;

l Level 2 Inputs – quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar instruments in markets that are not active; inputs other than quoted prices that are observable; and inputs that are derived from or corroborated by observable market data by correlation; and

l Level 3 Inputs – unobservable inputs used to the extent that observable inputs are not available. These reflect the entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

We use certain derivative instruments, from time to time, to manage interest rate, foreign currency exchange rate ar commodity market price risk exposures, all of which are recorded at fair value based on quoted market prices or rate

A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as December 31, 2012, is as follow

Description	Fair Value as of December 31, 2012	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)
In thousands of dollars				
Assets				
Cash flow hedging derivatives	$39,175	$37,056	$2,119	$—
Liabilities				
Cash flow hedging derivatives	$53,407	$39,066	$14,341	$—

As of December 31, 2012, cash flow hedging derivative Level 1 assets were primarily related to cash transfers receivable o commodities futures contracts with gains resulting from the change in quoted market prices on the last trading day for t period. As of December 31, 2012, cash flow hedging derivative Level 1 liabilities were primarily related to cash transfe payable on commodities futures contracts with losses resulting from the change in quoted market prices on the last tradi day for the period. We make or receive cash transfers to or from commodity futures brokers on a daily basis reflecti changes in the value of futures contracts on the IntercontinentalExchange or various other exchanges. These changes value represent unrealized gains and losse

As of December 31, 2012, cash flow hedging derivative Level 2 assets were related to the fair value of foreign exchan forward contracts and options with gains. Cash flow hedging Level 2 liabilities were related to the fair value of intere swap agreements and foreign exchange forward contracts and options with losses. The fair value of the interest rate sw agreements represents the difference in the present values of cash flows calculated at the contracted interest rates and current market interest rates at the end of the period. We calculate the fair value of interest rate swap agreements quarter based on the quoted market prices for similar financial instruments. The fair value of foreign exchange forward contrac and options is the amount of the difference between the contracted and current market foreign currency exchange rates the end of the period. We estimate the fair value of foreign exchange forward contracts and options on a quarterly basis b obtaining market quotes of spot and forward rates for contracts with similar terms, adjusted where necessary for maturi difference

A summary of our cash flow hedging derivative assets and liabilities measured at fair value on a recurring basis as December 31, 2011, is as follow

Description	Fair Value as of December 31, 2011	Quoted Prices in Active Markets of Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)
In thousands of dollars				
Assets				
Cash flow hedging derivatives	$7,883	$3,929	$3,954	$—
Liabilities				
Cash flow hedging derivatives	$7,412	$2,103	$5,309	$—

As of December 31, 2011, cash flow hedging derivative Level 1 assets were primarily related to net cash transfe receivable on commodities futures contracts reflecting the change in quoted market prices on the last trading day for th period. As of December 31, 2011, cash flow hedging derivative Level 1 liabilities were related to the fair value commodity derivative instrument

As of December 31, 2011, cash flow hedging derivative Level 2 assets were related to the fair value of foreign exchang forward contracts and options with gains. Cash flow hedging Level 2 liabilities were related to foreign exchange forwa contracts and options with losse

9. COMPREHENSIVE INCOM

A summary of the components of comprehensive income is as follow

For the year ended December 31, 2012	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
In thousands of dollars			
Net income			$660,931
Other comprehensive income (loss):			
Foreign currency translation adjustments	$7,714	$—	7,714
Pension and post-retirement benefit plans	(15,159)	5,525	(9,634
Cash flow hedges:			
Losses on cash flow hedging derivatives	(543)	(325)	(868
Reclassification adjustments	96,993	(36,950)	60,043
Total other comprehensive income	$89,005	$(31,750)	57,255
Comprehensive income			$718,186

For the year ended December 31, 2011	Pre-Tax Amount		Tax (Expense) Benefit		After-Tax Amount
In thousands of dollars					
Net income					$ 628,962
Other comprehensive income (loss):					
Foreign currency translation adjustments	$ (21,213	)	$ —		(21,213
Pension and post-retirement benefit plans	(137,918	)	52,095		(85,823
Cash flow hedges:					
Losses on cash flow hedging derivatives	(175,011	)	67,298		(107,713
Reclassification adjustments	(20,282	)	7,767		(12,515
Total other comprehensive loss	$ (354,424	)	$ 127,160		(227,264
Comprehensive income					$ 401,698

For the year ended December 31, 2010	Pre-Tax Amount		Tax (Expense) Benefit		After-Tax Amount
In thousands of dollars					
Net income					$ 509,799
Other comprehensive income (loss):					
Foreign currency translation adjustments	$ 14,123		$ —		14,123
Pension and post-retirement benefit plans	10,529		(5,399	)	5,130
Cash flow hedges:					
Gains on cash flow hedging derivatives	3,260		(2,259	)	1,001
Reclassification adjustments	(52,634	)	20,157		(32,477
Total other comprehensive loss	$ (24,722	)	$ 12,499		(12,223
Comprehensive income					$ 497,576

The components of accumulated other comprehensive loss, as shown on the Consolidated Balance Sheets, are as follow

December 31,	2012		2011
In thousands of dollars			
Foreign currency translation adjustments	$ 9,173		$ 1,459
Pension and post-retirement benefit plans, net of tax	(366,037	)	(356,403
Cash flow hedges, net of tax	(28,212	)	(87,387
Total accumulated other comprehensive loss	$ (385,076	)	$ (442,331

10. INTEREST EXPENS

Net interest expense consisted of the followin

For the years ended December 31, In thousands of dollars	2012	2011	2010
Long-term debt and lease obligations	$ 81,203	$ 85,543	$ 91,144
Short-term debt	23,084	17,051	8,676
Capitalized interest	(5,778)	(7,814)	(2,116
Interest expense, gross	98,509	94,780	97,704
Interest income	(2,940)	(2,597)	(1,270
Interest expense, net	$ 95,569	$ 92,183	$ 96,434

In December 2010, we paid $63.4 million to repurchase $57.5 million of our 6.95% Notes due in 2012 as part of a ca tender offer. As a result of the repurchase, we recorded interest expense on long-term debt of $5.9 million, whic represented the premium paid for the tender offe

11. SHORT-TERM DEB

As a source of short-term financing, we utilize cash on hand and commercial paper or bank loans with an original maturi of 3 months or less. In October 2011, we entered into a new five-year agreement establishing an unsecured revolving cre facility to borrow up to $1.1 billion, with an option to increase borrowings by an additional $400 million with the consent the lende

The unsecured committed revolving credit agreement contains a financial covenant whereby the ratio of (a) pre-tax incon from operations from the most recent four fiscal quarters to (b) consolidated interest expense for the most recent four fisc quarters may not be less than 2.0 to 1.0 at the end of each fiscal quarter. The credit agreement contains customa representations and warranties and events of default. Payment of outstanding advances may be accelerated, at the option the lenders, should we default in our obligation under the credit agreement. As of December 31, 2012, we complied with a customary affirmative and negative covenants and the financial covenant pertaining to our credit agreement. There were n significant compensating balance agreements that legally restricted these fund

In addition to the revolving credit facility, we maintain lines of credit with domestic and international commercial bank Our credit limit in various currencies was $176.7 million in 2012 and $76.9 million in 2011. These lines permit us borrow at the banks' prime commercial interest rates, or lower. We had short-term foreign bank loans against these lines credit for $118.2 million in 2012 and $42.1 million in 201

The maximum amount of our short-term borrowings during 2012 was $168.6 million. The weighted-average interest rate o short-term borrowings outstanding was 3.5% as of December 31, 2012 and 9.2% as of December 31, 2011. The lower ra as of December 31, 2012, primarily reflected the rate associated with borrowings of our Canadian business compared wi the higher rate as of December 31, 2011, which was primarily associated with short-term borrowings of our internation businesses, particularly in Indi

We pay commitment fees to maintain our lines of credit. The average fee during 2012 was less than 0.1% per annum of t commitme

We maintain a consolidated cash management system that includes overdraft positions in certain accounts at several bank We have the contractual right of offset for the accounts with overdrafts. These offsets reduced cash and cash equivalents $2.8 million as of December 31, 2012 and $0.6 million as of December 31, 201

THE HERSHEY COMPAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Contin

12. LONG-TERM DEB

Long-term debt consisted of the followin

December 31, In thousands of dollars	2012	2011
6.95% Notes due 2012	$—	$92,533
5.00% Notes due 2013	250,000	250,000
4.85% Notes due 2015	250,000	250,000
5.45% Notes due 2016	250,000	250,000
1.50% Notes due 2016	250,000	250,000
4.125% Notes due 2020	350,000	350,000
8.8% Debentures due 2021	100,000	100,000
7.2% Debentures due 2027	250,000	250,000
Other obligations, net of unamortized debt discount	88,701	53,560
Total long-term debt	1,788,701	1,846,093
Less—current portion	257,734	97,593
Long-term portion	$1,530,967	$1,748,500

In December 2010, we paid $63.4 million to repurchase $57.5 million of our 6.95% Notes due in 2012 as part of a ca tender offer. As a result of the repurchase, we recorded interest expense of $5.9 million, which represented the premiu paid for the tender offer. We used a portion of the proceeds from the $350 million of 4.125% Notes issued in Decemb 2010 to fund the repurchas

In September 2011, we repaid $250.0 million of 5.3% Notes due in 2011. In November 2011, we issued $250.0 million 1.5% Notes due in 2016. The Notes were issued under a shelf registration statement on Form S-3 filed in May 2009 th registered an indeterminate amount of debt securities. The May 2009 WKSI Registration Statement expired in May 201 Accordingly, we filed a new registration statement on Form S-3 to replace the May 2009 WKSI Registration Statement. T May 2012 WKSI Registration Statement registered an indeterminate amount of debt securities and was effecti immediatel

The increase in other obligations was primarily associated with a financing obligation of $36.0 million under the agreeme with Ferrero for the construction of a warehouse and distribution facility. The initial term of the agreement is 10 years, wi three renewal periods, each with a term of 10 yea

Aggregate annual maturities during the next five years are as follow

- 2013 — $257.7 million
- 2014 — $0.9 million
- 2015 — $250.9 million
- 2016 — $500.7 million
- 2017 — $0.4 million

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

THE HERSHEY COMPAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Contin

13. INCOME TAXE

Our income (loss) before income taxes was as follow

For the years ended December 31, In thousands of dollars	2012	2011	2010
Domestic	$ 980,176	$ 904,418	$ 839,012
Foreign	35,403	58,427	(30,148
Income before income taxes	$ 1,015,579	$ 962,845	$ 808,864

The foreign income before income taxes in 2011 included the $17.0 million gain on the sale of non-core tradema licensing rights. The foreign losses before income taxes in 2010 were due primarily to the business realignment ar impairment charges recorded during that yea

Our provision for income taxes was as follow

For the years ended December 31, In thousands of dollars	2012	2011	2010
Current:			
Federal	$ 299,122	$ 254,732	$ 283,449
State	36,187	32,174	28,423
Foreign	5,554	13,366	5,847
Current provision for income taxes	340,863	300,272	317,719
Deferred:			
Federal	5,174	37,160	(19,590
State	1,897	(1,005)	(2,056
Foreign	6,714	(2,544)	2,992
Deferred income tax provision (benefit)	13,785	33,611	(18,654
Total provision for income taxes	$ 354,648	$ 333,883	$ 299,065

The income tax benefit associated with stock-based compensation reduced accrued income taxes on the Consolidat Balance Sheets by $30.2 million as of December 31, 2012 and by $14.0 million as of December 31, 2011. We credit additional paid-in capital to reflect these excess income tax benefits. The deferred income tax provision in 2012 and 20 primarily reflected the tax effect of bonus depreciation, although to a lesser extent in 2012, partially reduced by the t effect of charges for the Next Century progra

Deferred taxes reflect temporary differences between the tax basis and financial statement carrying value of assets ar liabilities. The tax effects of the significant temporary differences that comprised the deferred tax assets and liabilities we as follow

December 31,	2012	2011
In thousands of dollars		
Deferred tax assets:		
Post-retirement benefit obligations	$ 119,140	$ 120,174
Accrued expenses and other reserves	112,760	112,834
Stock-based compensation	51,388	62,666
Derivative instruments	23,822	62,117
Pension	72,374	48,884
Lease financing obligation	19,035	19,159
Accrued trade promotion reserves	30,594	11,209
Net operating loss carryforwards	48,455	51,948
Other	3,643	9,016
Gross deferred tax assets	481,211	498,007
Valuation allowance	(74,021)	(64,551
Total deferred tax assets	407,190	433,456
Deferred tax liabilities:		
Property, plant and equipment, net	210,406	188,092
Acquired intangibles	63,585	34,912
Inventories	23,335	32,775
Other	10,849	7,377
Total deferred tax liabilities	308,175	263,156
Net deferred tax assets	$ 99,015	$ 170,300
Included in:		
Current deferred tax assets, net	$ 122,224	$ 136,861
Non-current deferred tax assets, net	12,448	33,439
Non-current deferred tax liabilities, net	(35,657)	—
Net deferred tax assets	$ 99,015	$ 170,300

We believe that it is more likely than not that the results of future operations will generate sufficient taxable income realize the deferred tax assets. The valuation allowances as of December 31, 2012 and 2011 were primarily related to ta loss carryforwards from operations in various foreign tax jurisdictions. Additional information on income tax benefits ar expenses related to components of accumulated other comprehensive loss is provided in Note 9, Comprehensive Incom

The following table reconciles the Federal statutory income tax rate with our effective income tax rat

For the years ended December 31,	2012		2011		2010	
Federal statutory income tax rate	35.0	%	35.0	%	35.0	%
Increase (reduction) resulting from:						
State income taxes, net of Federal income tax benefits	3.2		2.4		2.8	
Qualified production income deduction	(2.5	)	(2.2	)	(2.4	)
Business realignment and impairment charges and gain on sale of trademark licensing rights	0.2		(0.1	)	1.8	
International operations	(0.1	)	(0.6	)	0.4	
Other, net	(0.9	)	0.2		(0.6	)
Effective income tax rate	34.9	%	34.7	%	37.0	%

Tax rates associated with business realignment and impairment charges increased the effective income tax rate from t Federal statutory income tax rate by 0.2 percentage point for 2012. Tax rates associated with business realignment a impairment charges and gain on sale of trademark licensing rights reduced the effective income tax rate from the Feder statutory income tax rate by 0.1 percentage point for 2011. Tax rates associated with business realignment and impairme charges increased the effective income tax rate from the Federal statutory income tax rate by 1.8 percentage points for 201 The effect of international operations varied based on the taxable income (loss) of our entities outside of the United State

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

December 31,	2012		2011
In thousands of dollars			
Balance at beginning of year	$53,553		$58,004
Additions for tax positions taken during prior years	11,335		4,207
Reductions for tax positions taken during prior years	(5,478	)	(210
Additions for tax positions taken during the current year	5,750		5,157
Settlements	(5,234	)	(1,551
Expiration of statutes of limitations	(8,406	)	(12,054
Balance at end of year	$51,520		$53,553

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was $30.8 million as December 31, 2012 and $40.4 million as of December 31, 201

We report accrued interest and penalties related to unrecognized tax benefits in income tax expense. We recognized a t benefit of $5.3 million in 2012, $0.3 million in 2011 and $3.4 million in 2010 for interest and penalties. Accrued intere and penalties were $8.4 million as of December 31, 2012, and $17.1 million as of December 31, 201

We file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. A number of yea may elapse before an uncertain tax position, for which we have unrecognized tax benefits, is audited and finally resolve While it is often difficult to predict the final outcome or the timing of resolution of any particular uncertain tax position, v believe that our unrecognized tax benefits reflect the most likely outcome. We adjust these unrecognized tax benefits, well as the related interest, in light of changing facts and circumstances. Settlement of any particular position could requi the use of cash. Favorable resolution would be recognized as a reduction to our effective income tax rate in the period resolutio

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The number of years with open tax audits varies depending on the tax jurisdiction. Our major taxing jurisdictions inclu the United States (federal and state), Canada and Mexico. During the second quarter of 2012, the U.S. Internal Reven Service ("IRS") completed its audit of our U.S. income tax returns for 2007 and 2008 resulting in the resolution o contingencies for those years. Tax examinations by various state taxing authorities could generally be conducted for yea beginning in 2008. We are no longer subject to Canadian federal income tax examinations by the Canada Revenue Agen ("CRA") and Mexican federal income tax examinations by Servicio de Administracion Tributaria ("SAT") for years 2004. During the third quarter of 2010, the CRA commenced its audit of our Canadian income tax returns for 2006 throu 2009. U.S., Canadian and Mexican federal audit issues typically involve the timing of deductions and transfer prici adjustments. We work with the IRS, the CRA and the SAT to resolve proposed audit adjustments and to minimize t amount of adjustments. We do not anticipate that any potential tax adjustments will have a significant impact on o financial position or results of operation

We reasonably expect reductions in the liability for unrecognized tax benefits of approximately $8.3 million within the ne 12 months because of the expiration of statutes of limitations and settlements of tax audi

As of December 31, 2012, we had approximately $122.1 million of undistributed earnings of our international subsidiari We intend to continue to reinvest earnings outside the U.S. for the foreseeable future and, therefore, have not recogniz any U.S. tax expense on these earning

14. PENSION AND OTHER POST-RETIREMENT BENEFIT PLAN

We sponsor a number of defined benefit pension plans. Our policy is to fund domestic pension liabilities in accordance wi the minimum and maximum limits imposed by the Employee Retirement Income Security Act of 1974 ("ERISA") and fe income tax laws. Beginning January 1, 2008, we complied with the funding requirements of the Pension Protection Act 2006. We fund non-domestic pension liabilities in accordance with laws and regulations applicable to those pla

We have two post-retirement benefit plans: health care and life insurance. The health care plan is contributory, wi participants' contributions adjusted annually. The life insurance plan is non-contributo

Obligations and Funded Stat

A summary of the changes in benefit obligations and plan assets is as follow

December 31, In thousands of dollars	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011
Change in benefit obligation				
Projected benefits obligation at beginning of year	$1,156,756	$1,049,766	$318,536	$306,300
Service cost	30,823	30,059	1,172	1,333
Interest cost	49,909	52,960	13,258	14,967
Plan amendments	2	181	—	7,191
Actuarial loss	112,700	75,790	7,916	8,115
Curtailment	—	1,351	—	2,961
Settlement	(49,876)	(120)	—	—
Currency translation and other	1,903	(2,052)	370	479
Benefits paid	(64,439)	(51,179)	(22,837)	(22,810
Projected benefits obligation at end of year	1,237,778	1,156,756	318,415	318,536
Change in plan assets				
Fair value of plan assets at beginning of year	961,421	1,000,318	—	—
Actual return on plan assets	118,073	5,101	—	—
Employer contribution	21,371	8,861	22,837	22,810
Settlement	(49,876)	(120)	—	—
Currency translation and other	1,617	(1,560)	—	—
Benefits paid	(64,439)	(51,179)	(22,837)	(22,810
Fair value of plan assets at end of year	988,167	961,421	—	—
Funded status at end of year	$(249,611)	$(195,335)	$(318,415)	$(318,536

The accumulated benefit obligation for all defined benefit pension plans was $1.2 billion as of December 31, 2012 and $1 billion as of December 31, 201

We made total contributions to the pension plans of $21.4 million during 2012. In 2011, we made total contributions of $8 million to the pension plans. For 2013, minimum funding requirements of our pension plans are approximately $2.8 millio

Amounts recognized in the Consolidated Balance Sheets consisted of the followin

December 31, In thousands of dollars	Pension Benefits 2012	Pension Benefits 2011	Other Benefits 2012	Other Benefits 2011
Accrued liabilities	$(9,396)	$(21,742)	$(26,181)	$(28,800
Other long-term liabilities	(240,215)	(173,593)	(292,234)	(289,736
Total	$(249,611)	$(195,335)	$(318,415)	$(318,536

Amounts recognized in accumulated other comprehensive loss, net of tax, consisted of the following

	Pension Benefits		Other Benefits	
December 31,	2012	2011	2012	2011
In thousands of dollars				
Actuarial net (loss)	$(362,039)	$(356,379)	$(6,320)	$(1,545
Net prior service credit (cost)	5,539	5,101	(3,217)	(3,580
Total	$(356,500)	$(351,278)	$(9,537)	$(5,125

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

December 31,	2012	2011
In thousands of dollars		
Projected benefit obligation	$1,237,238	$1,087,388
Accumulated benefit obligation	1,185,214	1,048,997
Fair value of plan assets	987,643	898,852

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Incon

Net periodic benefit cost for our pension and other post-retirement plans consisted of the following

	Pension Benefits			Other Benefits		
For the years ended December 31,	2012	2011	2010	2012	2011	2010
In thousands of dollars						
Service cost	$30,823	$30,059	$28,287	$1,172	$1,333	$1,385
Interest cost	49,909	52,960	53,500	13,258	14,967	16,254
Expected return on plan assets	(72,949)	(78,161)	(76,121)	—	—	—
Amortization of prior service cost (credit)	731	1,002	1,142	619	(255)	(278
Amortization of net loss (gain)	39,723	28,004	28,522	(101)	(71)	(135
Administrative expenses	545	653	412	120	244	261
Net periodic benefit cost	48,782	34,517	35,742	15,068	16,218	17,487
Curtailment loss (credit)	—	1,826	—	—	(174)	—
Settlement loss	19,676	46	16	—	—	—
Total amount reflected in earnings	$68,458	$36,389	$35,758	$15,068	$16,044	$17,487

A portion of the pension settlement loss recorded in 2012, totaling approximately $15.8 million, and the curtailment lo (credit) recorded in 2011 were associated with the Next Century program. The settlement losses recorded in 2011 and 20 were associated with one of our international businesses. We discuss the Next Century program in Note 3, Busine Realignment and Impairment Charge

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Amounts recognized in other comprehensive loss (income) and net periodic benefit cost before tax for our pension ar other post-retirement plans consisted of the followin

	Pension Benefits			Other Benefits		
For the years ended December 31,	2012	2011	2010	2012	2011	2010
In thousands of dollars						
Actuarial net loss (gain)	$8,536	$120,401	$5,308	$7,952	$11,216	$(15,044)
Prior service (credit) cost	(716)	(1,313)	(1,086)	(613)	7,614	293
Total recognized in other comprehensive loss (income)	$7,820	$119,088	$4,222	$7,339	$18,830	$(14,751)
Total recognized in net periodic benefit cost and other comprehensive loss (income)	$56,602	$153,605	$39,964	$22,407	$35,048	$2,736

The estimated amounts for the defined benefit pension plans and the post-retirement benefit plans that will be amortize from accumulated other comprehensive income (loss) into net periodic benefit cost over the next fiscal year are as follov

(in thousands)

	Pension Plans	Post-Retirement Benefit Plans
Amortization of net actuarial loss (gain)	$40,632	$(18
Amortization of prior service cost	$424	$619

Assumptio

Certain weighted-average assumptions used in computing the benefit obligations as of December 31, 2012 and 2011 we as follow

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Discount rate	3.7 %	4.5 %	3.7 %	4.5
Rate of increase in compensation levels	4.0 %	4.1 %	N/A	N/A

For measurement purposes as of December 31, 2012, we assumed a 9.1% annual rate of increase in the per capita cost covered health care benefits for 2013, grading down to 5.0% by 201

For measurement purposes as of December 31, 2011, we assumed a 10.0% annual rate of increase in the per capita cost covered health care benefits for 2012, grading down to 5.0% by 201

Certain weighted-average assumptions used in computing net periodic benefit cost are as follows

	Pension Benefits			Other Benefits		
For the years ended December 31,	2012	2011	2010	2012	2011	2010
Discount rate	4.5 %	5.2 %	5.7 %	4.5 %	5.2 %	5.7
Expected long-term return on plan assets	8.0 %	8.0 %	8.5 %	N/A	N/A	N/A
Rate of compensation increase	4.1 %	4.1 %	4.1 %	N/A	N/A	N/A

We based the asset return assumption of 8.0% for 2012, 8.0% for 2011 and 8.5% for 2010 on current and expected ass allocations, as well as historical and expected returns on the plan asset categories. For 2013, we reduced the expecte return on plan assets assumption to 7.75% from the 8.0% assumption used during 2012, reflecting lower expected futu returns on plan assets. The historical geometric average return over the 25 years prior to December 31, 2012, w approximately 8.4%

Assumed health care cost trend rates have a significant effect on the amounts reported for the post-retirement health ca plans. A one-percentage point change in assumed health care cost trend rates would have the following effect

Impact of assumed health care cost trend rates In thousands of dollars	One-Percentage Point Increase	One-Percentag Point (Decreas
Effect on total service and interest cost components	$216	$(192
Effect on post-retirement benefit obligation	5,208	(4,620

Plan Asse

We broadly diversify our pension plan assets across domestic and international common stock and fixed income ass classes. Our asset investment policies specify ranges of asset allocation percentages for each asset class. The ranges for t domestic pension plans were as follow

Asset Class	Target Allocation 2012
Equity securities	58 %- 85%
Debt securities	15 %- 42%
Cash and certain other investments	0 %- 5%

As of December 31, 2012, actual allocations were within the specified ranges. We expect the level of volatility in pensio plan asset returns to be in line with the overall volatility of the markets within each asset clas

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as December 31, 201

In thousands of dollars	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)	Total assets measured at fai value as of December 31, 2012
Cash and cash equivalents	$933	$34,027	$—	$34,960
Equity securities:				
U.S. all-cap (a)	50,596	104,102	—	154,698
U.S. large-cap (b)	107,934	—	—	107,934
U.S. small/mid-cap	24,816	—	—	24,816
International all-cap (c)	111,834	2,938	—	114,772
Global all-cap (d)	229,044	—	—	229,044
Domestic real estate	24,892	—	—	24,892
Fixed income securities:				
U.S. government/agency	76,009	27,984	—	103,993
Corporate bonds (e)	38,001	19,691	—	57,692
Collateralized obligations (f)	61,853	27,012	—	88,865
International government/corporate bonds (g)	13,432	33,069	—	46,501
Total Investments	$739,344	$248,823	$—	$988,167

The following table sets forth by level, within the fair value hierarchy, pension plan assets at their fair value as
December 31, 201

In thousands of dollars	Quoted prices in active markets of identical assets (Level 1)	Significant other observable inputs(Level 2)	Significant other unobservable inputs (Level 3)	Total assets measured at fai value as of December 31, 2011
Cash and cash equivalents	$4,266	$15,875	$—	$20,141
Equity securities:				
U.S. all-cap (a)	79,164	133,580	—	212,744
U.S. large-cap (b)	114,463	—	—	114,463
U.S. small/mid-cap	21,008	—	—	21,008
International all-cap (c)	117,415	2,962	—	120,377
Global all-cap (d)	212,891	8,903	—	221,794
Domestic real estate	22,250	—	—	22,250
Fixed income securities:				
U.S. government/agency	90,403	2,319	—	92,722
Corporate bonds (e)	44,932	3,433	—	48,365
Collateralized obligations (f)	29,507	6,631	—	36,138
International government/corporate bonds (g)	20,997	30,422	—	51,419
Total Investments	$757,296	$204,125	$—	$961,421

(a) This category comprises equity funds that track the Russell 3000 index.
(b) This category comprises equity funds that track the S&P 500 and/or Russell 1000 indices.
(c) This category comprises equity funds that track the MSCI World Ex-US index.
(d) This category comprises equity funds that track the MSCI World index.
(e) This category comprises fixed income funds primarily invested in investment grade bonds.
(f) This category comprises fixed income funds primarily invested in high quality mortgage-backed securities and other asset-backed obligations.
(g) This category comprises fixed income funds invested in Canadian and other international bonds.

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

Investment objectives for our domestic plan assets ar

l To optimize the long-term return on plan assets at an acceptable level of risk;
l To maintain a broad diversification across asset classes;
l To maintain careful control of the risk level within each asset class; and
l 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, 2012. We comp with ERISA rules and regulations and we prohibit investments and investment strategies not allowed by ERISA. We do n permit direct purchases of our Company's securities or the use of derivatives for the purpose of speculation. We invest t assets of non-domestic plans in compliance with laws and regulations applicable to those plan

Cash Flov

Information about the expected cash flows for our pension and other post-retirement benefit plans is as follow

	Expected Benefit Payments					
	2013	2014	2015	2016	2017	2018-2022
In thousands of dollars						
Pension Benefits	$61,840	$60,458	$63,731	$71,315	$107,895	$494,946
Other Benefits	26,169	25,687	25,092	24,334	23,037	93,966

Multiemployer Pension Pl

With the acquisition of Brookside Foods Ltd. in January 2012, we began participation in the Bakery and Confectione Union and Industry Canadian Pension Fund, a trustee-managed multiemployer defined benefit pension plan. We current have approximately 67 employees participating in the plan and contributions were not significant in 2012. Our obligatic during the term of the collective bargaining agreement is limited to remitting the required contributions to the pla

15. SAVINGS PLAN

The Company sponsors several defined contribution plans to provide retirement benefits to employees. Contributions to T Hershey Company 401(k) Plan and similar plans for non-domestic employees are based on a portion of eligible pay up to defined maximum. All matching contributions were made in cash. Expense associated with the defined contribution pla was $39.8 million in 2012, $35.8 million in 2011 and $34.0 million in 201

16. CAPITAL STOCK AND NET INCOME PER SHAR

We had 1,055,000,000 authorized shares of capital stock as of December 31, 2012. Of this total, 900,000,000 shares we designated as Common Stock, 150,000,000 shares as Class B Common Stock (“Class B Stock”) and 5,000,000 share Preferred Stock. Each class has a par value of one dollar per share. As of December 31, 2012, a combined total 359,901,744 shares of both classes of common stock had been issued of which 223,786,030 shares were outstanding. N shares of the Preferred Stock were issued or outstanding during the 3-year period ended December 31, 201

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

Class B Stock can be converted into Common Stock on a share-for-share basis at any time. During 2012, 3,225 shares Class B Stock were converted into Common Stock. During 2011, 74,377 shares were converted and during 2010, 2,48 shares were converte

Changes in outstanding Common Stock for the past 3 years were as follow

For the years ended December 31,	2012	2011	2010
Shares issued	359,901,744	359,901,744	359,901,744
Treasury shares at beginning of year	(134,695,826)	(132,871,512)	(131,903,468
Stock repurchases:			
Repurchase programs	(2,054,354)	(1,902,753)	—
Stock-based compensation programs	(5,598,537)	(5,179,028)	(3,932,373
Stock issuances:			
Stock-based compensation programs	6,233,003	5,257,467	2,964,329
Treasury shares at end of year	(136,115,714)	(134,695,826)	(132,871,512
Net shares outstanding at end of year	223,786,030	225,205,918	227,030,232

Basic and Diluted Earnings Per Share were computed based on the weighted-average number of shares of the Commo
Stock and the Class B Stock outstanding as follows

For the years ended December 31, In thousands except per share amounts	2012	2011	2010
Net income	$660,931	$628,962	$509,799
Weighted-average shares—Basic			
Common Stock	164,406	165,929	167,032
Class B Stock	60,630	60,645	60,708
Total weighted-average shares—Basic	225,036	226,574	227,740
Effect of dilutive securities:			
Employee stock options	2,608	2,565	1,852
Performance and restricted stock units	693	780	721
Weighted-average shares—Diluted	228,337	229,919	230,313
Earnings Per Share—Basic			
Common Stock	$3.01	$2.85	$2.29
Class B Stock	$2.73	$2.58	$2.08
Earnings Per Share—Diluted			
Common Stock	$2.89	$2.74	$2.21
Class B Stock	$2.71	$2.56	$2.07

For the year ended December 31, 2012, approximately 3.5 million stock options were not included in the diluted earnin
per share calculation because the exercise price was higher than the average market price of the Common Stock f

the year. Therefore, the effect would have been antidilutive. In 2011, 6.9 million stock options were not included and, 2010, 8.7 million stock options were not included in the diluted earnings per share calculation because the effect wou have been antidilutiv

Milton Hershey School Tru

Hershey Trust Company, as Trustee for the benefit of Milton Hershey School and as direct owner of investment shares, he 12,902,621 shares of our Common Stock as of December 31, 2012. As Trustee for the benefit of Milton Hershey Schoo Hershey Trust Company held 60,612,012 shares of the Class B Stock as of December 31, 2012, and was entitled to ca approximately 80% of the total votes of both classes of our common stock. Hershey Trust Company, as Trustee for t benefit of Milton Hershey School, or any successor trustee, or Milton Hershey School, as appropriate, must approve t issuance of shares of Common Stock or any other action that would result in it not continuing to have voting control of o Compan

17. STOCK COMPENSATION PLAN

The Equity and Incentive Compensation Plan (“EICP”) is the plan under which grants using shares for compensation incentive purposes are made. The EICP provides for grants of one or more of the following stock-based compensati awards to employees, non-employee directors and certain service providers upon whom the successful conduct of o business is depender

- 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.

The EICP also provides for the deferral of stock-based compensation awards by participants if approved by t Compensation and Executive Organization Committee of our Board and if in accordance with an applicable deferr compensation plan of the Company. Currently, the Compensation and Executive Organization Committee has authoriz the deferral of performance stock unit and restricted stock unit awards by certain eligible employees under the Compan Deferred Compensation Plan. Our Board has authorized our non-employee directors to defer any portion of their ca retainer, committee chair fees and restricted stock units awarded after 2007 that they elect to convert into deferred sto units under our Directors’ Compensation Plan. As of December 31, 2012, 68.5 million shares were authorized and approv by our stockholders for grants under the EIC

In July 2004, we announced a worldwide stock option grant under the Broad Based Stock Option Plan. This grant provid over 13,000 eligible employees with 100 non-qualified stock options. The stock options were granted at a price of $46. per share, have a term of 10 years and vested on July 19, 200

The following table summarizes our compensation costs

For the years ended December 31, In millions of dollars	2012	2011	2010
Total compensation amount charged against income for stock compensation plans, including stock options, performance stock units and restricted stock units	$50.5	$43.5	$49.5
Total income tax benefit recognized in Consolidated Statements of Income for share-based compensation	$17.5	$15.1	$17.4

Compensation costs for stock compensation plans are primarily included in selling, marketing and administrative expens The increase in share-based compensation expense from 2011 to 2012 and the decrease in share-based compensati expense from 2010 to 2011 resulted primarily from certain adjustments associated with accounting for PSUs and the impa of the forfeiture of unvested awards due to participant changes during 2011 and 201

Stock Optio

The exercise price of each option awarded under the EICP equals the closing price of our Common Stock on the New Yo Stock Exchange on the date of grant. Prior to the initial approval by our stockholders of the EICP on April 17, 2007, t exercise price of stock options granted under the former Key Employee Incentive Plan was determined as the closing pri of our Common Stock on the New York Stock Exchange on the trading day immediately preceding the date the sto options were granted. Each option has a maximum term of 10 years. Grants of stock options provide for pro-rated vesti primarily over four years. We recognize expense for stock options based on the straight-line method as of the grant date f valu

The following table summarizes our compensation costs for stock option

For the years ended December 31, In millions of dollars	2012	2011	2010
Compensation amount charged against income for stock options	$19.3	$22.5	$20.3

The decrease in compensation cost from 2011 to 2012 was primarily driven by the impact of the forfeitures of unvest awards due to participant changes during 2012 and 2011. The increase in compensation cost from 2010 to 2011 was driv by an increase in the compensation amount upon which the number of stock options granted in 2011 was base

A summary of the status of our Company's stock options and changes during the years ending on those dates follo

	2012		2011		2010	
Stock Options	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	14,540,442	$44.86	17,997,082	$42.21	18,230,439	$41.63
Granted	2,110,945	$60.89	2,191,627	$51.62	2,828,800	$39.61
Exercised	(5,870,607)	$44.55	(4,875,122)	$38.30	(2,646,860)	$34.74
Forfeited	(226,866)	$52.02	(773,145)	$43.90	(415,297)	$46.26
Outstanding at end of year	10,553,914	$48.08	14,540,442	$44.86	17,997,082	$42.21
Options exercisable at year-end	5,320,775	$45.74	8,453,362	$46.95	10,507,127	$45.13
Weighted-average fair value of options granted during the year (per share)	$10.60		$9.97		$6.86	

The following table sets forth information about the weighted-average fair value of options granted to employees duri each year using the Black-Scholes option-pricing model and the weighted-average assumptions used for such grants

For the years ended December 31,	2012	2011	2010
Dividend yields	2.4 %	2.7 %	3.2
Expected volatility	22.4 %	22.5 %	21.7
Risk-free interest rates	1.5 %	2.8 %	3.1
Expected lives in years	6.6	6.5	6.5

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- "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 option; and
- "Expected lives" means the period of time that options granted are expected to be outstanding based primarily on historical data.

The following table summarizes the intrinsic value of our stock option

For the years ended December 31, In millions of dollars	2012	2011	2010
Intrinsic value of options exercised	$130.2	$81.3	$30.2

The aggregate intrinsic value of options outstanding as of December 31, 2012 was $261.8 million. The aggregate intrins value of exercisable options as of December 31, 2012 was $144.4 millio

As of December 31, 2012, there was $19.7 million of total unrecognized compensation cost related to non-vested stoc option compensation arrangements granted under the EICP. We expect to recognize that cost over a weighted-averag period of 2.3 year

The following table summarizes information about stock options outstanding as of December 31, 2012

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding as of 12/31/12	Weighted-Average Remaining Contractual Life in Years	Weighted-Average Exercise Price	Number Exercisable as of 12/31/12	Weighted-Average Exercise Price
$32.25 - $39.26	4,320,844	5.7	$37.00	2,567,294	$36.55
$39.57 - $54.68	3,434,325	5.6	$51.65	2,034,149	$51.90
$54.97 - $72.44	2,798,745	7.3	$60.81	719,332	$61.15
$32.25 - $72.44	10,553,914	6.1	$48.08	5,320,775	$45.74

Performance Stock Units and Restricted Stock Uni

Under the EICP, we grant PSUs to selected executives and other key employees. Vesting is contingent upon t achievement of certain performance objectives. We grant PSUs over 3-year performance cycles. If we meet targets f financial measures at the end of the applicable 3-year performance cycle, we award the full number of shares to t participants. For each PSU granted from 2010 through 2012, 50% of the target award was a market-based total sharehold return component and 50% of the target award was comprised of performance-based components. The performance scor for 2010 through 2012 grants of PSUs can range from 0% to 250% of the targeted amoun

We recognize the compensation cost associated with PSUs ratably over the 3-year term. Compensation cost is based on t grant date fair value because the grants can only be settled in shares of our Common Stock. The grant date fair value PSUs is determined based on the Monte Carlo simulation model for the market-based total shareholder return compone and the closing market price of the Company's shares on the date of grant for performance-based componen

In 2012, 2011 and 2010, we awarded RSUs to certain executive officers and other key employees under the EICP. We al awarded restricted stock units quarterly to non-employee director

We recognize the compensation cost associated with employee RSUs over a specified restriction period based on the gra date fair value or year-end market value of the stock. We recognize expense for employee RSUs based on the straight-li method. We recognize the compensation cost associated with non-employee director RSUs ratably over the vesting perio

For the years ended December 31, In millions of dollars	2012	2011	2010
Compensation amount charged against income for performance and restricted stock units	$31.2	$21.0	$29.2

Compensation expense for performance and restricted stock units was lower in 2011 resulting primarily from certa adjustments associated with the accounting for PSUs. In addition, the decrease in compensation expense in 2011 result from the impact of the forfeiture of unvested awards due to participant changes during 201

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

For the years ended December 31,	2012		2011		2010	
Units granted	503,761		543,596		640,363	
Weighted-average fair value at date of grant	$64.99		$58.28		$43.84	
Monte Carlo simulation assumptions:						
Estimated values	$35.62		$37.79		$28.62	
Dividend yields	2.5	%	2.7	%	3.2	
Expected volatility	20.0	%	28.8	%	29.5	

l “Estimated values” means the fair value for the market-based total shareholder return component of each performance stock unit at the date of grant using a Monte Carlo simulation model;

l “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;

l “Expected volatility” means the historical volatility of our Common Stock over the expected term of each grant.

A summary of the status of our Company’s performance stock units and restricted stock units as of December 31, 2012 a the change during 2012 follow

Performance Stock Units and Restricted Stock Units	2012		Weighted-average grant date fair value for equity awards or market value for liability awards
Outstanding at beginning of year	1,740,479		$48.70
Granted	503,761		$64.99
Performance assumption change	191,608		$59.08
Vested	(605,208	)	$43.14
Forfeited	(110,063	)	$58.13
Outstanding at end of year	1,720,577		$56.71

The table above excludes PSU awards for 40,812 units as of December 31, 2012 and 71,676 units as of December 31, 201 for which the measurement date has not yet occurred for accounting purpose

As of December 31, 2012, there was $38.1 million of unrecognized compensation cost relating to non-vested PSUs a RSUs. We expect to recognize that cost over a weighted-average period of 2.1 years

For the years ended December 31, In millions of dollars	2012	2011	2010
Intrinsic value of share-based liabilities paid, combined with the fair value of shares vested	$37.3	$36.6	$16.5

The higher amounts in 2012 and 2011 were primarily due to the higher performance attainment percentage associated wi the PSU awards vesting in 2012 and 2011 as compared with 201

Deferred PSUs, deferred RSUs, deferred directors' fees and accumulated dividend amounts totaled 612,075 units as December 31, 201

We did not have any stock appreciation rights that were outstanding as of December 31, 201

18. SUPPLEMENTAL BALANCE SHEET INFORMATIO

Accounts Receivable—T

In the normal course of business, we extend credit to customers that satisfy pre-defined credit criteria, based upon t results of our recurring financial account reviews and our evaluation of current and projected economic conditions. O primary concentrations of credit risk are associated with Wal-Mart Stores, Inc. and McLane Company, Inc. McLa Company, Inc. is one of the largest wholesale distributors in the United States to convenience stores, drug stores, wholesa clubs and mass merchandisers. Wal-Mart Stores, Inc. accounted for approximately 19.6% of our total accounts receivable of December 31, 2012. As of December 31, 2012, McLane Company, Inc. accounted for approximately 17.9% of our tot accounts receivable. No other customer accounted for more than 10% of our year-end accounts receivable. We believe th we have little concentration of credit risk associated with the remainder of our customer base. Accounts Receivable-Trad as shown on the Consolidated Balance Sheets, were net of allowances and anticipated discounts of $15.2 million as December 31, 2012 and $19.5 million as of December 31, 2011

Inventori

We value the majority of our inventories under the last-in, first-out ("LIFO") method and the remaining inventories a lower of first-in, first-out ("FIFO") cost or market. Inventories include material, labor and overhead. LIFO cost of invento valued using the LIFO method was $331.7 million as of December 31, 2012 and $361.4 million as of December 31, 201 The net impact of LIFO acquisitions during 2012 was not material. The net impact of LIFO liquidations during 2012 w $5.4 million. We stated inventories at amounts that did not exceed realizable values. Total inventories were as follows

December 31,	2012	2011
In thousands of dollars		
Raw materials	$256,969	$241,812
Goods in process	78,292	91,956
Finished goods	496,981	482,095
Inventories at FIFO	832,242	815,863
Adjustment to LIFO	(198,980)	(166,910
Total inventories	$633,262	$648,953

THE HERSHEY COMPAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Contin

Property, Plant and Equipme

The property, plant and equipment balance included construction in progress of $217.5 million as of December 31, 201 and $239.9 million as of December 31, 2011. As of December 31, 2012, construction in progress included $41.1 millio associated with payments made by Ferrero under an agreement for the construction of a warehouse and distribution facili of which the Company has been deemed to be the owner for accounting purposes. Major classes of property, plant ar equipment were as follows

December 31, In thousands of dollars	2012		2011
Land	$92,916		$92,495
Buildings	878,527		895,859
Machinery and equipment	2,589,183		2,600,204
Property, plant and equipment, gross	3,560,626		3,588,558
Accumulated depreciation	(1,886,555	)	(2,028,841
Property, plant and equipment, net	$1,674,071		$1,559,717

During 2012, we recorded accelerated depreciation of property, plant and equipment of $15.3 million associated with th Next Century progran

Goodwill and Other Intangible Asse

Goodwill and intangible assets were as follow

December 31, In thousands of dollars	2012		2011
Unamortized intangible assets:			
Goodwill balance at beginning of year	$516,745		$524,134
Effect of foreign currency translation	3,284		(7,389
Acquisitions	67,974		—
Goodwill balance at end of year	$588,003		$516,745
Trademarks with indefinite lives	$81,465		$81,465
Amortized intangible assets, gross:			
Trademarks	68,490		7,048
Customer-related	74,790		33,926
Intangible asset associated with cooperative agreement with Bauducco	13,683		13,683
Patents	20,018		8,817
Effect of foreign currency translation	(6,470	)	(5,568
Total other intangible assets, gross	251,976		139,371
Accumulated amortization:			
Trademarks	(2,250	)	—
Customer-related	(22,990	)	(17,840
Intangible asset associated with cooperative agreement with Bauducco	(6,294	)	(5,091
Patents	(7,411	)	(5,230
Effect of foreign currency translation	1,682		703
Total accumulated amortization	(37,263	)	(27,458

Other intangibles	$214,713	$111,913

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THE HERSHEY COMPAN
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Contin

In January 2012, we acquired all of the outstanding stock of Brookside, a privately held confectionery company based Abbotsford, British Columbia, Canada. Our financial statements reflect the final accounting for the Brookside acquisitio The purchase price for the acquisition was approximately $172.9 million. The excess purchase price over the estimat value of the net tangible and identifiable intangible assets was recorded to goodwill. The goodwill is not expected to deductible for tax purposes. The increases in goodwill and other intangibles, including trademarks, customer-relat intangibles and patents were primarily due to the Brookside acquisition. For more information, see Note 2, Busine Acquisitions

Accumulated impairment losses associated with goodwill were $70.1 million as of December 31, 2012, and $65.2 million of December 31, 2011. Accumulated impairment losses associated with trademarks were $46.7 million as of December 3 2012, and $45.7 million as of December 31, 201

The useful lives of certain trademarks were determined to be indefinite and, therefore, we are not amortizing these asse We amortize customer-related intangible assets over their estimated useful lives of approximately 15 years. We amorti trademarks with finite lives over their estimated useful lives of 25 years. We amortize patents over their remaining leg lives of approximately 6 years. Total amortization expense for other intangible assets was $10.6 million in 2012, $4 million in 2011 and $4.5 million in 201

Estimated annual amortization expense for other intangible assets over the next five years is as follow

Annual Amortization Expense In thousands of dollars	2013	2014	2015	2016	2017
Estimated amortization expense	$10,414	$10,414	$9,800	$9,780	$9,680

Accrued Liabiliti

Accrued liabilities were as follow

December 31, In thousands of dollars	2012	2011
Payroll, compensation and benefits	$236,598	$233,547
Advertising and promotion	289,221	253,534
Other	125,087	125,105
Total accrued liabilities	$650,906	$612,186

Other Long-term Liabiliti

Other long-term liabilities were as follows

December 31, In thousands of dollars	2012	2011
Post-retirement benefits liabilities	$292,234	$289,736
Pension benefits liabilities	240,215	173,593
Other	136,283	140,547
Total other long-term liabilities	$668,732	$603,876

19. SEGMENT INFORMATIO

We operate as a single reportable segment in manufacturing, marketing, selling and distributing our products under mo than 80 brand names. Our three operating segments comprise geographic regions including the United States; the America and Asia, Europe, the Middle East and Africa (“AEMEA”). We market our products in approximately 70 coun worldwid

For segment reporting purposes, we aggregate our operations in the United States and in the Americas, which includ Canada, Mexico, Brazil, Central and South America, Puerto Rico and our exports business in this region. We base th

aggregation on similar economic characteristics, products and services; production processes; types or classes of customer distribution methods; and the similar nature of the regulatory environment in each location. We aggregate our AEME operations with the United States and the Americas to form one reportable segment. Our AEMEA operations share most the aggregation criteria and represent less than 10% of our consolidated revenues, operating profits and asset

The percentage of total consolidated net sales for businesses outside of the United States was 16.1% for 2012, 15.6% f 2011 and 14.6% for 2010. The percentage of total consolidated assets outside of the United States as of December 31, 20 was 20.5%, and 14.5% as of December 31, 201

Sales to McLane Company, Inc., one of the largest wholesale distributors in the United States to convenience stores, dru stores, wholesale clubs and mass merchandisers, exceeded 10% of total net sales in each of the last three years, totaling $1 billion in 2012, $1.4 billion in 2011 and $1.3 billion in 2010. McLane Company, Inc. is the primary distributor of o products to Wal-Mart Stores, In

20. QUARTERLY DATA (Unaudite

Summary quarterly results were as follow

YearYear 2012	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$1,732,064	$1,414,444	$1,746,709	$1,751,035
Gross profit	743,396	618,521	742,757	755,208
Net income	198,651	135,685	176,716	149,879
Per share—Basic—Class B Common Stock	0.82	0.56	0.73	0.62
Per share—Diluted—Class B Common Stock	0.81	0.55	0.73	0.62
Per share—Basic—Common Stock(a)	0.91	0.62	0.80	0.69
Per share—Diluted—Common Stock	0.87	0.59	0.77	0.66

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

Year 2011	First	Second	Third	Fourth
In thousands of dollars except per share amounts				
Net sales	$1,564,223	$1,325,171	$1,624,249	$1,567,145
Gross profit	656,185	564,320	680,181	631,206
Net income	160,115	130,019	196,695	142,133
Per share—Basic—Class B Common Stock	0.65	0.53	0.81	0.59
Per share—Diluted—Class B Common Stock	0.65	0.53	0.80	0.58
Per share—Basic—Common Stock	0.72	0.59	0.89	0.65
Per share—Diluted—Common Stock	0.70	0.56	0.86	0.62

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIA DISCLOSUR

Non

Item 9A. CONTROLS AND PROCEDURE

As required by Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), the Company conducte evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as December 31, 2012. This evaluation was carried out under the supervision and with the participation of the Compan management, including the Company's Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures effective. There has been no change during the most recent fiscal quarter in the Company's internal control over financ reporting identified in connection with the evaluation that has materially affected, or is likely to materially affect, th Company's internal control over financial reporti

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

The Company's Common Stock is listed on the New York Stock Exchange ("NYSE") under the ticker symbol "

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MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTIN

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

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

The Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, assessed effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making t assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of t Treadway Commission (COSO) in Internal Control–Integrated Framework. Based on this assessment, management belie that, as of December 31, 2012, the Company's internal control over financial reporting was effective based on those criter

John P. Bilbrey	Humberto P. Alfonso
Chief Executive Officer	Chief Financial Officer

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Item 9B. OTHER INFORMATIO

Non

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PART I

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANC

The names, ages, positions held with our Company, periods of service as a director, principal occupations, busine experience and other directorships of directors and nominees for director of our Company, together with a discussion of t specific experience, qualifications, attributes and skills that led the Board to conclude that the director or nominee shou serve as a director at this time, are located in the Proxy Statement in the section entitled "Proposal No. 1—Electi Directors," following the question "Who are the nominees?," which information is incorporated herein by refer

Our Executive Officers as of February 6, 20

Name	Age	Positions Held During the Last Five Years
John P. Bilbrey	56	President and Chief Executive Officer (June 2011); Executive Vice President, Chief Operating Officer (November 2010); Senior Vice President, President Hershey North America (December 2007)
Humberto P. Alfonso	55	Executive Vice President, Chief Financial Officer and Chief Administrative Officer (September 2011); Senior Vice President, Chief Financial Officer (July 2007)
Michele G. Buck	51	Senior Vice President, Chief Growth Officer (September 2011); Senior Vice President, Global Chief Marketing Officer (December 2007)
Terence L. O'Day(1)	63	Senior Vice President, Global Operations (December 2008)
Leslie M. Turner (2)	55	Senior Vice President, General Counsel and Secretary (July 2012)
Kevin R. Walling (3)	47	Senior Vice President, Chief Human Resources Officer (November 2011); Senior Vice President, Chief People Officer (June 2011)
D. Michael Wege	50	Senior Vice President, Chief Commercial Officer (September 2011); Senior Vice President, Chocolate Strategic Business Unit (December 2010);Vice President, U.S. Chocolate (April 2008); Vice President, Portfolio Brands and Marketing Excellence (July 2007)
Richard M. McConville	59	Vice President, Chief Accounting Officer (July 2012); Corporate Controller (June 2011); Director, International Controller, International Commercial Group (April 2007)

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

(1) Mr. O'Day was elected Senior Vice President, Global Operations effective December 2, 2008. Prior to joining our Company he was Executive Vice President and Chief Operating Officer of Mannatech, Inc. (June 2006).

(2) Ms. Turner was elected Senior Vice President, General Counsel and Secretary effective July 9, 2012. Prior to joining ou Company she was Chief Legal Officer of Coca-Cola North America (June 2008), and Associate General Counsel, Coca-Cola Company Bottling Investments Group (January 2006).

(3) Mr. Walling was elected Senior Vice President, Chief People Officer effective June 1, 2011. Prior to joining our Company he was Vice President and Chief Human Resource Officer of Kennametal Inc. (November 2005).

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

Information regarding the identification of the Audit Committee as a separately-designated standing committee of the Boa and information regarding the status of one or more members of the Audit Committee being an "audit committee financ expert" is located in the Proxy Statement in the section entitled "Governance of the Company," following the question are the committees of the Board and what are their functions?," which information is incorporated herein by referen

Reporting of any inadvertent late filings under Section 16(a) of the Securities Exchange Act of 1934, as amended, is locat in the section of the Proxy Statement entitled "Section 16(a) Beneficial Ownership Reporting Compliance." This informa is incorporated herein by referenc

Information regarding our Code of Ethical Business Conduct applicable to our directors, officers and employees is locat in Part I of this Annual Report on Form 10-K, under the heading "Available Informati

Item 11. EXECUTIVE COMPENSATIO

Information regarding compensation of each of the named executive officers, including our Chief Executive Officer, ar the Compensation Committee Report are set forth in the section of the Proxy Statement entitled “Executive Compensati which information is incorporated herein by reference. Information regarding compensation of our directors is located in th section of the Proxy Statement entitled “Director Compensation,” which information is incorporated herein by refere

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATE STOCKHOLDER MATTER

(a) Information concerning ownership of our voting securities by certain beneficial owners, individual nominees f director, the named executive officers, including persons serving as our Chief Executive Officer and Chief Financi Officer, and directors and executive officers as a group, is set forth in the section entitled “Ownership of the Compa Securities” in the Proxy Statement, which information is incorporated herein by referen

(b) The following table provides information about all of the Company's equity compensation plans as of December 3 201

Equity Compensation Plan Informati

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights		(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders[1]				
Stock Options	10,290,414	$ 48.12		
Performance Stock Units and Restricted Stock Units	1,720,577	N/A		
Subtotal	12,010,991			17,988,137
Equity compensation plans not approved by security holders[2]				
Stock Options	263,500	$ 46.44		—
Total	12,274,491	$ 48.08	(3)	17,988,137

(1) Column (a) includes stock options, performance stock units and restricted stock units granted under the stockholder-approved EICP. Of the securities available for future issuances under the EICP in column (c), 11,351,921 are available for awards of stock options and 6,636,216 are available for full-value awards such as performance stock units, performance stock, restricted stock units, restricted stock and other stock-based awards. Securities available for future issuance of full-value awards may also be used for stock option awards. As of December 31, 2012, 40,812 performance stock units were excluded from the number of securities remaining available for issuance in column (c) because the measurement date had not yet occurred for accounting purposes. For more information, see Note 17, Stock Compensation Plans, of the Notes to Consolidated Financial Statements.

(2) Column (a) includes 263,500 stock options outstanding that were granted under the Broad Based Stock Option Plan. In July 2004, we announced a worldwide stock option grant under the Broad Based Stock Option Plan, which provided over 13,000 eligible employees with a grant of 100 non-qualified stock options each. The stock options were granted at price of $46.44 per share which equates to 100% of the fair market value of our Common Stock on the date of grant (determined as the closing price on the New York Stock Exchange on the trading day immediately preceding the date th stock options were granted) and vested on July 19, 2009. No additional awards may be made under the Broad Based Stock Option Plan or Directors' Compensation Plan.

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

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

Information regarding transactions with related persons is located in the section of the Proxy Statement entitled "Cert Transactions and Relationships" and information regarding director independence is located in the section of the Pro Statement entitled "Governance of the Company" following the question, "Which directors are independent, and how doe Board make that determination?," which information is incorporated herein by referen

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICE

Information regarding "Principal Accountant Fees and Services," including the policy regarding pre-approval of audit non-audit services performed by our Company's independent auditors, is located in the section entitled "Information Ab our Independent Auditors" in the Proxy Statement, which information is incorporated herein by referen

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PART I

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

Item 15(a)(1): Financial Statemen

The audited consolidated financial statements of the Company and its subsidiaries and the Report of the Independe Registered Public Accounting Firm thereon, as required to be filed with this report, are located under Item 8 of this repo

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

Schedule II—Valuation and Qualifying Accounts (see Page 106) for our Company and its subsidiaries for the years e December 31, 2012, 2011 and 2010 is filed as required by Item 15(

We omitted other schedules which were not applicable or not required, or because we provided the required information the consolidated financial statements or the notes to consolidated financial statemen

We omitted the financial statements of our parent company because we are primarily an operating company and there are significant restricted net assets of consolidated and unconsolidated subsidiari

Item 15(a)(3): Exhib

The following items are attached or incorporated by reference in response to Item 15(

Articles of Incorporation and By-la

3.1 The Company's Restated Certificate of Incorporation, as amended, is incorporated by reference from Exhibit 3 to t Company's Quarterly Report on Form 10-Q for the quarter ended April 3, 2005. The By-laws, as amended and restated as of February 21, 2012, are incorporated by reference from Exhibit 3.1 to the Company's Current Report Form 8-K, filed February 24, 2012.

Instruments defining the rights of security holders, including indentures

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:

1) 5.00% Notes due 2013

2) 4.850% Notes due 2015

3) 5.450% Notes due 2016

4) 1.500% Notes due 2016

5) 4.125% Notes due 2020

6) 8.8% Debentures due 2021

7) 7.2% Debentures due 2027

8) Other Obligations

We will furnish copies of the above debt instruments to the Commission upon reque

	Material contrac
10.1	Kit Kat and Rolo License Agreement (the "License Agreement") between the Company and Rowntree Mackintosh Confectionery Limited is incorporated by reference from Exhibit 10(a) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1980. The License Agreement was amended in 1988 and the Amendment 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. The License Agreement was assigned by Rowntree Mackintosh Confectionery Limited to Société des Produits Nestlé SA as of January 1, 1990. The Assignment Agreement 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 Cadbury Ireland 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. This agreement was assigned by the Company to its wholly-owned subsidiary, Hershey Chocolate & Confectionery Corporation.
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. This agreement was assigned by the Company to its wholly-owned subsidiary, Hershey Chocolate & Confectionery Corporation.
10.4	Trademark and Technology License Agreement between Huhtamäki and the Company dated December 30, 1996, is incorporated by reference from Exhibit 10 to the Company's Current Report on Form 8-K dated February 26, 1997. This agreement was assigned by the Company to its wholly-owned subsidiary, Hershey Chocolate & Confectionery Corporation. The agreement was amended and restated in 1999 and the Amended and Restated Trademark and Technology License Agreement 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 October 14, 2011, among the Company and the banks, financial institutions and other institutional lenders listed on the respective signature pages thereof ("Lenders"), Bank of America, N.A., as administrative agent for the Lenders, JPMorgan Chase Bank, N.A., as syndication agent, Citibank, N.A. and PNC Bank, National Association, as documentation agents, and Bank of America Merrill Lynch, J.P. Morgan Securities LLC, Citigroup Global Markets, Inc. and PNC Capital Markets LLC, as joint lead arrangers and joint book managers is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K, filed October 20, 2011.
10.6	Master Innovation and Supply Agreement between the Company and Barry Callebaut, AG, dated July 13, 2007, is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K, filed July 19, 2007.
10.7	First Amendment to Master Innovation and Supply Agreement between the Company and Barry Callebaut, AG, dated April 14, 2011, is incorporated by reference from Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 3, 2011.
10.8	Supply Agreement for Monterrey, Mexico, between the Company and Barry Callebaut, AG, dated July 13, 2007, is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K, filed July 19, 2007.

Executive Compensation Plans and Management Contracts

10.9	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.
10.10	Terms and Conditions of Nonqualified Stock Option Awards under the Equity and Incentive Compensation Plan is incorporated by reference from Exhibit 10.2 to the Company's Current Report on Form 8-K filed February 24, 2012.
10.11	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.

10.12	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.
10.13	Executive Confidentiality and Restrictive Covenant Agreement, adopted as of February 16, 2009, is incorporated by reference from Exhibit 10.4 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10.14	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.
10.15	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.
10.16	The Company’s Compensation Limit Replacement Plan, Amended and Restated as of January 1, 2009, is incorporated by reference from Exhibit 10.6 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
10.17	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.
10.18	Form of Notice of Special Award of Restricted Stock Units is incorporated by reference from Exhibit 10.2 to the Company’s Current Report on Form 8-K, filed June 16, 2011.
10.19	Executive Employment Agreement with John P. Bilbrey, dated as of August 7, 2012, is incorporated by reference from Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended July 1, 2012.
10.20	Form of Notice of Award of Performance Stock Units is incorporated by reference from Exhibit 10.1 to the Company's Current Report on Form 8-K, filed February 24, 2012.
10.21	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.

Broad Based Equity Compensation Plans

10.22	The Company’s Broad Based Stock Option Plan, as amended, is incorporated by reference from Exhibit 10.4 to the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2002.

Other Exhibits

12.1	Computation of ratio of earnings to fixed charges statement
	A computation of ratio of earnings to fixed charges for the fiscal years ended December 31, 2012, 2011, 2010, 2009 and 2008 is attached hereto and filed as Exhibit 12.1.
21.1	Subsidiaries of the Registrant

	A list setting forth subsidiaries of the Company is attached hereto and filed as Exhibit 21.1.
23.1	Independent Auditors' Consent
	The consent dated February 22, 2013 to the incorporation of reports of the Company's Independent Auditors is attached hereto and filed as Exhibit 23.1.
31.1	Certification of John P. Bilbrey, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto and filed as Exhibit 31.1.
31.2	Certification of Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto and filed as Exhibit 31.2.

32.1	Certification of John P. Bilbrey, Chief Executive Officer, and Humberto P. Alfonso, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto and furnished as Exhibit 32.1.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
101.DEF	XBRL Taxonomy Extension Defintion Linkbase

SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caus this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 22nd day of February, 201

THE HERSHEY COMPANY
(Regisrant)

By: /S/ HUMBERTO P. ALFONSO
Humberto P. Alfonso
Chief Financial Officer

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

Signature	Title	Date
/S/ JOHN P. BILBREY (John P. Bilbrey)	Chief Executive Officer and Director	February 22, 2013
/S/ HUMBERTO P. ALFONSO (Humberto P. Alfonso)	Chief Financial Officer	February 22, 2013
/S/ RICHARD M. MCCONVILLE (Richard M. McConville)	Chief Accounting Officer	February 22, 2013
/S/ PAMELA M. ARWAY (Pamela M. Arway)	Director	February 22, 2013
/S/ ROBERT F. CAVANAUGH (Robert F. Cavanaugh)	Director	February 22, 2013
/S/ CHARLES A. DAVIS (Charles A. Davis)	Director	February 22, 2013
/S/ ROBERT M. MALCOLM (Robert M. Malcolm)	Director	February 22, 2013
/S/ JAMES M. MEAD (James M. Mead)	Director	February 22, 2013
/S/ JAMES E. NEVELS (James E. Nevels)	Director	February 22, 2013
/S/ ANTHONY J. PALMER (Anthony J. Palmer)	Director	February 22, 2013
/S/ THOMAS J. RIDGE (Thomas J. Ridge)	Director	February 22, 2013
/S/ DAVID L. SHEDLARZ (David L. Shedlarz)	Director	February 22, 2013

Schedule

THE HERSHEY COMPANY AND SUBSIDIARIE

SCHEDULE II—VALUATION AND QUALIFYING ACCOU

For the Years Ended December 31, 2012, 2011 and 20

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Deductions from Reserves	Balance at End of Period
In thousands of dollars					
Year Ended December 31, 2012:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply [(a)]					
Accounts Receivable—Trade	$14,977	$134,972	$—	$(139,514)	$10,435
Year Ended December 31, 2011:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply [(a)]					
Accounts Receivable—Trade	$15,190	$135,147	$—	$(135,360)	$14,977
Year Ended December 31, 2010:					
Reserves deducted in the consolidated balance sheet from the assets to which they apply [(a)]					
Accounts Receivable—Trade	$15,721	$128,377	$—	$(128,908)	$15,190

(a) Includes allowances for doubtful accounts and anticipated discount

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CERTIFICATIO

I, John P. Bilbrey, certify tha

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 i 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 thi 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 reportin which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financia 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.

John P. Bilbrey
Chief Executive Officer
February 22, 2013

CERTIFICATIO

I, Humberto P. Alfonso, certify tha

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 i 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 thi 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 reportin which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financia 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.

Humberto P. Alfonso
Chief Financial Officer
February 22, 2013

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